Ester Industries Limited
Q2 H1 FY23 Earnings Conference Call Transcript
November 16, 2022

Moderator: Ladies and gentlemen, good day, and welcome to Ester Industries Limited Q2 H1 FY'23 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. Good day, everyone, and a warm welcome to Ester Industries Q2 and H1 FY'23 Analyst and Investor Conference Call.

We have with us today is Mr. Pradeep Kumar Rustagi, Executive Director, Corporate Affairs; and Mr. Girish Behal, Business Head.

We will begin this call with opening remarks from the Management, following which we will have the floor open for 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 invite earlier.

I would now like to invite Mr. Pradeep Kumar Rustagi to make his opening remarks. Over to you, Pradeep.

Pradeep Rustagi: Thank you, Gavin, and thank you, everyone, for joining us today. I will begin the call with a brief overview of the businesses, followed by walk-through of financial performance for the quarter and half year under review.

We have had a good first half wherein both Films and Specialty Polymers reported good volumes of sales, resulting in higher revenue growth. In terms of profitability, our results for the quarter have been mixed. While the Film business performance was muted due to commissioning of new capacities, inflationary pressure on cost of conversion and operations and a challenging macroeconomic environment, we are happy with the growth of our high-margin Specialty Polymer business.

Let me elaborate on the performance of each business segment.

: So starting with the Specialty Polymer business, Specialty Polymer business had a stellar run with Q2 registering higher sales and EBIT in terms of absolute terms till today. Improved performance, both in terms of revenue and profitability was driven by volume with better product mix as well as higher sales value. We continue to see good traction for our marquee products mainly MB03 and Innovative PBT. Sales of our lead and established offering, MB03 were in line with the quarterly run rate at 423 metric tons. Innovative PBT witnessed considerable traction with sales volume of 605 metric tons for the quarter, higher by 25% on a sequential basis and more than double on a year-on-year basis. Overall volumes for the business are higher by 15.3% compared to Q1 FY'23. While on a year-on-year basis, we had a growth of about 41%. This business, as we have discussed before, is one whose cornerstone is innovation and a portfolio of patented products with largely unique value propositions. We continue to enhance our capabilities through fresh investment and focus on development of new innovative products.

EBIT for the quarter stood at Rs. 23 crore as against Rs.17 crore generated during Q2 FY'22, higher by 36%. Margins for the quarter in terms of percentage moderated in comparison with the corresponding quarter last year and stood at 32%. The selling prices are linked to the movement of input prices. While it is possible that in the near term, demand may be impacted by inflationary in the global markets, especially U.S., in the long term, we remain extremely bullish about this business, which is the patented expanding product portfolio. We have some exciting new products in the pipeline, which are expected to start getting commercialized in the first half of calendar year '23.

: Moving on to the Film business. Growth in revenue was mainly driven by increase in feedstock prices leading to higher per-unit realization. While sales are marginally higher on a year-on-year basis, on a sequential basis, though we have seen some moderation owing to benign margins. The addition of new capacities in India have resulted demand-supply imbalance with the supply exceeding demand. This, in turn, has resulted in pressure on margins. Another reason for lower operating performance is inflationary pressure resulting in higher cost of conversion and operations, especially power and fuel, and logistics stores.

: The demand-supply imbalance in India, global slowdown & macro environment is expected to see the industry continue to face challenges in the near term.

We expect the situation to normalize in medium to long term and expect the margins to improve as growth in demand is expected to continue at the rate of 11% to 13% per annum domestically, and 6%, to 6.5% per annum globally. We continue to increase our focus on enhancing proportion of value-added products, which will help mitigate the cyclical nature of business. We remain positive about the business in medium to long term. Furthermore, the commission of new units in Telangana, that is estimated to have low cost of conversion and operations due to a state-of-art manufacturing facility, should also help us scale up our business and improve profitability profile of the business.

