Ester Industries Limited

Q2-FY22 Earnings Conference Call Transcript

November 16, 2021

Moderator Ladies and gentlemen, good day and welcome to the Ester Industries Limited Q2 FY22 Earnings Conference Call.

Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you, and over to you, Mr. Desa

Gavin Desa Thank you Janis. Good day everyone and a warm welcome to Ester Industries Q2 and H1 FY22 analyst and investor conference call.

We have with us today Mr. Arvind Singhania – the Chairman and Mr. Pradeep Kumar Rustagi – the Chief Financial Officer.

We will begin this call with opening remarks from the management, following which we will have the floor open for an interactive Q&A session.

Before we begin, I would like to point out that some statements made in today's discussions may be forward-looking in nature and a note to this effect was sent to you in the invite earlier. We trust you have had a chance to go through the documents on financial performance.

I would now like to invite Mr. Singhania to make his opening remarks. Over to you Mr. Singhania!

Arvind Singhania Thank you Gavin, and thank you everyone for joining us today. I have alongside with me Mr. Pradeep Rustagi – our CFO. I will begin the call with brief overview of all our businesses, post which Pradeep will walk you through our financial performance for the quarter.

We have had a good first half as can be seen from our financials. Revenues for the first half grew by 50% over the previous year. All our businesses are performing well and we are confident of sustaining the revenue momentum during the second half as well.

Specialty polymer business as guided earlier has seen a sharp pickup. Our film business too maintained its volume run rate on the back of steady demand from the end user industry. Engineering plastics business clocked in yet another quarter of good performance marked by higher realizations driven by higher feedstock prices.

Let me now move on to the individual businesses starting with specialty polymers:

Specialty Polymers:

As indicated earlier we continue to see strong traction and demand for our products translating into higher revenues and margins. Overall, volume for the business during the quarter stood at 884 metric tons as against 484 metric tons during Q2 FY21 a growth of 83%.

MB-03 our marquee product which finds application in the carpet industry maintained its decent momentum with volumes more than doubling over the previous year. In absolute terms volume for MB-03 during the quarter stood at 240 metric tons as against 92 metric tons during Q2 FY21.

After the challenges posed by the pandemic last fiscal we were confident that the product will bounce back sharply even its inherent and unique quality and value proposition, we believe that H2 will see similar kind of numbers if not better for the product.

Innovative PBT has also performed well with volume growth of approximately 27% over the previous years. Absolute numbers being 284 metric tons during Q2 FY22 as against 224 metric tons during Q2 FY21. Innovative PBT as when if you know is a product we manufacture for a global chemical leader besides these two products we are also witnessing good response for some of our newly introduced products which gives us the confidence of sustaining the overall growth momentum of the business over the coming years.

MB-07 is one such product of which we recently started commercial sales. Volume for the product during Q1 FY22 stood at 74 metric tons while for Q2 it clocked in volumes of 262 metric tons. MB-07 just to give you an update is added to make polyester dyeable with deeper and darker color. We had to work hard for over three years before finally obtaining the customers approval. We are confident of the product and expect the volume to scale up steadily over the coming quarters.

We have also commenced commercial sales of LMC-03. We are close to achieving techno commercial qualification for yet another innovative product MB-16. As indicated in our earlier call, we expect the volume for LMC-03 to pick up significantly over the next 2 to 3 years, while we envisage potential for sizable sales volume for MB-16.

I would just like to reiterate again that we remain positive on the business and expect the strong performance to continue over the coming years. The belief largely stems on the traction we are witnessing for existing as well as newly introduced products.

Our product pipeline as well remains exciting giving us the confidence to lower business dependency on a particular product. Besides volume growth our rising feedstock prices which are crude based resulted into revenue from operations increasing from Rs.12 crores to Rs.46 crores. As a result EBIT for the specialty polymers stood at 36.9%. Eliminating the impact of feedstock prices from the raw material consumption and the revenue from operations the EBIT margin during Q2 FY22 would have been about 50%.

Moving on to the film business:

Basis increased feedstock prices film SBU excluding chip sales clocked a revenue of Rs.195 crore during the quarter under review, a growth of 3% over the previous year. Margin compressed during the quarter owing to the excess supply following commissioning of new capacities. Higher shipping, freight cost exerted pressure on volume and margins as far as export business is concerned. As I have been reiterating the domestic demand continues to grow at about 11% to 12% on an annual basis.

