Ester Industries Limited

Q4 & FY20 Earnings Conference Call Transcript

June 22, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Ester Industries Limited Q4 & FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. 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, sir.

Gavin Desa: Thank you. Good day, everyone and a warm welcome to Ester Industries Q4 & FY20 Analyst & 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 to an interactive Q&A session.

Before we begin, I would like to point out that some statements made in today's discussions maybe forward-looking in nature and a note to this effect was stated in the invite sent to you earlier. We trust you have had a chance to go through the documents on the financial performance. I would now like to invite Mr. Singhania to make his opening remarks. Over to you, Arvind.

Arvind Singhania: Thank you, Gavin and thank you everyone for joining us on our Q4 & FY20 earnings call. I have with me Mr. Pradeep Rustagi – our CFO who will walk you through our quarterly and annual financial performance later.

Before I begin, I hope all of you and your loved ones are safe and healthy. We would like to appreciate the medical workers, social workers, police and staff of municipalities and local corporations across the country for their efforts in fighting COVID-19 pandemic.

At company level, we have implemented stringent policies and measures to minimize risks for those who continue to work from our factory and offices. To begin with, the past few months have been truly unprecedented. The transformation of COVID-19 pandemic from health crisis to economic crisis got everybody off guard. With time though, things are gradually reverting back to normalcy albeit at a slow pace.

Moving onto our performance:

I am pleased to say that we managed to deliver a robust profitability growth of 220% for the year. Film business continued its strong performance while Specialty Polymer has delivered one of its best performances till date. Engineering Plastic business was in fact gradually improving, but the recovery was halted abruptly following the outbreak of COVID-19. Further, on account of lockdown, the inflow of orders of Engineering Plastics got impacted. This coupled with suspension of the operations for the Engineering Plastics business to comply with the Central / State Governments orders has aggravated the problem for the business.

Further, I am happy to announce that we have taken on board the suggestions of our stakeholders and have incorporated a formal dividend distribution policy. From the current year onwards, the Board of Directors will endeavor to pay out up to 20% of profits post tax as dividends to its shareholders.

Moving onto individual businesses:

Specialty Polymer business: FY20 turned out to be one of the best years for the Specialty Polymer business. After the initial phase of ups and downs, the business has started to demonstrate the consistency we had envisaged. Our marquee products namely MB-03 and Innovative PBT have begun enjoying steady and consistent offtake. These products had been developed over the past years after a lot of hard work and R&D efforts and patience. Further, we are witnessing encouraging progress in the development of another new product for the carpet industry in the US. Sales during Q1 FY21 have been impacted due to slowdown in the US on account of COVID-19 outbreak. However, due to economic activity starting to return to normal in US and EU, we expect normal levels of operation to resume soon, but for COVID-19, growth momentum achieved in FY20 would have been maintained in FY21. Despite the impact of COVID-19, we are reasonably sure of doing better than FY20. While external challenges may have weighed on the near term performance, we are quite confident about long-term prospects as business fundamentals remain structurally strong.

Moving onto Film business:

We had a strong year on the back of increasing volumes and improved margins. Through various initiatives, we were able to enhance productivity on sustainable basis by about 11%. Since polyester film finds application in packaging of food items, drugs, pharmaceuticals, and medicines etc., it is considered as part of the essential commodities and therefore company's plant was allowed to operate during lockdown period. We had to marginally scale down our operation and sales amidst the restricted movement of material and labor only during the month of April 2020. However, we have been able to resume normal levels of operations from May 2020 onwards. Further, our attempts towards improving the product mix by increasing the share of value-added products is expected to enable us in preserving margins and profitability.

As mentioned in our previous call, we are targeting to increase the share of high margin products to 30% over the next 1 to 2 years from present levels of approximately 16%. Commissioning of an offline coater in May 2020 is a concrete step in achieving the targeted proportion of value added and Specialty products.

As regards our plan of expanding film capacity by 48,000 metric tons per annum with a capital outlay of about Rs. 500 crore announced in the month of March 2020, we would like to say that active steps are now being taken to begin the implementation of the project.

Moving onto the Engineering Plastics business:

The business is gradually improving till the outbreak of COVID-19. We saw marginal improvement during FY20 as compared to FY19. Given the softness in auto and electrical and electronic industry, the biggest end user industry for the business, recovery is expected to be protracted. We are, however, undertaking steps towards improving the product mix and profitability of the business.

Before I conclude, I would also like to state that encouraging performance of Film and Specialty Polymer business during FY20 has given us belief and confidence to deliver satisfactory performance on sustained basis. We continue to be prudent in our approach as far as leveraging and liquidity profile of the company is concerned.

To conclude, I would like to state that while the COVID-19 challenges will prevail in the near term, on a long-term basis though, we will be able to regain our growth momentum. The fundamental of the business continue to remain strong giving us the confidence to tide over the current situation and emerge as a much stronger player. Film business will continue to perform well as the demand from FMCG players remains strong. Specialty Polymer business as well will regain its momentum soon. We are seeing broad-based demand for our products which should help us sustain the performance. Further, the pipeline as well looks exciting. As far as the Engineering Plastics business is concerned, the challenges may continue in the near term. We are nevertheless undertaking steps towards reviving the business; however, we do not expect return to normalcy before the second half of the current financial year.