Moving on to Engineering Plastic business. Q2 represented the last quarter for us, consequent to transfer of Engineering Plastic business as a going concern on slump sale basis to Radici Plastic India Private Limited on 15 September '22. The prospects of this business, therefore, are not relevant to the discussion. The sale of Engineering Plastic business has happened at the right time as margins that peaked in June '21 have started to normalize. Proceeds from the slump sale have enabled the company to improve its liquidity position and further strengthen the leveraging, as demonstrated by net debt-EBITDA multiple of 0.23x as at 30th September '22. Surplus liquidity of about Rs.207 crore generated through sale of business has been invested in safe and secure financial instruments.

The transaction has not only enabled the company to further strengthen its balance sheet but will also provide the requisite growth capital for scaling of the core business of the company, namely Polyester Films and Specialty Polymers. Transaction with Radici Plastics is also a reflection of Ester's ability to build a business and create value.

: We are confident of the long-term growth outlook for both our businesses. Commissioning of our new units will help to further strengthen our competitive position as new unit will turn out to be low cost operations. Our strong balance sheet offers comfort and is supportive of our growth plans.

That concludes our remarks about the business. I will now walk you through financial performance for the quarter and half year ended September 30, '22, post of which we can begin the Q&A session.

Starting with the top line, revenues on the continuing operations is stood at Rs.304 crore as against Rs.259 crore reported during Q2 FY'22, that is higher by 17.4%. Revenues from discontinued operations of Engineering Plastic business, it stood at Rs.58 crore as Rs.74 crore reported during Q2 FY'22, lower by 21%. On a half-yearly basis, revenue from continuing operations stood at Rs.629 crore as against Rs.519 crore, higher by about 21%. This improvement is driven by both Film and Specialty Polymer businesses.

On a half-year basis, revenue from discontinued operations of VC business, stood at Rs.136 crore as against Rs.133 crore reported during H1 FY'22, marginally higher by 2%. EBITDA for the quarter from continued operations stood at Rs.30 crore as against Rs.41 crore generated during Q2 FY'22. EBITDA for the H1 FY'23 from continued operations stood at Rs.92 crore as against Rs.83 crore generated during H1 FY'22.

During Q2 FY'23, moderation in profitability of film business was partially made good by a strong performance of Specialty Polymer business. From disposal of discontinued business, company earned profit before tax of Rs.148 crore and profit after tax of Rs.114 crore. Thus, Company, as a whole, earned profit before tax of Rs.168 crore and PAT of Rs.127 crore as against PBT of Rs.44 crore and PAT of Rs.33 crore earned during Q2 FY'22. PAT for the H1 FY'23 stood at Rs.169 crore as against Rs.71 crore earned during H1 FY'22.

: As of September 30, '22, outstanding interest bearing debt, stood at Rs.294 crore. Debt net of cash and liquid investment stood at Rs.50 crore, which is 0.23x -- for the current financial year. We expect our interest outgo net of returns on liquid investments would be significantly lower than current levels going forward. We remain committed towards maintaining a strong balance sheet that is supportive of our growth initiatives.

That brings me to the end of our opening remarks. We would now like to open the floor for questions. Thank you.

Moderator: The first question is from the line of Deepan Shankar from Trustline PMS.

Deepan Shankar: Sir, firstly, I wanted to understand how have been the BOPET prices behaving over October and November so far.

Pradeep Rustagi: So we'll share with you the numbers for the commodity film, which is 12-micron corona In October, the prices were in the range of Rs.104 to Rs.105. and in November, it has reduced to about Rs.97, Rs.98.

Deepan Shankar: So over medium term, what will be the outlook? And what would be the driver for BOPET films prices, sir?

Pradeep Rustagi: So as the demand improves, because the demand is continuously growing at about 11% to 13% domestically and overseas, it is growing at about -- globally at about 6% to 6.5%. There will be continuous growth in demand. And as the macroeconomic situation also improves, we should see improvement in the performance. And therefore, we are confident and positive about the performance of the business in the medium to long term.

Deepan Shankar: Are we expecting strong supply growth coming up in -- over the next 2, 3 years?