Performance of the SBU would have been better but for the production loss due to shut down the film plant number two undertaken for a few days during the quarter for maintenance.

Eliminating the impact of increase in feedstock prices from raw material consumption and revenue from operations the EBIT margin during Q2 FY22 would have been about 17% while margins led profitability scenario is likely to remain subdued over short to medium-term mitigation strategy focusing on enhancing volume of value added in offline coated product is being pursued relentlessly.

Share of value added products were in the quarter stood at 20% we believe that we are very much on track on our guidance for increasing the value added mix to 30% of the overall product mix by March 2023.

Despite the near-term challenges we believe the demand supply equation continues to be favorable for the business on a long-term basis by wider expansion of application.

A quick word on our new plants at Telangana before I move on to engineering plastics business, as many of you may recall we are setting up a new Greenfield unit with 48,000 tons per annum state of the art plant in Telangana through our wholly owned subsidiary at a cost of Rs.587 crore. Work on the plant is progressing as per schedule and we expect the unit to commence commercial production by October 2022. We believe the new unit will help us better serve our customers besides adding to the overall growth of the business.

Engineering Plastics Business:

Moving on to Engineering Plastics Business Q2 saw yet another quarter wherein the business registered a healthy revenue run rate. Revenues for the quarter stood at Rs.74 crore as against Rs.49 crore during Q2 FY21 higher by 51%. Though realizations have improved largely owing to rising input cost margins in percentage terms were lower on sequential basis. Eliminating the impact of increase in feedstock prices from raw material consumption and revenue from operations the EBIT margin during Q2 FY22 would have been about 34%.

As I had mentioned earlier the margins which we have been generating in recent quarters are not sustainable in long run and we should expect some moderations. Having said that we remain committed towards maintaining reasonable margins in the business by improving our product mix and we certainly expect the relocation of the unit to add to the profitability of the business.

Shifting the unit will not only help us better serve the customers which will also help us cut down on the logistical expenses which should improve the operational efficiency of the business.

To conclude

I would just like to state that all our businesses are performing well and are well positioned to deliver consistent returns over the coming years.

Specialty polymer business has demonstrated its resiliency by delivering strong performance during the first half and we expect the buoyancy to continue in the second half of the physical as well.

As far as film business is concerned long-term prospects of the business are good to a near to short-term we may see moderation of margins.

As far as engineering plastics business is concerned we expect the same to perform well on the back of improved demand. Current levels of margin as I had mentioned may not be sustainable but we expect the same to be remunerative given our decision to relocate the plant.

Furthermore, our internal measure as well towards improving the profitability of the business should continue and should contribute positively to the overall business.

That concludes my opening remarks I now hand over the floor to Pradeep to walk you through our financial performance thank you.

Pradeep Rustagi Good afternoon everyone and thank you for joining us today. I will quickly walk you through our financial performance for the quarter and half year ended September 30, 2021 post which we can begin the Q&A session.

Starting with the topline; revenues from operations stood at Rs.333 crore as against Rs.251 crore reported during Q2 FY21, higher by 33%.

On a half-yearly basis revenues stood at Rs.652 crore as against Rs.439 crore higher by about 50%. The growth is on account of traction in Specialty polymer and engineering plastics and increase in realization consequent to increase in feed stock prices which are crude based products.

EBITDA for the quarter stood at Rs.59 crore as against Rs.73 crore generated during Q2 FY21. While on a half-yearly basis it stood at Rs.123 crore as against Rs.126 crore generated during H1 FY21.

EBITDA margin for the Q2 FY22 reduced to 17.7% as compared to 29.1% a year ago. Eliminating the impact of increase in feed stock prices from raw material consumption and revenue from operations the EBITDA margin during Q2 FY22 would have been above 23%.

Lower profitability during the quarter was primarily on account of lower profitability in film business. Moderation in profitability of film business was partially made good by strong performance of specialty polymers and EP SBUs.

Finance cost for the quarter remained steady at Rs.5 crore as against Rs.5 crore outgo reported during Q2 FY21. While on a half-yearly basis the same stood at Rs.10 crore as against Rs.8 crore outgo reported during H1 FY21.

