Ester Industries Limited

Q3 & 9M Earnings Conference Call Transcript
February 3, 2021

Moderator Ladies and Gentlemen, Good Day and Welcome to the Ester Industries Limited Q3 and nine months FY '21 earnings conference call.. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, Sir.

Gavin Desa Thank you Steven. Good day everyone and a warm Welcome to Ester Industries Q3 and 9M FY '21 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 discussion may be forward-looking in nature and a note to this effect was sent to you in the invitation earlier. I 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, Arvind.

Arvind Singhania Thanks Gavin and thank you everyone for joining us today. I have alongside me Pradeep Rustagi, our CFO as well. I will begin the call with an overview of the key operational highlights across our businesses post which Pradeep will walk you through our financial performance for the quarter. Starting with headline numbers on year-on-year basis, we registered a strong growth in profitability for the quarter on the back of solid performance from our film and engineering plastics division. On quarter-on-quarter basis, performance of film SBU during the quarter was marginally subdued in comparison to September '20 quarter. During September '20 quarter due to the pandemic related stocking of packaged items by consumers the demand and consequently margins were exceptionally high, which could not have been sustained. Performance during December quarter is generally subdued as well due to lower demand post-Diwali. External factors like farmers rally and effect of certain high increase in input cost resulted in lower demand growth and impact on margins. Specialty polymers continues to be an extremely exciting business, was constrained by external factors not in our control. Engineering plastics which on the other hand has faced several challenges in the past enjoyed a sharp revival on the back of strong pickup in end-user industries. Engineering plastics business in fact delivered its best ever quarterly performance till date.

Let me dwell in a little bit more detail on the performance of each of our businesses. Starting with specialty polymers, in specialty polymer business, exports for only MB-03 was impacted due to lack of demand from our key customer market due to exceptional situation caused by COVID-19. The sales of MB-03 is expected to rebound from next year. We expect effects of vaccination drive to normalize situation by April '21 in Unites States of America, which is our primary market for MB-03. We, therefore, expect normal levels of export for MB-03 to start from May/June '21. We are pleased to inform you that last night itself we received order for 100 metric tons of MB-03 to be dispatched within the quarter of March 2021. This leads us to believe that our expectation of revival by May/June should happen. As regard prospects of innovative polybutylene terephthalatethe, the agreement signed with global chemical leader in April 2019 was for a nominal quantity of 400 metric tons per annum. We achieved sales of 465 metric tons in the first year of agreement and sales of 786 metric tons during nine months of FY ’21. Basis orders in hand, we are confident of achieving sales of about 1,000 metric ton during FY ’21 compared to the contract of 400 metric tons only. Basis growth in sales achieved in the last two years, we expect volume of sales to grow substantially post 21 as well. Innovative PBT finds application mainly in consumer electronics currently and is now being propagated for other applications that is automotive, textile, cosmetics etc.

The underlying strength and strong structural fundamental of this business gives us confidence that this business will regain its momentum as the environment normalizes. Commercial sales of two new products namely MB-07 that is the easy dyeable and LMC 03 (Low melt, Copolyetherester) having immense potential has started during the quarter. Export of MB-16 the cationic dyeable master batch is also expected to start within the month of February. Commercialization of these products will act as a strong growth trigger for the business. All these products are developed in-house which is a testimony to our innovation and R&D capability. Further this business is technology driven, patent protected which helps limit competition and offer sustained and strong growth prospects. Our efforts in recent years have been directed towards building a comprehensive portfolio so as to reduce dependency on few products.

Moving onto our film business, on year-on-year basis favourable demand supply scenario coupled with higher operating leverage resulted in better profitability and margins. On quarter-on-quarter basis, maintenance shutdown undertaken during the quarter resulted in lower volume and revenue generation. We continue with our focus and thrust on increasing proportion of value-added and specialty products and overall product mix by focusing on innovation, development, and partnership with customers both in India and overseas. Resultantly, we have been achieving steady improvement in product mix, share of value-added product stood at 20% as of Q3 FY ’21. The commissioning of off-line coater would help us to achieve the target of 30% of value-added and specialty products in the total volume very shortly.