Girish Behal: Yes, I will answer. I think just to add on what Preedap just said, earlier, last few quarters, the ocean freights were running very high which were becoming an obstacle for being competitive in many of the export markets. Freight rate levels are normalizing now, so which is making many more markets, very, very competitive from supply in India. So that is going to add to the demand prospects for the industry. Few lines have also got tied up to a large extent. I think 2 or 3 more lines that are expected in the next financial year, probably looking at the demand prospects and opening up the global economies and ocean freight normalization, the medium to looks to be better than what you're having correctly.

Moderator: The next question is from the line of Gaurav Lohia from Bowhead India Fund. Please go ahead

Gaurav Lohia: Sir, in terms of metric ton, can you please quantify what kind of demand is there. You said that the demand is growing at 11% to 13%, but if you can quantify in metric tons? And similarly, for capacities, what kind of capacities were there as of September-end or as of today, what kind of capacities were added in the last 6-months? And what kind of capacity addition would be there in the next 12 months?

Girish Behal: Yes. I think the demand -- the first question is regarding demand. You're talking -- I think you're talking about the demand in India. So let's say, the demand in India is around anywhere between 50,000 to 60,000 tons per month. And, if you look at some capacities, which are added in last 6 months or so, from, let's say, April till now. So, probably, I think 4 lines got started. And we think that over the next 12 months, maybe 3 to 4 lines may get added.

Gaurav Lohia: A line of how many tons, sir?

Girish Behal: Let’s simply take a thumb rule a line of, let's say, 3,000 tons per month.

Gaurav Lohia: And what was the industry capacity as on today or what is the industry capacity as on today?

Girish Behal: I think industry capacity as of today could be around anywhere around 80,000 tons per month.

Pradeep Rustagi: So 10 lakhs, 1 million tons per annum.

Gaurav Lohia: So that's substantial. And this includes -- these 12 lines include our Capex also, right, which is coming up in.

Girish Behal: Yes, these lines – correct. All the numbers that I'm saying, that includes our line

Gaurav Lohia: Okay. Understood. And sir, you mentioned about the price being or coming down from Rs.104 to Rs.97, but can you give a gross value addition per kg for last quarter and what it is right now?

Pradeep Rustagi: Last quarter, in 12 micron corona, we had value addition, which is selling price minus raw material cost of about Rs.28, Rs.29 a kg. And currently, it is plus of Rs.20 in the month of November.

Girish Behal: I think it would be in the range of Rs.20 to Rs.25.

Gaurav Lohia: And sir, I understand that it's difficult to the moment in the specialty business now because of the global trends, but on the longer run, let's say, 1 or 2 years, what kind of revenue and margins we can do over there? And if you can give some further details on the product side, MB-03 right now, you said it's 423 metric ton per quarter, right? But next 1 or 2 years, what kind of product or the size of the market and the size of this product could be, let's say, in FY'25? Then similarly for innovative PBT or MB07, MB06 and LMC03?

Pradeep Rustagi: So in the current year FY'23, we expect to do a volume of about 1,200 to 1,300 tons of MB03 and about 1,400 to 1,500 tons of innovative PBT. Given the current situation that is prevailing in the world, I think at this point in time, it will not be right on our part to give you an indication of what the volumes could be in the financial year ended March '24 or '25, but it would definitely be better than March '23, that is for sure.

Gaurav Lohia: Let's say, if the world is in a normalized, if we live in a normalized world, what kind of potential is there for these products, MB03 and innovative PVT or any other major product we have in Specialty polymer line.

Pradeep Rustagi: So we can be sort of we can look at a growth of about more than 25% to 30% in the top line of Specialty Polymer in each of the following years, and let's say, March '24 and '25. So we can look at if we were to give it a broad range of growth that we can see in the revenue, anything between 25% to 35% is the revenue growth that we can easily target, and we are confident of doing, provided the situation comes back to normal in terms of the economic environment.

Gaurav Lohia: And margins, EBIT margins would be north of 35%?

Pradeep Rustagi: As we have been maintaining and as is evident from the results that are on the table, we can easily expect EBIT margins, earnings before interest tax of about plus of 30% to 33%. So anything between 33% to 37%

Gaurav Lohia: This is before unallocable, right?