As of September 30, 2021, our outstanding interest-bearing term debt, net of free cash stood at Rs.160 crore while interest-bearing working capital by liabilities stood at Rs.49 crore. Interest bearing debt net of free cash as a multiple of annualized EBITDA remained at a comfortable level of 0.85x as on September 30, 2021. We are committed towards maintaining better than prudent debt equity levels going forward.

Depreciation for the quarter stood at Rs.10 crore as against Rs.9 crore reported during Q2 FY21. While for the first half the same stood at Rs.19 crore as against Rs.17 crore during H1 FY21. Profit for the quarter stood at Rs.33 crore as against Rs.46 crore generated during Q2 FY21. While for the first half the same stood at Rs.71 crore as against Rs.75 crore generated during H1 FY21.

To conclude

I would just like to reiterate that we are confident of sustaining the recent growth momentum. All our businesses are well placed to perform consistently over the coming years and create value for our shareholders.

Moderator Thank you very much. The first question is from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor Sir, firstly, if you could give the details for how the raw material basket behaved for this quarter and it is comparison with the first quarter.

Pradeep Rustagi During this quarter the raw material cost PTA-MEG per kg of chip was about Rs.75 whereas the September 2020 it was only Rs.45 and for June 2021 it was Rs.72.

Saket Kapoor Sir that means there was not a lot of volatility the prices were in the same?

Pradeep Rustagi September yes, there was not much volatility but compared to September 2020 there was a significant increase almost about 80%, 85%.

Saket Kapoor Sir how has been the month for October we have seen that various commodity prices have the moving haywire post the exit of the month of September in the month of October so have you seen any significant change with respect to the PTA and MEG prices?

Pradeep Rustagi Yes so September quarter it was Rs.75 but the month of October was Rs.80 and between October and November there has not been any volatility the raw material rate is about Rs.80, Rs.81 in the month of November so far.

Saket Kapoor Sir can you give what is the PTA prices and MEG prices month on month?

Pradeep Rustagi Yes, so September quarter the PTA price was about Rs.66, MEG was Rs.55 in the month of October the PTA was Rs.69 but MEG was Rs.62 and then November the PTA prices are Rs.70 but the MEG has dropped to Rs.60.

Saket Kapoor But it is still hovering in a 5% to 8% not much significantly?

Pradeep Rustagi Yes, September, October, November is more or less stable, October, November is absolutely identical.

Saket Kapoor Sir about the new projects, where are we in midst of that and what amount of fund we have drawn and what is the update on the current Greenfield project Sir?

Arvind Singhania The project is very well placed. It is going as per schedule. Our original schedule was for startup in October 2022 and the schedule is being maintained. There is no delay and all the funds the financial closure for the project has taken place and we are absolutely on track on every account.

Saket Kapoor Sir total cost of the project and how much fund have we drawn and what are the interest rate terms for the same?

Pradeep Rustagi We have a project cost of Rs.587 crore which is to be funded by 176 crore of equity out of those 154 crore as we speak now 15th November we have invested 154 crore.

The term loan foreign currency loan Euro denominated loan the disbursement has started till 30th September it was about 3.5 crore but in the month of October there has been significant disbursement of about 14 crore. Rupee term loan the documentation part is completed. The disbursement is expected by end of November. Foreign currency loan is at about 2% per annum, rupee term loan is about 8% per annum and the working capital which will come in due course of time would be at about 7.5% to 8% per annum so all in cost would be about 5.5% to 6% per annum.

Saket Kapoor Sir for the Euro loans any hedging we have to go or it will be a natural hedge against the specialty polymers and other products being export denominator.

Arvind Singhania It is against our exports.

Saket Kapoor What was our export mix for the first half out of the total revenue?

Arvind Singhania Polyester film the export mix is about 30%.

Saket Kapoor If we take the total mix of that the total sales of Rs.333 crore what proportionate?

Pradeep Rustagi Yes, so out of Rs. 333 crore; Rs.106 crore is the export, Rs.46 crore of specialty polymer, Film business is around Rs.51 crore and engineering plastic Rs. 9 crore so about 32% at company level.

Saket Kapoor Correct Sir. Thank you.

Moderator The next question is from the line of Rajesh Agarwal from Money Ore Investment.