Going ahead, we believe that better product mix coupled with capacity addition through the wholly-owned subsidiary will drive the performance metrics of this business. Polyester film business is one of the few segments which has benefited positively from the outbreak of COVID-19 pandemic as majority of the people now prefer package products from health and hygiene point of view. Going forward, we expect the domestic and global demand to grow at the rate of 11% to 13% per annum and 6% to 6.5% per annum, respectively. We are accordingly getting future ready by scaling up our capacity through our wholly-owned subsidiary to meet the growing demand of our customers. As regard the expansion of film capacity through the wholly-owned subsidiary, we have already started implementation of the project and invested about Rs.87.4 crore till date. Commercial production is expected to start as per the schedule that is by October ’22.

Lastly, let me discuss our Engineering plastics business. The performance of the division has seen fairly muted over the past year largely owing to the softness in the end-user industry. Starting from September ’20 quarter, the business delivered a stellar performance for two consecutive quarters with revenue and margins registering a sizeable improvement. Volumes of sales and profitability for the quarter were exceptionally strong on the back of strong demand for end-user industries, OFC, auto, and electrical. We expect the business to continue to deliver consistent and meaningful performance going forward as well.

As mentioned in the previous call, we are evaluating relocation of our engineering plastics plant to help serve the customers better and also to cut down the logistics cost that we incur currently. The relocation of the plant itself should help us improve EBITDA margin by approximately 2%. In addition to the relocation, we are also evaluating an investment towards setting up new extruder to help us meet the growing demand. We expect the engineering plastics business to deliver consistent performance going ahead. To summarize, Film business continues to be the mainstay of the company at present. We believe the capacity expansion coupled with improved product mix should help us improve overall profitability of the business. Specialty polymers business is expected to deliver growth as well as better performance in the coming years. While FY '21 was affected adversely to external challenges, we expect performance to pickup pace going forward. Lastly, Engineering plastics as well after a few challenging years is getting back to its growth trajectory. The demand environment is steadily improving and we expect the momentum to continue going forward. To conclude, let me just reiterate that we are quite positive on all our businesses. We believe that all our businesses are shaping up well and are well positioned to deliver sustained performance in the coming years.

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

Pradeep K. Rustagi Good Afternoon everyone and thank you for joining us today. I will quickly walk you through the financial performance for the quarter and nine months ended December '20 post which we can start the Q&A session. Starting with the quarterly performance, revenue from the operations stood at Rs. 256 crore as against Rs. 246 crore reported during Q3 FY '20, higher by 4%, while on a nine-month basis the same stood at Rs. 695 crore as against Rs.785 crore that is lower by 12%. Turnover at company level is lower mainly on account of sales of 355 metric ton of chips having sales value of Rs.1.7 crore during nine months ended December '20 as against sales of 8,390 metric ton having sales value of Rs.58 crore during nine months ended December '19. Though the chip sales adds to the top line, it adds marginally to the bottom line. Q3 marked the first quarter wherein we have been able to deliver higher revenue run rate over the previous year indicative of the normalcy in the business. Growth during Q3 was largely driven by strong performance of Film and Engineering plastic businesses. The specialty polymer performance as mentioned by Arvind was impacted by exceptional and uncontrollable situation caused in customer markets by COVID-19. EBITDA for the quarter stood at Rs. 58 crore as against Rs.45 crore generated during Q3 FY '20 that is higher by 29%. While on a nine-month basis, the same stood at Rs. 183 crore as against Rs.145 crore generated during Nine months FY '20 higher by 27%. The growth was on account of better performance of engineering plastic business, better product mix, operational efficiency, and margins in film business.

Finance cost for the quarter was marginally lower than December '19 quarter. On nine months basis the same declined by 34% to Rs. 13 crore as against Rs.20 crore nine months '20. As of December 31, 2020, our outstanding interest-bearing term debt net of free cash stood at Rs. 105 crore while interest-bearing working capital liability stood at Rs. 52 crore. Interest-bearing debt net of free cash as in multiple of annualized EBITDA stood at a healthy level of 0.64 as of December 31, 2020, in comparison to 0.39 as at September 30, 2020. We are committed towards maintaining better than prudent debt equity levels, this is evident from the total outside liabilities and tangible network ratio that is interest-bearing debt net of free cash as a multiple of annualized EBITDA stood at a healthy level of 0.64 as of December 31, 2020, in comparison to 0.39 as at September 30, 2020. We are committed towards maintaining better than prudent debt equity level, this is evident from the total outset liabilities tangible network ratio that stood at 0.58 as on December 31, 2020.