With that, I now hand over the floor to Pradeep who will walk you through our financial performance. Thank you.

Pradeep K Rustagi: Thank you. Good afternoon, everyone and thank you for joining us on our earning call. I hope all of you and your loved ones are at home safe and healthy. Let me quickly run you through our financial performance, post which we can start the Q&A session.

Starting with the revenues: Topline for the quarter remained relatively steady at Rs. 254 crore on the back of strong performance of Film and Specialty Polymer businesses. For the year as well, our revenues remained more or less steady amounting to Rs. 1,039 crore, higher by 1%. But for the reduction in per unit realization, revenue from operations would have increased by Rs. 90 crore due to higher production and sales of Film and Specialty Polymer. Reduction in per unit sales realization was on account of reduction in feedstock prices, though margins improved as compared to previous year.

Moving onto segment wise performance:

Film business aided by increased production in margins recorded EBIT of Rs. 50 crore during Q4 FY20 as compared to Rs. 36 crore during Q4 FY19. Earnings before interest and tax margin percentage improved from 18% to 26%. On yearly basis, EBIT improved from Rs. 120 crore during FY19 to Rs. 182 crore during FY20. EBIT margin percentage improved from 15% to 23%.

Specialty Polymer business on account of higher volume of sales with better product mix achieved revenues of Rs. 18 crore during Q4 FY20 as compared to Rs. 6 crore during Q4 FY19. On yearly basis, the revenue increased from Rs 30 crore to Rs. 73 crore. EBIT improved from negative of 1.43 crore during Q4 2019 to 6.49 crore during Q4 FY20. On yearly basis, EBIT improved from Rs. 1 crore to Rs 28 crore. EBIT margin percentage improved from 24% during Q4 FY19 to 38% during Q4 FY20. On yearly basis, EBIT margin percentage improved from 4% to 38%.

In Engineering Plastics SBU, revenue dropped from Rs. 195 crore to Rs. 161 crore due to reduction in per unit realization consequent to reduction in feedstock prices. However, the EBIT margin improved from 4% to 5%. EBITDA for the Q4 FY20 stood at Rs. 53 crore as against Rs. 31 crore reported during Q4 FY19, higher by 72%. While for the year, the same stood at Rs. 198 crore as against Rs. 114 crore, higher by 75%. Higher production, sales quantities and improved margin in Film and greater contribution with significantly improved performance from high margin in Specialty Polymer business contributed to higher operating profitability for the year.

Finance cost for the quarter stood at Rs. 5 crore as against Rs. 8 crore reported during Q4 FY19. While on an annual basis, the same stood at Rs. 24 crore as against Rs. 34 crore, lower by 29%. As on March 20, our outstanding interest-bearing term debt stood at Rs. 74 crore while interest-bearing working capital liabilities stood at Rs. 68 crore. Interest-bearing debt as a multiple of EBITDA stood at 0.72x as at 31st March 20. We are confident of maintaining Total Outside Liabilities: TNW ratio at prudent level going forward. We are diligently working towards continuously deleveraging our balance sheet and improving our leverage ratios. Out of the repayment of Rs. `24 crore for FY20, we have already repaid Rs. 8 crore during April, mid-June and will repay another Rs. 2 crore by end of month.

From the financial liquidity perspective, we are in a strong position and hence have decided not to opt for RBI's moratorium scheme with respect to loan repayment. Liquidity position of the company as indicated by net-working capital and current ratio has improved significantly with net working capital at Rs. 149 crore and current ratio at 2.09 as at 31st March 20, as compared to net working capital of Rs.55 crore and current ratio of 1.26 as at 31st March 19.

Depreciation for the quarter and full year stood at Rs. 9 crore and Rs. 35 crore respectively while profit after tax for the quarter and year grew by 359% and 220% respectively over the corresponding period last year.

To conclude, I would just like to say that while the revenues during Q1 FY20 may have been affected for Specialty Polymer, Engineering Plastics business due to COVID-19 outbreak, we expect return to normal level soon for Specialty Polymer business. We believe that fundamentals of the business continue to remain strong. Film and Specialty Polymer business will continue to see good momentum while performance of Engineering Plastics should revive. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Nishit Vora from Arihant. Please go ahead.

Nishit Vora: I wanted to ask you that this last quarter such a big price movement of oil**,** has company been able to benefit with the reduced cost, now the cost have increased are we in a position to pass on that increased cost in oil back to the consumer?

Arvind Singhania: Yes. So I have always maintained, if you were there in my previous earnings calls, that in our business, the raw material is a pass-through model. So whether the prices come down or the prices go up, it is a pass-through. The margins are dependent on demand and supply. So even though the raw material prices have come down dramatically over last year, there has been a reduction of almost Rs. 18 a kilo on raw material prices. Our margins have gone up in FY20. There is really no direct impact of decrease or increase of raw material in our business. It is a pass-through model.

Nishit Vora: So you mean to say we do not hedge the oil prices and take the advantages?

Arvind Singhania: No.