Rajesh Agarwal Sir your comments on margin going forward how the margins will play out and the Capex.

Arvind Singhania In what product?

Rajesh Agarwal In all products basically film?

Arvind Singhania As far as the margins in polyester film are concerned up to now in the third quarter we are witnessing a slightly better margin in polyester film compared to Q2. As far as specialty polymer is concerned the margins are steady as I have always maintained that it is a pass through model so the margins are maintained in absolute terms the margins are maintained and will be maintained for long time to come because these are specialty products so there is really no competition and as far as the engineering plastics is concerned the margins have been extremely good and they expect to remain extremely good for the short to medium-term.

Rajesh Agarwal Sir and the focus on CAPEX?

Arvind Singhania The CAPEX as I have just mentioned we have a CAPEX of Rs.587 in our wholly owned subsidiary for polyester film we did expect to start production by October 2022 that will add about 48,000 tons of film capacity.

Rajesh Agarwal And when it will come on stream.

Arvind Singhania October 2022.

Rajesh Agarwal Thank you Sir.

Moderator The next question is from the line of Sonaal Kohli from Bowhead Investment.

Sonaal Kohli Thank you sir for this opportunity. I had broadly two queries, the first one pertains to polyester films so I am seeing the data correctly the absolute profits not the margins in polyester films has fallen to maybe a 10, 12 quarter low what is the reason behind that and was it this fall led by the domestic market or by the export market or both?

Arvind Singhania It was both actually because some new capacities have started up globally and also the polyester film was affected quite badly because of increase in freight rates which hit away into export margin so increase in raw material prices, freight rates going up, some other costs is going up domestically because of power and transportation etc. So it was a combination of many factors that contributed to this.

Sonaal Kohli Sir why the domestic market because based on all the previous conversations we had there are no imports in India. So in new capacity come in India as well or because even our table takes 4 therefore this capacity has got diverted to India to that extent and that what impacts the domestic profits.

Arvind Singhania Yes, while there are no imports order no significant import coming into India but at the end of the day global it is a global economy now so even if domestic capacity has not increased global capacity has increased to that extent your export margins come under pressure and therefore more volume is available in India.

Sonaal Kohli Would you have some data about the industry in terms of like how much was exports and better let us say for Euro how much was the exports in tonnage in Q2 2021 versus like say Q2 2022 or versus Q1 2022?

Arvind Singhania I do not have that right now but I can give it to you offline.

Sonaal Kohli Sir this Rs.28 crore kind of run rate which we achieved is that here to stay your second lowest run rate has been actually Rs.35, Rs.36 crore in last 12 quarters so that is what we are trying to understand and has any new capacity started in India also?

Arvind Singhania Yes, so like I said the third quarter is showing better margins over second quarter and new capacities are expected to start up in the next few months so I think one line will start up in the third quarter, another line will start up in the fourth quarter and so on there will be more lines coming in over the next two to three years.

Sonaal Kohli Sir my second question pertains to specialty polymers what I wanted to ask obviously because of crude the previous numbers which you have guided let us say one, one and a half years back would not be valid because this is cost plus and you are able to pass on so and the profit has been pretty robust so how do you see the second half for you in specialty the Rs.17 crore kind of EBIT profit is it sustainable and now what kind of revenue are you expecting for the full financial year and year ahead assuming these crude prices because crude had doubled I am sure that the revenues would not remain the same?

Arvind Singhania In the beginning of the year at the end of the first quarter I had given a guidance of Rs.130 crore to Rs.135 crore revenue for the whole year in the first half we have already achieved about Rs.80 crore, Rs. 81 crore revenue so I maintained the guidance that we have given we should be able to repeat the first half and the second half as well, you can see and they will remain robust.

Sonaal Kohli The profitability would remain around this let us say Rs.30 crore levels which we have in the first half and the second half?

Arvind Singhania Yes, margins is not an issue here because there is no better in absolute numbers the percentage fall in margin because of raw material price increase that is another story.

Sonaal Kohli No Sir I was referring to the fact that with the opening of the US market are you expecting any further increase as compared to what you have already delivered that is what my question was referring to?

Arvind Singhania I think for the second half will remain pretty much the same because US market is starting to open up slowly.

Sonaal Kohli Any new product launches we expect over next six months, the products in the space we are planning to launch in next six months?