Further as mentioned in the previous call while funding the expansion project in wholly-owned subsidiary, we have taken advantage of benign interest rates environment globally and as such got sanction for foreign currency term loan of Euro 28 million in the wholly-owned subsidiary. Depreciation for the quarter stood steady at Rs. 8.85 crore while on a nine-month basis, the same stood at Rs.26.5 crore. Profit for the quarter stood at Rs. 33 crore as against Rs.19 crore generated_ during Q3 FY '20 that is higher by 70%, while on a nine-month basis the same stood at Rs.108 crore against Rs. 63 crore reported during nine months FY '20 higher by 73%. To conclude, I would just like to reiterate what Arvind said earlier, we believe all our businesses are well-positioned to deliver consistent performance over the coming year while film business will continue to be the mainstay of the company, the growth will be delivered by specialty polymers. We expect engineering plastic business to contribute consistently and meaningfully to the top line and bottom line of the company going forward. We believe we are well placed to create significant value for our stakeholders in the coming years and are about to embark on an exciting phase of the business. Thank you.

Moderator The first question is from the line of Rahul Nadkarni, an Individual Investor.

Rahul Nadkarni I would first of all congratulate the Management for delivering a very good set of numbers in spite of the challenging times that we are in. Couple of questions, firstly, I can see an increase in the amount of term debt which has happened on a quarter-on-quarter basis, so just wanted to understand what exactly is the reason for that?

Arvind Singhania Like I mentioned we are putting up a polyester film capacity expansion through wholly-owned subsidiary and major amount of investment was made in this quarter as equity into this subsidiary, which caused us to the working capital facilities to be utilized higher than the previous quarter.

Pradeep K. Rustagi We have also raised some term loans, so that the net working capital remains healthy.

Arvind Singhania Overall our total debt level still remains better than prudent, so I am not worried and nobody should be worried on that account.

Rahul Nadkarni But this is mainly towards the investment which has been done, so is it like a corporate debt which has been taken for investment?

Arvind Singhania No, it will go as equity into the wholly-owned subsidiary. Basically, what we are explaining is that we utilized the unutilized working capital limit and some additional term loans were taken which were used for CAPEX and investment into the WOS.

Rahul Nadkarni Okay understood, another couple of questions, one is any update on the renewal of the contract for the innovative PBT?

Arvind Singhania There is no need, the renewal of the contract is now a mere formality as the business is continuing to grow, we may not even need to sign another contract for that. As I have explained in my opening remarks against a nominal contract value of 400 tons for FY '21, we are going to exceed 1,000 tons already, you will see substantial improvement in volumes going forward with or without a contract.

Rahul Nadkarni Okay understood, and another question on Engineering plastics business in your opening remarks as well as in Pradeep remarks you had mentioned that you are planning to shift the plant to some other location from a logistical cost perspective, so I just wanted to understand then what would be the timing of this shift and would it impact or result in a shutdown or loss of revenue because of that?

Arvind Singhania No, we are targeting to complete relocation by December '21 and this will not cause any loss of revenue because first we will install a new extruder in the new location so that any impact of closure of the old extruder does not hit the revenue, and one by one we will shift all our equipments.

Rahul Nadkarni Also one of the statements you made that there was a shutdown which was done in Q3 which impacted the revenue which is an maintenance shutdown which is done, so I wanted to understand how many days was this shutdown done and what was the impact on the revenue and EBITDA, if this shutdown would not have been done what would have been the revenue and EBITDA would have been higher by what quantum?

Arvind Singhania So there was a seven-day shutdown which impacted total a loss of production of 700 tons multiplied by let us say about Rs.9 crore of revenue loss and close to Rs.4 to Rs.4.5 crore EBITDA loss.