Pradeep Rustagi: Yes, it is based on the direct expenses, yes. The common expenses are not deductive from it. These are as per the segmental results that are drawn in terms of accounting standards, prevailing accounting standards.

Gaurav Lohia: Understood. And the last question, sir, the cash we got from the deal, about Rs.200 crore. Have we decided whether we are going to distribute it or you would be think we are thinking about other Capex once this Capex comes...

Pradeep Rustagi: So we have certain amounts of Capex already drawn for the financial year '23 and '24. And instead of raising loan, we would rather use these funds. And therefore, as of now, these are retained in the business to meet the capital expenditure requirement of the company.

Gaurav Lohia: So the Capex would pertain to what?

Pradeep Rustagi: These are for debottlenecking, efficiency improvement. So there is certain investment in capacity for value-added and Specialty product in polyester film. So efficiency improvement, value-added and specialty product enhancement, etc.

Gaurav Lohia: Understood. And how much Capex you're looking at?

Pradeep Rustagi: We are looking at close to Rs.200 crore of expenditure between -- by March '24.

Gaurav Lohia: By March '24. This is over and above the Capex that we have undertaken, right?

Pradeep Rustagi: No, this is the Capex that is undertaken. It doesn't take into account any fresh capital expenditure. This was the capital expenditure approved for the 2 financial years ended March, 24.

Moderator: The next question is from the line of Alpesh Lad from Dolat Capital. Please go ahead.

Alpesh Lad: Actually, I wanted to get a broader view on the Specialty Polymer business. And specifically, I wanted to ask that, is there any slowdown in the approval process for the new products that we have launched in the Specialty Polymer business?

Pradeep Rustagi: As we have taken in our presentation in the near term, following 1 or 2 quarters, because of the inflationary trend in U.S., there could be some pressure on the volumes and therefore, the top line and bottom line of Specialty Polymer. But as the situation improves, we should very soon be bouncing back to the normal levels, and then we should have an increasing trend going forward.

Alpesh Lad: There is no slowdown in any approval process for the products side?

Pradeep Rustagi: On the new products, there are products under development. There are products at various stages of approval. Those are progressing at the right pace, and we should be coming out with new products in the first half of the calendar year '23. By June or September '23, we should be coming out with new products as well.

Alpesh Lad: In specifically, the polyester film business, in other companies as well, we have witnessed some demand slowdown from an end-user industries like Textile. So have our product demand has also been hampered because of the same during the quarter?

Girish Behal: I think we are not much present for polyester film for textiles. So that is not the segment we operate in. But yes, the textile market in general is affected. so the films requirement in textile market is affected, so which is impacting the total film demand on an overall basis in India.

Alpesh Lad: Okay. And my last question is now we have seen a higher revenue from Specialty Polymer business in this quarter. So like, at what level are we expecting this revenue to stabilize or the percentage of revenue from Specialty Polymer business to stabilize out of our total revenue?

Girish Behal: I think the way – I would rather answer the way to be in line with what Mr. Rustagi has answered in the previous question, that at least a 25% to 30% revenue growth is something that what we can look forward in times to come.

Alpesh Lad: Right.

Girish Behal: In a normalized scenario, yes.

Moderator: The next question is from the line of Jatin Damania from Kotak Securities.

Jatin Damania: So sir, I just wanted to check that you said that the current monthly demand on BOPET is around 50,000 to 60,000 tons with an installed capacity of 80,000 tons. Now with a couple of lines we have already seen came up in FY'23 and another 3, 4 lines coming in. So don't you think that it could be immense pressure on the supply side in the medium term, which can weigh on the overall margins of the business?

Girish Behal: I think, let me just rephrase what I said earlier. I mentioned the last 6 months, I think, 4 to 5 lines have started, which let's say, from April to, let's say, October, we are talking about. And the previous question was how many new lines are expected in the next 12 months? Again, 3, 4 new lines are also expected in the next 12 months or so. That change, yes, this capacity has put some pressure because many of the export markets, which were not available to Indian producers because of higher ocean freight, that is now available. So, ocean freights have come crashing down. So at least many of the markets which is available to Indian producers. And we are also happy that despite textile slowdown, but overall, other consumption sectors for polyester films are doing well. So we are very optimistic about the future of the business.