Arvind Singhania We have one or two products which are in the pipeline but I am afraid I cannot talk in detail about that right now.

Sonaal Kohli Thank you so much for your time.

Moderator The next question is from the line of Ravi Nagda, Individual Investor.

Ravi Nagda Good afternoon. Sir, I have been telling you about this specialty polymer business, the other listed companies in this space, the valuation they are getting is 50 times P/E. So, do we have any plans to demerge this business?

Arvind Singhania We do not have any such concrete plans right now to demerge the specialty polymer business.

Ravi Nagda Sir LMC-03 product what will be the sales in next year?

Arvind Singhania It is going to pick up slowly because the product stands approved techno commercially the product stands approved. The customer is starting to introduce it but it is a very big product launch that is going to take place and that is going to start in the first quarter of next calendar so depending on the success I think we may see some good volumes in coming in 2022 but the major increase in volumes will start from 2023 onwards.

Ravi Nagda There is also product called LMC-07?

Arvind Singhania That is not a major product.

Ravi Nagda MB-16?

Arvind Singhania MB-16 is already on its advanced stages of approval I think we might start seeing volumes from next year.

Moderator The next question is from the line of Pratap Makwana, Individual Investor.

Pratap Makwana Good afternoon Sir. Congratulations for the fantastic result. I have four questions. Sir in this quarter you have shown onetime inventory cost so hopefully that onetime inventory cost will realize into the fewer raw materials for the upcoming quarter and will realize in the better EBITDA? My second question is the upcoming production realization from October 2021 from the Telangana plant. How much contributions will be there for the export revenue from this plant and the Dahej plant will come into the production from which month of the next year? My third question is that a new maintenance shutdown plan in which month and for how many days? My fourth question Sir is the continuation from the last investor meet from the last quarter. The energy enhancement project which regularly getting carried away and it is benefiting in terms of the energy you can throw the light on the furnace oil prices because the furnace is not burning commodity it is a heating commodity indirect heating commodity and the rice husk is not much more impacted in to the fuel price and so it will not offset the energy prices but energy prices will be sustained and so that will not the effect of the revenue in terms of the going forward. So how much will be the contribution and the sustenance will be there going forward for this? So these are my four questions, Sir.

Pradeep Rustagi As far as the export volume from Telangana project is concerned we would be exporting close to 30% to 40% of the production from Telangana in the overseas market. The Dahej it is not Dahej we are shifting engineering plastic unit to Vadodara and that should start operations by July 2022. On the annual maintenance it is a phased sort of maintenance plan. We have three different plants. each plant is undertaken for annual maintenance depending on the availability of spares etc., and energy cost is we are hardly using any quantity of furnace oil. Furnace oil is used that we are standby when there is less availability of husk or there is some pressure on supply of husk but husk prices have also gone up because of the heavy rainy season this time the husk prices have also gone up so energy cost the power cost is we are drawing from the State Electricity Board and that is going to remain constant in March of 2022.

Pratap Makwana One time inventory cost which you have shown for this quarter?

Pradeep Rustagi There is no inventory loss in the quarter ended September 2021, Q2 FY22.

Moderator The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor Sir in the film business if globally you could explain us what are the dynamics in play since it is a global product all together and any capacity change globally or demand supply is going on any side will have an impact so how has the global capacity and the demand aligned and what can be expect in terms of the pricing going forward globally?

Girish Behl I think there are few capacities planned across the globe and the capacity always comes in some bunches and I think going forward there is some capacity expansion happening in India, few lines are coming and then few capacity expansion is happening in China as well so this time the change what we are seeing that the expansion is also happening beyond India and China and in US also in Africa also.

Saket Kapoor Sir I was looking at the material impact, meaning the annualized demand growth which we look for the products, according to that the buildup in the capacity which is happening now how is that getting aligned whether it is the demand that exceeds the supply or vice versa?

Girish Behl In any case there is always a gap when the capacity gets added and the demand goes on if we have a much flatter curve and capacity comes in bunches so there are capacity expansion plan which were planned in last couple of years but those expansion were impacted due to COVID. Now those capacity expansions are coming on-stream but let us say if you look at five to seven year period so the capacity expansion and the demand expansion in this period is aligned there is no issue.

Saket Kapoor Sir out of the total annual requirement domestically for the country how much is met through the Indian players and how much is met through import?