Rahul Nadkarni This is a normal maintenance shutdown which you do in Q3 considering this a holiday season?

Arvind Singhania Yes.

Moderator The next question is from the line of Sudheer Reddy, an Individual Investor.

Sudheer Reddy Sir, first of all congratulations on the set of numbers what you have delivered and also a good growth progress growth year-on-year, I just want to ask a question on film business, with respect to the film business like the September quarter was good because of whatever the pandemic situation and now followed by post September like the growth was not expected, so is this the growth going to be declining more or it is going to be stabilized after this?

Arvind Singhania I think it will be more or less stabilized, there will always be some fluctuation, no business can exist without some fluctuation, but basically more or less you can expect it to stabilize at these levels plus or minus a little bit. September quarter was an aberration, I mentioned that in my previous con call as well.

Sudheer Reddy Sir, I also have one more question with respect to new order has been received last night right, so can you please give more details on that?

Arvind Singhania Yes, so basically in our specialty polymer business, we largely got impacted because of our stain resistant master batch, MB-03, which forms a large chunk of our business and this was highly impacted because America is in very deep trouble because of COVID-19 but like I said MB-03 was very badly impacted because of COVID in the US, we were expecting recovery to start by May-June and this sizeable volume orders that came in last week only supports what our supposition is that this business will revive back very shortly.

Moderator The next question is from the line of Gaurav Lohiya from Bowhead Investment.

Gaurav Lohiya Good Afternoon Sir, hope all is well, can you please give me the volume data for this quarter as well as Q2 FY '21 and gross value addition for both these quarters for packaging segment

Pradeep K. Rustagi For December '20, we did 14,300 tons of sales, September was 15,000

Gaurav Lohiya What was the gross value addition Sir for these two quarters?

Pradeep K. Rustagi The commodity 12 micron film, it was Rs. 46 but blended for all the products put together metalized etc. was Rs.64 for the company.

Gaurav Lohiya Cost and other indirect cost would be let us say somewhere around Rs. 30 right, so I can remove that?

Pradeep K. Rustagi Rs. 20 is the variable cost and the other cost is about Rs. 15.

Gaurav Lohiya What was it in previous quarter Sir in September quarter?

Arvind Singhania The cost number should remain largely

Gaurav Lohiya I meant the gross value addition in the last quarter, would it be somewhere around close to Rs. 70?

Pradeep K. Rustagi September the 12 micron corona was Rs. 58, blended for the company was Rs. 73, which reduced to Rs.46 for 12 micron and Rs. 64 the blended level.

Gaurav Lohiya Sir, just one clarification, so if I see that the volumes have increased versus last year, right, last year somewhere around 13,600 metric ton volume was there right in the packaging and here it is about 14,300, but if I see revenue, the revenue have declined in that packaging segment, so was there a realization pressure versus last year and that is leading to the compression at gross value add or it was mainly raw material driven?

Arvind Singhania Raw material driven.

Gaurav Lohiya If I look at the revenue, since the volumes have grown, while the revenues are kind or it has declined, so was there a compression in sales values in realization as well or was it like the export mix would have changed, export was less in this quarter and that may have to led to this kind of?

Arvind Singhania In the current year, the margins are better than previous year, but the decline in revenue is because of raw material and no chip sales which also is part of the film. Margins in FY '21 are much better than margins of FY '20, the reduction in revenue is because of sharp reduction in raw material cost and no chip sale during FY '21, that is the reason you see a reduction in revenue.

Gaurav Lohiya Okay Sir, I anyways had adjusted for chip revenue, I have subtracted that but I will take it offline if I want more clarification. Sir, if I look at specialty division, your sales have declined let us say last year you did Rs.20 crore odd sales in this quarter and this year it is about Rs.13 crore, while our margins I think last year we did an reported EBIT of Rs.7-Rs.8 crore and this year it is about Rs.2 crore, so the decline in EBIT is higher than your revenue decline in specialty, so is it that the MB-03 was much higher margin product and that is why the decline is higher in EBIT ?

Arvind Singhania The only product which really got impacted was MB-03 and this entire decline in revenue and margin can be attributed to that.