Moderator: Thank you. We take the next question from the line of Yash Joshi from Emkay Global. Please go ahead.

Yash Joshi: My question is related to the expansion line. If you can share the status of the new line which was announced in Feb and what is the expected time for completion of it and the location for the same?

Arvind Singhania: The location is most probably going to be in South of India and the expected timeframe for completion would be about 18 to 24 months.

Yash Joshi: And if you can share the breakup of domestic and export sales volumes for the months of March, April and May and the capacity utilization for the same?

Arvind Singhania: So the capacity utilization dropped to about 60% in the month of April because of the COVID-19.as there was a shutdown and also there was a demand contraction for a short period of time, so we got impacted only in the month of April. May and June have been running at full capacity.

Yash Joshi: And the breakup of export sales volume sir?

Arvind Singhania: About one-third is in export.

Moderator: Thank you. The next question is from the line of R. Venkataraman from Brilliant Securities. Please go ahead.

R. Venkataraman: You have got a brilliant performance, you have done that because I can see that the turnover has not all increased, but you have increased the PBT, good level 3 times. Can you tell me what are the major reasons for this improvement and regarding the expansion of about Rs.500 crore, do not you think that we are taking very hit and how much will be the turnover will be for every Rs. 1, you put it like that, I would like to know that. And what is the useful life of the assets, everything we have and what is your USP because what is your market share also? Thanks.

Arvind Singhania: I will start backwards. So our market share is in the region of about 9% approximately in the domestic market. It is not at all a large **market** as we mentioned in my opening remark and also by our CFO, our leveraging is very low. At the moment, we have really got Rs.140 crore and therefore we do not have an overstretched balance sheet at all. We are perfectly placed to take on an expansion of this size Rs.500 crore and this will increase our capacity by almost 50,000 tons per annum which will help us to maintain our market share in the market as well. Our USP is that we are one of the oldest players in this business. We know this business very well. We have a very large customer base both in India as well as internationally. We export to 75 countries approximately in the world. We have an increasing share of value-added products and we have a very low cost of production amongst the lowest in the industry. So I think it is absolutely essential for us to go in for expansion. There is the demand growth in our product line is between 11% to 13% per annum which is on today's consumption base almost about 60,000 to 70,000 tons of additional polyester film is required only domestically. On a global basis, the demand growth is anything between 5%-6%. So when there is a demand growth it is absolutely justified for us to go in for an expansion because we will be able to sell this product and we do not have an overleveraged balance sheet which will put strain on it.

R. Venkataraman: How much time you will be able to do the turnover for Rs.500 crore like that 3 times, something like that?

Arvind Singhania: Rs.500 crore will give us 1.2x-1.3x. So Rs.500 crore investment will give us an additional turnover of about Rs.600 to Rs,700 crore .

R. Venkataraman: Any constructions there where you are putting up the plant now so is there any income tax or GST or anything of that sort?

Arvind Singhania: Those things are under discussion with the concerned authorities

R. Venkataraman: Hope you are coming to Chennai, then, thanks. Good luck.

Arvind Singhania: Thank you.

Moderator: Thank you. We take the next question from the line of Keshav Garg from Counter Cyclical Investment. Please go ahead.

Keshav Garg: Sir, I wanted to understand that our operating margins in last 3 years , they were 6% and they have tripled to 18% last year FY20. So what has changed so dramatically over the past 3 years?

Arvind Singhania: Well, number one like we said before our Specialty Polymer business was struggling, has really shot up and performed brilliantly in FY20. It has contributed by about Rs.28 crore to the bottomline, so that is one of the biggest reasons that has taken place. Number two, we have been able to unlock some of the production gains which we were expecting and we have managed to increase productivity by 11%. So additional about 6,000 tons of production took place in FY20 which is on a sustainable basis going forward as well. So productivity gains means all to the bottomline. And on top of that, the margins for Polyester Film business have been very favorable during FY20 and increasing over the last 2 years. So these three are the primary reasons for this improvement in profitability.

Keshav Garg: Sir, and in this Polyester Film, who would be your main competitor in India?

Arvind Singhania: There are about 10 companies in Polyester Film business. We had Jindal Poly, SRF, Polyplex, Uflex, Sparsh, Vacmet**,** SML there are 10 companies.

Keshav Garg: And sir are we also into BOPP films in our Film division?

Arvind Singhania: No, we are not in BOPP films.

Keshav Garg: Sir lastly, so you think that this kind of margins we will be able to sustain around 18% going forward?

Arvind Singhania: Well, I think FY21 looks very good to us for sure and I think even going forward, the margin should be healthy, maybe not as high as these, but definitely going forward, it will be healthy enough.

Keshav Garg: So approximately 15% or like sir any range that you would like to say that between this, we will fluctuate?

Arvind Singhania: I think I do not want to talk about exact number, but I think the margins will remain healthy. I will leave it at that.

Keshav Garg: And also, sir I missed it you mentioned that there is a Rs.500 crore CAPEX and that CAPEX will give you around Rs.600 to Rs.700 crore of turnover, is that right?

Arvind Singhania: Correct.

Keshav Garg: And sir this CAPEX in the Film side or your Specialty Polymer side?

Arvind Singhania: Polyester Film.