Girish Behl See there is hardly any import coming of polyester film in India so largely the production whatever happens in India is let us say I would say the 70%, 80% is supply the domestic market rest is exported.

Saket Kapoor Out of the total production in the country 70%, 80% has been consumed and 20% has been exported.

Girish Behl Yes, 20% to 30% is export.

Saket Kapoor There is surplus in the country are we doing export for our client's specific purpose?

Girish Behl In polyester film business this particular business India is a major exporting hub for this product so there is always let us say the capacity in excess of domestic supply because as a country we have good clientele base for supplying films across the globe.

Saket Kapoor For this higher value added films part I think so we did some CAPEX also to 15 months or ago where are we in midst of that and what is the percentage of the value added films of the total proportionate for this quarter and for the first half.

Girish Behl I think what I can say in this question is that we have invested in an offline coated capacity which is as we speak now this is operating near optimum level and then give and then I think Pradeep ji would be able to give an update on expect numbers and we are also building further capacity on getting into various different kind of value added products so product development activity is going on, yes.

Pradeep Rustagi Currently our proportion is in the September quarter in terms of volume it was 20% but in terms of value it was 28% in terms of the value added and offline coated product.

Saket Kapoor Have we reach the optimum level or we are going to improve on this and how are the margin different from the other ordinary films and if I may use the term. Margins in Kg terms if you can speak off?

Girish Behl I think the in case if we were to give an indicative number on the margin difference between these products compared to other products so there could be on an average I can say easily the product may come offline coaters are let us say incremental EBITDA margin of around 10% to 15%.

Saket Kapoor Any specific end user customer sir we have for this customized film the value added film?

Girish Behl It is going into various applications. It goes into packaging, it goes into decorative, it goes into very, very different kind of industries, it is broad based.

Saket Kapoor If we take our customer profile 5% and above sir which industry are we catering to?

Girish Behl In film business the bulk of the volume goes to flexible packaging business.

Saket Kapoor The key customer Sir can you mean who are our key customers?

Arvind Singhania Sorry, we cannot reveal the names of our customers.

Moderator The next question is from the line of Mr.Surendra, an individual investor.

Surendra Sir my question is regarding this in Telangana we are putting polyester films plant so we also putting polyester chip plant there?

Arvind Singhania Not yet. Not in the first phase. That will come into the second phase when we decide to going for the second film line then we will put up our chips plant.

Surendra Sir then what will be the sourcing?

Arvind Singhania There are plenty of options available to us to buy the polymer for the film plant.

Surendra Sir one more question this is regarding Specialty polymer MB-03 what will be our target for FY2023?

Arvind Singhania FY2023?

Surendra Yes.

Arvind Singhania It can be about 1,500 to 1,700 tons.

Moderator The next question is from the line of Ravi Nagda, individual investor.

Ravi Nagda Sir what is the status of specialty polymer CAPEX that we have announced last time Rs.80 crore CAPEX?

Arvind Singhania Yes, that is ongoing and it is in phases. So the first phase should be complete by June or July sorry August of next year August 2022.

Ravi Nagda Sir what is the turnover that we hope to achieve with this Rs.80 crore CAPEX turnover?

Arvind Singhania It is not only because of this Rs.80 crore this is not for the short-term. It is part of the ongoing performance of specialty polymers over a longer period of time so over a period of the next three to four years we expect to reach a turnover of about Rs.400 crore to Rs.500 crore

Pradeep Rustagi And in the Rs.80 crore we are not only spending on the polymerization we are also spending lot of money on the utilities balancing of the utilities.

Ravi Nagda Sir what is the target of revenue target next year for specialty polymer business next year?

Arvind Singhania It will be much better than FY22.

Ravi Nagda **Rs.**300 crore we can expect?

Arvind Singhania We will give you that number towards the end of the year it is still six months away from closure of the financial year.

Moderator The next question is from the line of Arnav Kapoor, an individual investor.

Arnav Kapoor Sir thanks for the opportunity. Just two questions one is on the value added piece on the polyester film you have given a target of 27% to 30% do we is there any timeline specific that can indicate for that?

Arvind Singhania Well in terms of value we have already achieved 28%, in terms of volumes we are at about 20%, 21% and I think within the next one year or so we should be at 30%.