Pradeep K. Rustagi Secondly there are Fixed Costin the EBIT calculation so beyond a certain threshold, the jump in the EBIT would be more as we achieve more sales so it is not everything that goes into the EBIT calculation, it is not variable.

Gaurav Lohiya Sir, you said that you have already started exporting MB-07 and I remember that you said that potential is about 1,000 ton from one customer and the overall potential could be much, much higher so would we able to expect this full 1,000 ton in next year or it would take time that is a two or three years kind of target for MB-07?

Arvind Singhania Definitely, we expect a volume between 800 to 1,000 tons in FY ’22.

Gaurav Lohiya FY ’22, okay and the price of the product would be Sir close to?

Pradeep K. Rustagi It would be selling close to Rs. 320 a kg, MB-07.

Gaurav Lohiya Okay, understood Sir and the margins would be let us say close to 30% odd at EBIT level?

Arvind Singhania The margin would be close to about 30%.

Gaurav Lohiya Sir, similarly, last thing on LMC 03, you said that the potential there was 5,000-6,000, so what kind of volume or revenue we can except from LMC 03 in FY ’22 and ’23?

Arvind Singhania LMC 03 was again impacted because of COVID, the customer could not do the major launch they were expecting to do in the last quarter of calendar ’20, so because of COVID it got delayed, but the product has been accepted commercially, technically everything, small volumes we have already started moving, so every second month we are doing about 30-35 tons of this product. A bigger launch is expected around June, so we can start expecting good volumes in FY ’22 and this will grow substantially as we go by.

Gaurav Lohiya Can we expect some 1,000-2,000 tons from this product in FY ’22 or would that be high considering it is a new product for customer also and considering the pandemic, they may not want to take or play with new products as of now?

Arvind Singhania This is a brand new product that the customer is launching and I am going to make a conservative estimate of about 500 to 600 tons of sales in FY ’22.

Gaurav Lohiya And realization is same as MB-07, close to that?

Pradeep K. Rustagi No, the realization for this Rs. 185 a kg.

Arvind Singhania But contribution margin is quite at about Rs. 85 a kg.

Gaurav Lohiya Last question sir, you know what is the exit gross value addition that we have seen in December, probably January what is the current run rate, is it similar to the average of Q3 or it is much higher than Q3 average

Arvind Singhania Similar to Q3.

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

Saket Kapoor Sir firstly I missed your initial part of the commentary Sir, so Sir I was looking for the factors that resulted in the lower PBT numbers in the polyester chips and film segment, barring MB-03 part due to that export or the COVID issue, what were the factors that are currently playing for our core polyester film business and how is the business environment currently shaping up in terms of the demand supply?

Arvind Singhania Like I mentioned in my previous earnings call also, September was an aberration where the margins were extremely high and I had mentioned that those kind of numbers are not sustainable, so the margins reduced in the December quarter plus coupled with our maintenance shutdown, we lost about 700 tons of production which resulted in the fall in the absolute EBITDA for the film business. On the specialty polymer side, MB-03 was our main driver till last year. It is not going to be so going forward and we lost a lot of MB-03 business because of COVID in America, but this has now started to pick up again.

Saket Kapoor Last point you told that MB-03 there was a dip in, could you quantify sir what was the normal rate, what was the deliverable schedule and what we were able to deliver?

Arvind Singhania In FY ’20, we did about 1,150 tons of MB-03. Before COVID happened, we were estimating this volume to go up to 1,500-1,600 tons in FY ’21, but because of the COVID impact up to now we have done about 216 and we just got an order for another 100 tons last night, so we might close it at around 400 tons for March quarter, but this fresh order gives us great confidence that this business will rebound back as soon as the COVID story is over in the US.

Saket Kapoor Correct and the last quarter you are expected to do 200 tons of this product?

Arvind Singhania Yes, about it could touch 200, maybe 100 to 200 tons.

Saket Kapoor Okay and the 100 ton which you have got what is the size of the order Sir in value terms?

Arvind Singhania This will be about little over Rs.4 crore.

Saket Kapoor Sir, now coming to your core business part, the business dynamics and how is the demand supply theory playing out in the environment sir and what is the way forward sir, going forward how lightly is the continuity of the same?