Keshav Garg: And this CAPEX sir, when will it get commissioned?

Arvind Singhania: About 18 to 24 months.

Keshav Garg: Sir, basically is it a greenfield plant or a brownfield expansion?

Arvind Singhania: It is a greenfield plant.

Keshav Garg: Sir, so how much time once it is commissioned will it take to ramp up and sir, what I wanted to understand that initially will there be some losses until the utilization is ramped up?

Arvind Singhania: No, we do not expect any losses. We are a running company. It is not entirely a new company and a new project. We are existing profitable company. Why should there be losses. So, no, we do not expect any losses. And ramp up should happen very rapidly. It should not take too long, maybe to reach 100% capacity utilization will not be more than 3 to 6 months.

Moderator: Thank you. We take the next question from the line of Parth from B&K Securities. Please go ahead.

Parth: Sir, just two things on the polyester film side. Firstly, when you see the value-added products in the BOPET films, what would be the incremental margin that you get on this particular product from the commodity to the value-added product?

Arvind Singhania: The incremental margin on value-added product would vary. From certain product, it has got Rs. 20 incremental margin to it goes as high as Rs. 150 incremental margin.

Parth: And secondly on the new CAPEX side. So, you are putting Rs.500 crore for a 48,000 ton plant. Now, so this plant, is it well equipped to manufacture the value-added grade or you have to incur the incremental CAPEX in order to manufacture the value-added grade for the BOPET films?

Arvind Singhania: We will be able to manufacture some small portion because this is a base film line. So some of the inline coated products that we manufacture in this line, but to manufacture the very high value-added products, you have to do additional work which is offline.

Parth: So any indication towards how much incremental CAPEX you have to incur in order to manufacture those value-added products, any approximate?

Arvind Singhania: It is not much. It will be small percentage of the total CAPEX on the main line, maybe 10%-15% is what you have to spend to make more value-added products.

Moderator: Thank you. We take the next question from the line of Surendra Bachhawat, individual investor. Please go ahead.

Surendra Bachhawat: Sir, my question is regarding the Specialty Polymer business. What is the status of our project?

Arvind Singhania: Which project?

Surendra Bachhawat: Your expansion project?

Arvind Singhania: We have to put a hold on it because of the COVID-19 and we are still studying it right now to see the impact of COVID on that. Fortunately, we had not invested any money in it and we are studying it and we will take a call on it in the next 2-3 months.

Surendra Bachhawat: Sir, one more thing is that we are starting manufacturing of this Specialty Polymer because of the batch line which we have been using for polyester films**.** So my question is can you able to use this line for manufacturing of these polyester films again if there is demand for polyester films?

Arvind Singhania: Of course, batch lines can be used to make polymer for film, but I would never do that because the cost of production for that is too high.

Moderator: Thank you. We will take the next question from the line of Giriraj Daga from KM Visaria. Please go ahead.

Giriraj Daga: Sir, what was the spread we earned in the last quarter and what was it like QoQ in the polyester film business?

Arvind Singhania: The gross value-add in polyester film for March quarter was about Rs. 52 for 12 micron Corona.

Giriraj Daga: The base commodity side?

Arvind Singhania: Yes.

Giriraj Daga: And what was it in December quarter, sir?

Pradeep K Rustagi: December, it was Rs. 46.

Giriraj Daga: And how is the quarter one looking so far in the spread side of it?

Arvind Singhania: I think you will be pleasantly surprised with the results that we will declare soon.

Giriraj Daga: No, I can understand that BOPET prices are going up, but as the cost also moving in sync with that or it is not that?

Pradeep K Rustagi: It will be range bound, the raw material will be in the range of Rs. 45 to Rs. 47 per kg of film.

Giriraj Daga: Sorry, I missed that. What you said, Rs. 45 – Rs. 47?

Arvind Singhania: Raw material prices have been very steady in the last few months.

Pradeep K Rustagi: In March quarter, it was Rs. 56 per kg of films. In June quarter, it would be Rs. 46 to Rs. 48 per kg of films. So there is a drop in the raw material prices as compared to March quarter.

Giriraj Daga: So, we are possibly looking for a better spread in quarter one also? And second in terms of would like to give the revenue guidance on the Specialty Polymer for FY21? I can see product wise, we have given details, but any overall revenue guidance?

Arvind Singhania: Well, FY21 would definitely have been much better than FY20. Had it not been for COVID-19, this momentum would have continued, but this COVID-19 has definitely impacted because there was a complete shutdown in America as well, which is our biggest market and we lost a lot of volume in Q1, but fundamentally the business remains very strong and started to come back and hopefully, we should start picking up with volumes in Q2 and by Q3, we should be back to full volumes or more. So do not hold me to it, but I think still we will be able to do better than FY20 in FY21. It would have been substantially better had it not been for COVID-19.

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

Saket Kapoor: Firstly sir, thank you that for articulating the dividend distribution policy and you have lend the ears, and not only lend the ears, but you have also implemented the same. So many thanks to the team and the board. Sir, firstly I have some balance sheet queries for Mr. Rustagi. The current work in progress is of Rs.23 crore. So it is catering to which segment and when it is expected to be…?