Jatin Damania: That's true. But if you look at the globally, because of the inflation, definitely, the demand is not doing that good. And given the current spread I don't do we think that this current spread that you mentioned of plus Rs.20, Rs.25, its sustainable in the near to medium term, or probably we can see spreads coming down to around Rs.10 to Rs.15 for the overall packaging business.

Girish Behal: Yes. I think we expect the spreads to improve in coming times. While we are talking about the global market and probably recession worry, we have to be mindful of the higher energy cost across the board, which are intrupting/hurting the overseas producer more. So we see a reasonably good opportunity for Indian producers.

Jatin Damania: Sir, can you help us in understanding the breakup of spreads in terms of your BOPET and your Specialty business?

Pradeep Rustagi: Both are two different business products. So there's no rationale in drawing a comparison between margins of Specialty Polymer and Films business.

Jatin Damania: No, sir, I totally agree. But if you say that your Specialty business will continue to you are likely to maintain 25%, 30%. So just looking at in terms of the EBITDA contribution that can come from the Specialty over a longer period of time as compared to the BOPET, where we might see a margin pressure.

Pradeep Rustagi: So we told you that in the Specialty Polymer business, the EBIT margins, earnings before interest is expected to be in the range of 32% to 37% of the sales revenue. So that's the kind of margins because there is no competition. It is just that as the volume picks up the top line and the bottom line improves in Specialty Polymer. In Film, the margins are more market-driven. But we'll continue to work on value-added and Specialty Products and our proportion of value-added and Specialty Products is going up quarter by quarter. We are currently at about 24%, out of the total sales of polyester films. 24% is in the form of by terms of quantity, in the form of value-added and specialty products.

Girish Behal I think one more thing which could be the new line is expected to start, that is also going to add a lot of new volume available that will help the profitability in the company.

Jatin Damania: And sir, last bit on the Capex, sir, of the Rs.200 crore, how much we have already spent?

Pradeep Rustagi: it is already -- none out of that has been spent. It is kept in the liquid investment. So we have not yet used any funds out of the sale proceeds of Engineering Plastic segment.

Moderator: The next question is from the line of Pratap Makwana from Forbes Marshall Private Limited.

Pratap Makwana: My first question, the revenue compensation of the sold plastic business, can we expect it will be revenue compensation will be there in from the Q3 onwards? So we can see that Q3 will be now the sold plastic business sale opportunity, which has been lost will be compensated from the higher top line from Q3 onwards?

And in addition to that, what is the additional revenue we expect from the Telangana plant, which is which is coming up operational from the December. So how much revenue will be additionally available on top of that?

Pradeep Rustagi: So going by the current scenario, we don't I mean, it would not be possible to make good the lost revenue of Engineering Plastic business in Q3 and Q4 of the current financial year. So next year onwards, we may be able to compensate the loss of revenue by increased revenue from segment films & Specialty Polymer business.

As far as Telengana operations are concerned, we expect to generate revenue of about Rs. 600 crore once the capacity utilization reaches almost the optimum level.

Pratap Makwana: My second question, so '21-'22 was the Rs.1,400 crore, how much your expectations on the top line growth for '20 to '22?

Pradeep Rustagi: Yes. So if we exclude the Engineering Plastics, we should be closing the year anything between Rs.1,200 crore to Rs.1,250 crore.

Pratap Makwana: Can we expect dividend yield as now company is now rich in case? And regularly, there are two dividends. One is the interim and full. So can we expect the interim dividend, which is the pending for '21-'22 will be available for shareholders?

Pradeep Rustagi: We have a dividend payout policy, which has been very well drafted by the Board of Directors. We will stick to the policy and distribute dividends in terms of provision of that policy.

Pratap Makwana: And any effect on attrition on a similar kind of industry, so people are switching on and leveraging the opportunity, that is yielding any negative part on the operational side?

Girish Behal: No, I think that's not a concern that we have.