Arnav Kapoor From a margin perspective, do you expect to maintain like late teens or it can go beyond them go back of into 20% and plus?

Arvind Singhania The incremental margin from offline coated products will be in the incremental over and above the normal films should be in the region of about 10% to 15% additional EBITDA margins.

Arnav Kapoor Thank you Sir and the last questions is on specialty polymer given that this is like a high growth area for us from a people perspective do we have the right set of team on the ground or you also look into ramp up from an R&D perspective and from the sales perspective?

Arvind Singhania Well, currently we have the required requisite number of people with the desired skill set already available and as and when we keep meeting additional people we keep hiring, we are fully adequate right now.

Moderator The next question is from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor Sir what should be the likely peak debt for us when the projects at the start of commissioning of the product what would be the cash accruals that will be attributed further or we will be keeping the ratio at the 30:70 mark itself meaning whatever has the contribution been the remaining will be from the debt only these cash flows will not be utilized for the CAPEX?

Pradeep Rustagi Yes, in Telangana initially whatever cash accruals are there would be use for payment obligations and for building up reducing debt, improving the debt leveraging so we would undertake CAPEX only when it is at most necessary and important.

Saket Kapoor Sir I was just looking for the utilization of cash from our standalone?

Arvind Singhania That exactly what Pradeep has explained that in Telangana in the initial part we will use the cash flows to reduce the debt.

Saket Kapoor Sir what are the current key risk for our industry and what steps can be taken in our hand so that we can mitigate those risks going forward especially the film business?

Arvind Singhania There are really I do not see I mean apart from any God given calamity I cannot talk about that but in generally speaking as far as the specialty polymer and engineering plastics businesses are concerned the risk levels are very low, in specialty polymer business specially I do not see any major risks there. As far as film business is concerned it would largely be the capacity creation which could create a short to medium-term imbalance in demand supply and the biggest mitigation there would be in two ways number one keep our debt very low which we already have and number two increase the value added products to take care of the fall in margins of the commodity films with specialty films. So both these things are underway currently.

Saket Kapoor Sir what should be the explanation for the decrease in the margins for the engineering plastic if you have answered I have missed the point quarter-on-quarter we see the margins reduced although the turnover has moved up from Rs.59 crore to Rs.74 crore the incremental margin the absolute numbers are lower so please explain that?

Pradeep Rustagi So the one of the reason is that the margins we have explained in the previous calls we have seen unprecedented margins in Engineering plastics so there were some moderation because the benefit of the cheaper raw material inventory that was in hand or in pipeline that has reduced number one, number two because of the margin percentage would have been almost 34% if the raw material increase had not taken place so in fact there is no in terms of margin if you take away the increase in the feedstock prices and sales value the margins have been maintained but because of the higher denominator it is appearing to be low.

Saket Kapoor Here also sir the same feedstock is there in the same proportion, PTA and MEG?

Arvind Singhania It is all petrochemical. It is directly linked to crude.

Saket Kapoor Other than the two the one which we have discussed the PTA and MEG other than that there is another component also in the raw material basket?

Arvind Singhania In the engineering plastics we are importing Nylon -6, polycarbonate PTT so these are all petrochemical products.

Pradeep Rustagi PTA MEG is not getting used in engineering plastics.

Saket Kapoor There also the price trends have been very erratic? The prices has aligned?

Arvind Singhania It is similar to in fact worse than PGA and MEG.

Saket Kapoor You mentioned Nylon-6 also Sir as a raw material?

Arvind Singhania Yes.

Saket Kapoor Nylon-6 is available domestically also Sir or we have to import Nylon-6 I think the GSFC is the only producer in the country?

Arvind Singhania They are available, but the kind of quality and grade we want is not available.

Saket Kapoor Correct Sir. Thank you for all the elaborate answer Sir and all the best Sir. We can expect these margins on a sustainable basis for H2 also Sir that is we can conclude even for the engineering plastic these are the margins that are here to stay?

Arvind Singhania Yes.

Saket Kapoor Thank you again sir and all the best.

Moderator Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for closing comments. Over to you all!

Arvind Singhania Thank you very much, ladies and gentlemen for joining us for the earnings call. I look forward to seeing you after the close of next quarter. Thank you very much and have a good day. Thank you.