Pradeep K Rustagi: It is mainly for offline coater that we commissioned for film business. It was commissioned in the month of May.

Saket Kapoor: Okay. So the metal coater which you have spoken in your release that is what…?

Pradeep K Rustagi: Yes, and therefore we are expecting improvement in the volume of VAS products in film business.

Saket Kapoor: Okay. Sir, materially you were looking for a 30% mix in the value-added segment in a 2 year's time. So with this CAPEX, what should be the proportion of value-added product for this year, for FY21?

Arvind Singhania: About 23%-25% for FY21.

Saket Kapoor: And next year it will be 30%?

Arvind Singhania: For sure.

Saket Kapoor: And what is the per kg differential sir in the margin accretion between the value added and the normal segment?

Arvind Singhania: Like we have already answered this, it is a range from anything from Rs. 20 - Rs. 25 at the bottom going up to Rs. 150 a kilo of incremental contribution.

Saket Kapoor: Okay. And sir generally, it is for which segment, this much of big gap, which industry are we catering? In the same segment we have this value added products?

Arvind Singhania: It is going to various applications. It is going to packaging. It is going to graphics. It is going to, I mean it is a very wide application range.

Saket Kapoor: That is what I am asking. Sir, Rs. 23 is also the profit and Rs. 150 is also the profit. So Rs. 150 is catering to which segment, which is able to pay you Rs. 150 margin per kilo, that is what my question here is?

Arvind Singhania: The Rs. 150 margin also comes from a variety of industries which includes packaging, which includes even industries like insulation as well as graphics. So it depends on product to product.

Pradeep K Rustagi: So within the same industry, there could be different application.

Arvind Singhania: Rs. 150 product could again be catering to various applications.

Saket Kapoor: Okay. And sir in the other financial asset, we see a figure of Rs.21 crore, what does it constitute and similarly the other current asset also?

Pradeep K Rustagi: So, we had given an advance which we have received back. So that is about Rs.12 crore and there was a fire in our plant on 19th March for which we have lodged the insurance claim and the amount of insurance claim recoverable about Rs.9 crore. It is coming in the other financial assets. So the other financial assets are increasing by about 20 crore on account of these two counts.

Saket Kapoor: 12 crore, you told what, sir I missed, the line got dropped.

Pradeep K Rustagi: We had given an advance to a machine supplier. That order has been cancelled and we have now received the advance back in the month of May.

Saket Kapoor: Okay, sir. And about the other financial liabilities, that has also risen to Rs.42.42 crore. What does this constitute the incremental…

Pradeep K Rustagi: There is a provision made for payment of commission to the Director that is appearing as a liability. It was approved by the board on 17th June. So it will get paid in the June quarter.

Saket Kapoor: Okay. And what is the percentage the Director being entitled to of the corporate?

Pradeep K Rustagi: 10% for Executive Directors.

Saket Kapoor: 10% of the profit before tax.

Pradeep K Rustagi: Profit is calculated as per section 198, so it is 10% of 150 crore.

Saket Kapoor: That is Rs. 15 crore.

Arvind Singhania: The total commission outgo was Rs.11 crore.

Saket Kapoor: Now coming to the maintenance CAPEX part. Sir, generally how much maintenance CAPEX have we done for this year?

Pradeep K Rustagi: It is close to Rs.10 to Rs.12 crore is the total amount of maintenance CAPEX etc. Total CAPEX was about 20 crore. Out of that, maintenance would be about 10 to 12.

Saket Kapoor: Total was?

Pradeep K Rustagi: 20 crore sir. I am not telling you about the movement in the CWIP**,** about the addition to the gross block; about 20 crore, out of which maintenance would be about 10 to 12 crore.

Saket Kapoor: And remaining will be?

Pradeep K Rustagi: There are few machines added to the gross block.

Saket Kapoor: Okay sir. I will speak offline, sir. Sir, now coming to the fire incident part which you have told already, we have taken a return of the asset at Rs.8.83 crore. So where has this been made for in the P&L?

Pradeep K Rustag: Please try to understand. The asset part is coming in the financial assets recoverable part. The write off and the claim recovery have been netted off against each other. We recognized the claim recoverable as income and then there was a loss of Rs.8.83 on discarding of assets. Both have been netted off against each other. So the loss is not there in this. Loss and income both are not there in the P&L. There is a note. If you see the note #6 in the accounts, yes, you will understand it.

Saket Kapoor: Right. And sir, you spoke about the raw material price trend. So there has been a decline of Rs. 10 in the blended cost for this quarter?

Pradeep K Rustagi Yes. As compared to March, the June quarter raw material cost per kg of film would be lower by about Rs. 8 to Rs. 9.

Saket Kapoor: And sir, even in the lockdown, our film facility has been running at optimum level?

Arvind Singhania: Except for April. April, we were at 60% because that was the first month of lockdown. And there was a demand contraction as well as limited production.

Pradeep K Rustagi: There were a lot of restrictions in movement of material and men. So that also impacted our capacity to produce.

Arvind Singhania: So only April was impacted, but May and June we were running at full capacity.

Saket Kapoor: Okay. And sir could you provide the breakup between the film and the specialty segment out of this 210 crore, both on the revenue and the profit figures?