Arvind Singhania I have mentioned in my opening remarks also that we expect demand to continue to grow at a rate of about 11% to 13% in the domestic market and about 6%-6.5% in the global market, so this we maintain is going to happen.

Saket Kapoor Sir, Pradeep could you give the breakup for the raw material basket, how have they shaped up, I think they look to be an inflationary an upwards bias in the raw material prices?

Arvind Singhania Raw material was very steady up to about September-October and beyond October from November it started going up and it has gone up substantially from levels of about Rs. 46 to about Rs. 63, so there has been a sharp jump in raw material prices between November and now.

Pradeep K. Rustagi But now it has started to stabilize .

Saket Kapoor What are the exit prices for MEG and PTA Sir for the month of December?

Pradeep K. Rustagi December the PTA was close to Rs. 42 and MEG was Rs.38, but currently it is Rs.55 and MEG is 49.

Saket Kapoor The average you had told for the December, it was the exit price for December?

Pradeep K. Rustagi December average was Rs. 48-49.

Saket Kapoor And they have moved up from there also, the raw material prices have moved up on month-on-month also?

Pradeep K. Rustagi January saw an increase.

Arvind Singhania But now currently stabilizing again.

Saket Kapoor Sir, the prices are hovering at what January level and then we will be taking a price rise also as the pass on is there going forward?

Arvind Singhania I have always maintained that this is a pass through model so we expect to be able to pass on this price increase sooner or later, there is some time lag always, it happens.

Saket Kapoor Sir on the wholly-owned subsidiary part, you mentioned about this Rs.88 crore being invested so what is the timeline with which we are working?

Arvind Singhania It has already gone in as equity into the wholly-owned subsidiary and total investment into the wholly-owned subsidiary as equity from Ester is Rs.176 crore, which will be invested over between now and the startup.

Saket Kapoor What is the timeline Sir actually Rs.88 you have invested in the equity portion I think so, the balance will be invested?

Arvind Singhania About 90-95 is yet to be invested which will be invested over the next year or so.

Pradeep K. Rustagi So far we have not raised any debt in wholly-owned subsidiary, so whatever is spent is through the equity route.

Saket Kapoor And what has been the application of funds with equity which you have invested there, how have we utilized the funds?

Pradeep K. Rustagi It is CAPEX, land and advance to machine suppliers.

Saket Kapoor Okay, and the total cost is going to be Rs.500 crore has been envisaged earlier?

Arvind Singhania Rs. 586 crore.

Saket Kapoor The debt equity mix will be how much?

Pradeep K. Rustagi 30% would be equity, 70% would be debt, but debt major portion would be through foreign currency debt which is at 2% cost.

Saket Kapoor Sir, currently as a low interest regime is there in the country, how good it is to go for a foreign debt at 2% cost wherein, what is our average cost of fund domestically with the ratings from CRISIL?

Pradeep K. Rustagi Subsequent to improvement in rating, we are now getting reduction in the interest rate and our effective interest rate would be about 8.5% to 9% for the Rupee denominated loan and the foreign currency loan is at 2%, so there is a huge amount of savings and it is a Euro denominated loan and the currency has been very stable and we have natural hedge also because we export a lot.

Saket Kapoor To the European nation, Euro denominated you told?

Pradeep K. Rustagi Euro denominated.

Saket Kapoor Sir, now coming to the point about this Engineering plastic division that has been a totally turnaround story that has played out from the verge of, we have put that division on block also I think two-three quarters earlier, we were envisaging that if we get suitable buyer for a good price that would have been the case, but now we are looking for expansion, so a sea change in the business dynamics, so what exactly on ground has changed sir and how comfortable are you that these trends are not blips for the time being and may get revert as we are also contemplating some CAPEX and what is the size we are looking forward for the CAPEX?

Arvind Singhania Basis the information that we have on our business of Engineering plastics, we feel that this is not going to be a short-term blip, it is going to be an extended performance, it will continue for some time and we are investing in the additional extruder because today we are sold out and we need capacity to service our customers. We expect the performance of the engineering plastics division to be sustained, we do not expect this to be a short-term blip.