Arvind Singhania: Yes, I will give you.

Saket Kapoor: Sir, this time in the presentation it was not mentioned, sir.

Pradeep K Rustagi: 58,000 tons is the film business. 9600 is the volume of VAS products which is about 16%. On the value side, we did 148 crore out of 724 crore, it is about 21%. In value terms, it is 21%. In quantity terms, it is 16%.

Saket Kapoor: This is for the year as a whole you have given? Sir, I was asking about breakup of polyester chips and film. Please give the breakup of both film and VAS?

Pradeep K Rustagi: The two major products is MB-03 and Innovative PBT. I will give the breakup.

Saket Kapoor: Sir, if we get breakup also in the next investor presentation onwards, then it will be easy.

Pradeep K Rustagi: We have given EBIT margin in segmental result, it is there in the presentation.

Saket Kapoor: Okay, then I will go through the same. Sir, looking into this quarter, we will not be having major aberration sir, it should be a similar quarter to what March was?

Arvind Singhania: Like I said, Film business, we lost only in the month of April. If April hadn't been there, it would have been even better. But I think like I said June quarter will be a very good quarter as well.

Pradeep K Rustagi: I will give you the sales value of each business, Polyester chip was Rs.70 crore, Specialty polymer was Rs.72 crore, Polyester film is Rs.730 crore, Engineering Plastics is Rs.161 crore and there is other sales of about Rs,6 crore that makes Rs,1039 crore. Margins in , Film business is at 24% for the year, Specialty Polymer is 38% and Engineering Plastics EBIT margin, earnings before interest and tax is 5.5%.

Saket Kapoor: Sir, do you think this 24% for the film is sustainable sir, or we have peaked out in terms of the margin?

Arvind Singhania: Well, FY20 was very good, I guess FY21 will also be very good. Going forward, the business is increasing. It is very difficult to say whether it will be 24% or will be little less but I think there will be very healthy margins going ahead.

Saket Kapoor: And sir, we have little room for volume expansion for this year. So volume would be in this levels only at maximum peak capacity?

Arvind Singhania: No, we are still working to debottleneck further. There might be some improvement, maybe not 11% again this year. Maybe but 3% to 5% would be further improvement in volume. April, we lost in 40% volume in April. So that has to be taken into account as well. If you take April out, then we would improve volume by about 3% to 5% in FY21.

Saket Kapoor: Okay. And that is a permanent loss. I mean, we can't work above 100%-110%...

Arvind Singhania: We are already operating at full capacity. It is impossible to recover the 40% loss in April.

Saket Kapoor: So we are looking for a similar year. As of now, this quarter will give further trend as the problem for COVID evolves going forward, then only you would be able to give further sense of how things are shaping up?

Arvind Singhania: See, there is a very strong demand growth and FMCG sector is showing very good demand for our products and the demand growth for polyester film is going up by about 11% to 13% per annum in domestic market and on a global basis, it is going up by 5% or 6%. So there is a very healthy demand growth. Additional capacities are required to fulfill this demand.

Saket Kapoor: Right. And this Khatima facility is catering to which segment, sir, which got affected in the fire accident?

Arvind Singhania: All 3 product lines are in Khatima.

Saket Kapoor: So which segment got affected?

Arvind Singhania: It was only for two days we had a shutdown, then our backup boilers were able to take on the load.

Saket Kapoor: Right. And sir, last point is on the CAPEX part. Sir, taking into account generally when the trend improves in a segment and people are more excited to come up with CAPEX. It generally happens that there is a glut going forward in 2 to 3 years' time because it maybe a cyclical effect or some other market forces also. So how prudent it is sir to go ahead with big CAPEX of Rs.500 crore because already the endeavor that you have kept for lowering the EBITDA level, we reached after lot of hard work. So second time we are going to that cycle in which we are doing big CAPEX of 500 crore. So the justification was more need because first if we could have earned better from the Specialty Polymer and then go ahead with lesser borrowing that would have been better way to fund that CAPEX. How are you envisaging going forward?

Arvind Singhania: We have only Rs.140 crore debt for an EBITDA of about Rs,200 crore and the additional investment is going to bring in additional revenue. So even if we have to take and we will be taking debt to fund this expansion, but we are not stretching our balance sheet at all. Even in spite this we will not be overleveraged, and we have to grow. If we don't do it, somebody else will do it and we have to maintain market share also and there is a growth in demand in our product line. So capacity is required.

Saket Kapoor: Right sir. I got your point. What kind of debt are we going to take on the balance sheet? The long term debt, that is what my question is. Out of the Rs.500 crore the total CAPEX, how much you are planning from internal accrual and how much further you need to borrow?

Arvind Singhania: 60:40. Or let us say 60% to 65% debt and 40% to 35% is internal___. You see, please understand, by the time this unit starts up, the existing debt will be zero. So this existing debt of 140 crore is zero, for the expanded capacity having a debt of Rs.350 crore is nothing for our balance sheet.

Pradeep K Rustagi: 18 months ago, we had about that kind of debt in our balance sheet.

Arvind Singhania: And we serviced it.