Saket Kapoor Sir, since the customer base I think should be, you do not have more than I think 5% revenue out of single client, so there the clients are in clusters and in the electrical part of the PVC prices and other input prices have also gone up dramatically, so just wanted to understand, is there any supply squeeze or what could be the probable reason from where this demand has emerged that is my question?

Arvind Singhania For the domestic market, you know how auto is growing extremely, brilliantly well, electrical segment is doing brilliantly well, OFC is doing brilliantly well, so that is where the demand.

Saket Kapoor If we split between the auto and the electrical part for the electrical consumer, what would be the proportionate sir?

Arvind Singhania And OFC, optical fiber cable business.

Saket Kapoor Okay, that has also seen an increase demand, what is our scope of work in optical fiber cable?

Arvind Singhania So we supply the raw material which goes for the sheathing of the optical fiber cable. The optical fiber cable is encased inside our raw material

Saket Kapoor Correct, there you are seeing an increment demand?

Arvind Singhania Yes.

Saket Kapoor Sir, can you provide me with the split, if we take the breakup between OFC, consumer electronic part, and the auto, what would be the split for the plastic division?

Arvind Singhania I do not have those numbers readily available right now.

Saket Kapoor Now coming to us Sir, the minority shareholders, you have definitely rewarded us with an interim dividend and even I think the promoter did purchase some equity also from one of your shareholders only in an off-market transaction, so what is your message to us you want to deliver and what should be now the way forward in rewarding your shareholders, in what way are you planning to reward us?

Arvind Singhania Okay, so we have already mentioned that we will distribute up to 20% of PAT as dividend and we will continue to maintain our commitment on that level.

Saket Kapoor Sir, buyback can be looked at as a good option, because I think the dividend cost to your shareholder is high then what buyback can do to your return ratios?

Arvind Singhania No, right now we are not looking at any buyback.

Saket Kapoor Okay Sir and what was the payment in the employee benefit, how much was payment to the KMP to the Director and MD out of this Rs.15 crore?

Arvind Singhania For FY ’21 it is yet to be paid.

Saket Kapoor Okay, this quarter also no provision has been made?

Pradeep K. Rustagi We are making the provision so that the amount is spread over 12 months.

Arvind Singhania I have also made a statement that the Management will take up to 10% of the profit as commission, but subject to a cap of Rs.12 crore.

Saket Kapoor Lastly sir as depending upon what the visibility is in terms of the order execution and the market dynamics, for us exiting FY ’21 would be on a higher note than what is has been for this previous quarter, preceding quarter, and also last year, because last year I think COVID impact was started prevailing, so how confident are you that in terms of the current business environment, we would be able to produce or remain in line, the trend would be upward, that is what my point is?

Arvind Singhania In nine months of FY '21 we have already performed better than 12 months of FY ’20 and you can except FY ’21 to close much better than FY ’20?

Saket Kapoor Sir, that is evident from your nine months performance, I am asking Sir the March quarter visibility in terms of deliverables and all?

Arvind Singhania I cannot give you number, I am sorry I am not able to give you any guidance.

Saket Kapoor only the sentiments the factors which were negative for us for the December quarter…

Arvind Singhania It is going to be a good quarter.

Saket Kapoor Correct Sir and for the next year sir, your budgeting and your understanding how should one be prepared, and lastly sir on the that customized film part, has the entire benefit of that coater which we have installed in the month of May, the benefits have started procuring completely or still now more time is there?

Arvind Singhania Yes, the benefits of the coater has already started accruing and it is going as per plan, and we hope that FY ’22 will also be a very good year.

Moderator The next question is from the line of Arnav Kapoor, an Individual Investor.

Arnav Kapoor Sir, just a quick question, your guidance for ’21 was about Rs.75 Cr for the specialty polymer business, are we still maintaining that or you think it will be lower than what you had previously guided and then you had mentioned in the last call that for ’22 you expect between Rs.130 to Rs.150 and trending upwards to Rs.350 to Rs.400 by FY ’24, so given the COVID impact, do you still anticipate that those numbers will remain given the bullishness or you will do some kind of a downward provisioning on those numbers?