Pradeep K Rustagi: In December 18, the debt was Rs.275 crore.

Saket Kapoor: Right sir. And your Specialty Polymer segment, what is the roadmap for this going ahead, are you envisaging Rs.300 crore debt after factoring in this?

Arvind Singhania: No. Whatever incremental that will come will further help reduce the debt.

Saket Kapoor: This is only on what the cash flow is from the Film segment. That is what you are taking into account for a 300 crore debt. You are not factoring the cash flow from the Specialty Polymer segment?

Arvind Singhania: No. Whatever additional incremental cash flow will come from Specialty Polymer segment will help further reduce that debt.

Saket Kapoor: What are you envisaging going forward from this segment to contribute for the coming two years, even one year, now when after this COVID-19, you have also mentioned about Rs,11 crore sales in the month of May or June in the Specialty Polymer segment.

Arvind Singhania: In the June quarter, yes. So despite the COVID-19, we were able to do at about 10-11 crore and going forward I think we should do better than last year in FY21 and it would have been substantially better in FY21 had it not been for COVID-19.

Saket Kapoor: No sir. I didn't get your point. For the year which roadmap you are having for Specialty Polymer, in terms of revenue?

Arvind Singhania: For Specialty Polymers, it should be around between Rs.70 to Rs.90 crore.

Saket Kapoor: And this should be ramped up, means, this trajectory should only improve for the next year, since you are improving your profile also?

Arvind Singhania: Absolutely. If you are talking about FY22, it would be substantially better than this.

Saket Kapoor: How would you define substantially?

Arvind Singhania: It is very difficult to put number to it, but I would imagine anywhere between 130-150 crore.

Saket Kapoor: Okay. And the bottomline percentage, will it be 35%-37% or will it shrink a little bit?

Arvind Singhania: No, it is about 35% to 40%.

Saket Kapoor: Sir, so substantial cash flow will be generated, that there will be no problem for your servicing. And the last question is on the depreciation part. Will the depreciation remain 5% for this project?

Pradeep K Rustagi: Depreciation, whatever investment we do, the life of film plant is taken as almost 30 years. So the depreciation would be for the capital investment of Rs.500 crore, the depreciation charge would be 15 crore per annum. And there is no other major CAPEX. So there would not be any significant jump in the amount of depreciation that we are charging to P&L.

Moderator: Thank you. We take the next question from the line of Hitesh Popat, individual investor. Please go ahead.

Hitesh Popat: Sir, I don't know if dividend point has come into this, I missed the conference for 5 minutes, but my question is we have given a good amount of dividend, that is quite happening for investor like from 50 paisa to Rs.2.50 per share if I am not wrong. So I would like to know that whether we would be able to continue this high amount of dividend or is there any other guideline?

Arvind Singhania: We have already given out, our board has approved a dividend policy which we have shared with the investors and it is going to be our endeavor to distribute 20% of our PAT to the investors going forward, up to 20% of PAT.

Moderator: Thank you. The next question is from the line of Rahul Nankarni, Individual Investor. Please go ahead.

Rahul Nankarni: Sir, first of all I would like to congratulate you for an amazing set of results for the company. I wanted to understand like based on the assessment of the company, there are three main verticals, Engineering Plastics is the laggard for the entire business and whereas your Polyester Films is doing really great in terms of volumes and in terms of margins and in case of your Specialty Polymers, it is a high margin business for you. So couple of questions which I had. First thing in terms of the margin that you have, the EBIT margins for the Specialty Polymers which is around 38% for last year. So is that sort of a margin sustainable if you compare it to your peers in the same industry. That is the first question.

Arvind Singhania: We have no peers.

Rahul Nankarni: You don't have any peers in that comparable…

Arvind Singhania: Because what we do is largely R&D driven, innovation driven and the products that we are doing largely are patented and controlled. So there are really no fears in the business that we are in. And the second part of the question, yes, the margins are definitely sustainable.

Rahul Nankarni: Okay. And one more question in relation to Specialty Polymers business which I had was, there is an MB-03 for which you have orders from a reputed US company of around 400 metric tons as a quantum.

Arvind Singhania: That is Innovative PBT.

Rahul Nankarni: It falls under the Specialty Polymers business, right?

Arvind Singhania: Yes. It is part of the Specialty Polymer business, yes.

Rahul Nankarni: So just wanted to understand, the MB-03 component, which is there, so that is mainly used in the carpet industry in the US, as per the presentation. So just wanted to understand, one thing is what is the impact on the overall Specialty Polymers business because of the overall recession that we have seen in the US? That is first question and to what extent do you see the chances of the renewal of that agreement with the US company because it was only for 2 years till FY21. Do we expect the renewal of the same agreement going forward?

Arvind Singhania: So, this you are talking about two separate products. As far as MB-03 is concerned, overall Specialty Polymer business is on a fundamentally very strong wicket. This drop in volume in June quarter and maybe to some extent in the September quarter is purely because of COVID-19 it is a short-term phenomena. The business is fundamentally very strong. So as soon as the economic activity recovers, this business will come back to us. The MB-03 business is not impacted on a long term, it is only a short-term impact because of COVID-19. As far as the second, the Innovative PBT is concerned, we have again 400 tons for last year we have in fact exceeded the volume beyond 400, that is about 465 tons. It is for similar volumes in the second year. We will exceed the volumes in the second year as well and we definitely expect this contract to be renewed going forward.