Arvind Singhania For FY ’21, we will not be able to do Rs.70-Rs.75 crore which is equivalent to the FY ’20 numbers largely because of the COVID impact on our MB-03, but what we had mentioned that for FY ’22, we will be able to do Rs.130 crore approximately we stand by it and growing even further year after year, so those forward numbers I will stand by.

Arnav Kapoor Sir, , what is the advantage, comparable advantage that we have which is making you feel it is very bullish because is it that we are creating a new category, is our products better than other competitors, is the pricing part there, I am just trying to understand what is the key driver?

Arvind Singhania Which division are you are talking?

Arnav Kapoor For the SP business.

Arvind Singhania For SP we have no competition.

Arnav Kapoor So there is no competition, so you are basically creating this entire market then how are you creating this further and how do you plan to create it, is it like you are spending meeting more customers like what is the sales channel that you are driving just to get a sense of you know why do you feel it is going to grow year-on-year so 100% growth roughly that you are anticipating, is it that we have created a new category which you mentioned but how are you pushing it to the end customer like how you are creating that visibility in the customer’s mind?

Arvind Singhania This is because we are in direct touch with the customers and they are telling us what kind of forecast, they are giving us ideas about their forecast and basis that we are giving you how this division will pan out in the future. These are not numbers pulled out of a hat, this is not just guesses, this is coming directly from discussions with our customers.

Arnav Kapoor Sir, I totally agree and these customers that you mention these have been your long-time customers or these are like new customers which are coming or it is a combination of both?

Arvind Singhania It is a combination of both, you cannot just have old customers, you have to keep adding new customers. We have added three products in the last few months, so they are all going to different set of customers as well.

Arnav Kapoor Is there a sales force which is driving these discussions or how is that happening with relationship that you are building with these customers primarily in the US market?

Arvind Singhania We do not have a very large sales force at all because we have limited number of customers in specialty polymer business, it does not require a very large sales force, it is not commodity selling.

Moderator The next question is from the line of Keshav Garg from CPIPL.

Keshav Garg Sir, just had some concern about basically polyester film business that our Greenfield CAPEX that is expected to come on stream in the later part of next year, so by that time sir you expect that the spreads in our film division will maintain or then since other players are also putting up capacities so then again the spreads might shrink because everybody knows it is a cyclical industry, so by the time our CAPEX comes on stream and it spreads contract then sir we might be in some kind of trouble?

Arvind Singhania I do not think we will be in trouble, but yes as capacities come on there may be short-term mismatches in demand supply, and of course what is going to make a very big difference is our cost structure is going to be much lower than our competition so that should hold us in good stead plus add to that to the specialty portfolio that we have, so largely we are still very bullish despite capacity coming, yes capacity is coming and capacity will continue to come because there is strong demand growth, and while the demand growth is there capacity is coming, there maybe short periods where there maybe some mismatch in which period that margins may get affected but overall the business looks good.

Keshav Garg Okay sir, and also regarding you have mentioned in your presentation that you are increasing the proportion of value added films in your basically as a percentage of turnover to 30% from around 20% now, so sir basically which for example what are these films I mean what are the applications, where is it being used and like for example let us say metalized film, do you consider it as a value added product?

Arvind Singhania No, normal metalized film is not considered as a value added product. Applications are largely in packaging.

Keshav Garg Okay Sir, can you give us an example better that what product do you consider as value added?

Arvind Singhania We have a range of products that we consider as value added, we can take that discussion offline if you like.

Pradeep K. Rustagi we have a very wide product basket.

Keshav Garg Sir, basically net-net is it safe to assume that maybe even if worst case scenario our spreads in polyester film division, if they contract somewhat, the additional volumes should compensate for the loss of margin and our profitability …

Arvind Singhania You are absolutely right.

Keshav Garg Great sir very reassuring, thank you very much, best of luck.

Arvind Singhania Thank you.

Moderator Thank you. Ladies and Gentlemen, that was the last question for today. I now hand the conference over to the Management for closing comments.

Arvind Singhania Thank you everybody for joining the earnings call for our company for Q3 FY '21 and we look forward to talking to you all again after the year end. Thank you.