Rahul Nankarni: Okay. And just one more question which I had on the Polyester Film business, what I understand one of the components where this Polyester Films get used as FMCG, which is a very strong piece even in COVID-19 sort of a scenario. So just to understand what would be the proportion of your sales which you can attribute to application in the FMCG industry?

Arvind Singhania: Very large portion.

Rahul Nankarni: Can you quote a number, just as a range if possible?

Arvind Singhania: More than 70%.

Moderator: Thank you. The next question is from the line of Kamal Jeswani from Hinduja Finance. Please go ahead.

Kamal Jeswani: Sir, I just wanted to know how is the quarter, this current quarter of April to June shaping up as per the export is concerned in the Film business. Is it still having…?

Arvind Singhania: Yes, export has been doing very well in this period as well. In fact, export demand was not impacted much at all. In fact, it has gone up. The demand from export went up by 30%.

Kamal Jeswani: Okay. I was just sharing from few other concalls that there is some fresh capacity which has come up in international markets, maybe in Thailand or somewhere, I think SRF would have…

Arvind Singhania: SRF has started up very recently. So there has been a very good growth in demand in Polyester Film globally and in India and new capacities are going to continuously come up to feed this new demand.

Kamal Jeswani: Okay. So that could lead to any moderation in the margins going forward in terms of fresh capacity comes in, I heard July also there is some new plant coming up?

Arvind Singhania: July, one line is starting up in Hungary of SRF. Like I said, capacities will continue to come. When there is growth in demand, capacities have to come and you may see some moderation in margins going forward. In India today, the domestic demand is in excess of 504,000 tons per annum and minimum capacity was used to be 30,000 to 35,000 tons per line. Now, when you had a demand of only 200,000 or 250,000 tons and you put in a 30,000 or 40,000 tons lines, the impact was much greater. When the base grows to 500,000 or 600,000 tons, one line doesn't impact you so much. So you may not see such violent cyclicality as you have seen in the past. There will be some moderate cyclicality but not violent.

Moderator: Thank you. The next question is from the line of Pramod Agarwal, Individual Investor. Please go ahead.

Pramod Agarwal: I am a shareholder since last 20 years for the company. Sir, I want to know regarding this OPM and NPM, this OPM last 4-5 years continuously it is growing. So whether we can expect in the same line the OPM will go up in the coming years?

Arvind Singhania: Well, in future you will see a lot of EBITDA margin growth coming from the Specialty Polymer business.

Pramod Agarwal: So, the OPM and NPM will be maintained.

Arvind Singhania: We hope to continuously improve it. I mean if COVID-19wasn't there, we would have definitely improved it. But if you take the COVID-19 away, once we come back to normalcy, I think we will see a very healthy growth in Specialty Polymer business and film will continue to grow as well.

Pramod Agarwal: Sir, my next question is on the borrowing. We are continuously paying our loans. So I think this year we are having Rs.133 crore, last year it was Rs.243 crore. So what is the expectation? Up to what time we are going to pay this amount?

Arvind Singhania: So this year repayment liability is about Rs.24 crore for FY21, out of which Rs.8 crore has already been paid, Rs.2 crore more will be paid by the end of June. So out of Rs.24 crore, Rs.10 crore will already be paid by end of June and we will meet the rest of the liability in time. There is no problem in repayment obligations.

Pramod Agarwal: And what about regarding R&D of our company, what is the position?

Arvind Singhania: We continue to do R&D. It is a continuous process for us.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir, last point was on the PPE part sir, in the PPE manufacturing we are trying to look into it, does it fall in this...?

Arvind Singhania: No, it is a completely different business, completely different product line. Our equipment is not capable of manufacturing PPE.

Moderator: Thank you. The next question is from the line of Surendra Bachhawat, individual investor. Please go ahead.

Surendra Bachhawat: Sir, this expansion in future, priority will be on your film line business?

Arvind Singhania: Yes, on the Polyester Film business, yes.

Surendra Bachhawat: And about Specialty Polymer, you will consider only in next year.

Arvind Singhania: We have already approved. It is actually a kind of a diversification in the Specialty Polymer business that was also approved for Rs.110 crore earlier this year, but because of the COVID-19 we are studying the impact of, long term impact on this diversification. So we will take a view, whether to move ahead with it or not in the next 2 to 3 months. So right now, we are moving ahead with the Polyester Film expansion for Rs.500 crore.

Surendra Bachhawat: Will this impact our capability enhancement on the Specialty Polymer?

Arvind Singhania: So, this Rs.110 crore expansion that we had got approved earlier from the board was on a capability enhancement to make a newer kind of product. But this has been put on hold for the time being.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to have the conference back to the management for their closing comments.

Arvind Singhania: Thank you everybody for joining us for the FY20 call for discussing numbers and we look forward to seeing you again soon to discuss the Q1 FY21 which will happen shortly. Thank you very much.

Moderator: Thank you. On behalf of Ester Industries Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.