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

Saket Kapoor: Sir, firstly, if you could outline what has actually happened in the film business, wherein whether this is a lower demand scenario that has led to margin squeeze or the raw material pass-on lag effect is there. so if you could delve more the reason special for the film business performance going down?

Girish Behal: I think in the previous set of questions, we explained about some slowdowns in the textile market and some slowdowns in the global market. Plus on top of that, there's some capacity expansion, which has resulted into an imbalance in the demand-supply equation that has put pressure on the spreads.

Pradeep Rustagi: Saket, so the raw material cost has not gone up since June '22. So there is no question of passing on the increased raw material costs. It is just the reasons that Girish has just now explained, which are the lower performance can be attributed to these reasons.

Saket Kapoor: Okay. And sir, how has the raw material market been have fared for this quarter, if we give the breakup for this effect and MEG prices.

Pradeep Rustagi: Yes. So if you look at the September quarter, the PTA was about Rs.79 a kg, MEG was Rs.51 and the raw material cost was Rs.85. In the month of October, the same is in the range of Rs.81 to Rs.82. And in November, it is Rs.77 to Rs.78.

Saket Kapoor: Okay. And what has been the price range for both PTA and MEG post September quarter?

Pradeep Rustagi: Yes. PTA in November, it is Rs.72. Currently, it is at Rs.72. MEG is at Rs.44 a kg.

Saket Kapoor: Okay. So there is a significant decline in MEG prices.

Pradeep Rustagi: Yes. So yes, MEG and PTA, both prices have declined in the last 7 to 8 months. In June, it was Rs.87 down to Rs.72 for PTA, MEG was Rs. 57, down to Rs.44, Rs.45 in the month of November.

Saket Kapoor: Sir, then what explains this cost of material consumed increased quarter-on-quarter from Rs.188 crore to Rs.192 crore, it is mainly because of the Specialty Polymer that this thing has happened or...

Pradeep Rustagi: So you are comparing this quarter to which quarter?

Saket Kapoor: I'm comparing Q-o-Q. Sir, June '22 our revenue was Rs.324 crore and the raw material consumption was Rs.188 crore. September, revenue is Rs.304 crore and the raw material consumption is Rs.192 crore.

Pradeep Rustagi: So it is not a case of the revenue is down because the selling prices have reduced.

Saket Kapoor: Correct, sir. And the raw material consumption has gone up.

Pradeep Rustagi: Raw material is almost the same. The volumes in Specialty Polymer has increased. So for Film business the key raw materials are PTA, MEG. In Specialty Polymers, there are other products also.

Saket Kapoor: Right, sir. And sir, also for this quarter, there was a lower employee benefit expense booked for this quarter.

Pradeep Rustagi: So what happened that we have we generally created a provision for sharing our profit with the Executive Directors. That has not been provision has not been made in this quarter, looking at the lower performance. That's the reason there is a lesser burden on account of salary wages in this quarter. No provision has been created for commission payable to the Executive Directors, the whole-time Directors.

Saket Kapoor: So that is temporarily only, post third quarter numbers, we can again get.

Pradeep Rustagi: Everything will depend on the profit that we generate.

Saket Kapoor: Right, sir. Now, coming to the percentage of value-added in business, what has been the percentage of tonnage term for this quarter as well as for first half? And sir, overall, for the debt, which we are also, sir, please provide the cost of fund and how with the increase in the repo rate, that is going to affect our finance costs.

Pradeep Rustagi: Yes. So, out of the 15,000 tons that we have sold of polyester film in the quarter ended September '22, about 3,500 tons have been sold in the form of value-added and specialty products, which is 23% of the total volume. And in terms of value, it is contributing to 35% of the value of Polyester Film business.

Saket Kapoor: Okay. And going ahead also, that we are looking for this band, only 22% to 23%, or we are looking to enhance it further?

Girish Behal: The steps that we have taken, we have committed an investment for enhancing the volume of the products. We are putting some offline and other capacities to be able to broaden our offering. And going forward, of course, the new capacity in Hyderabad plant, that could come in, probably that may not have similar levels of the product mix. But let's say, our existing facility, the share will keep on growing. We have committed a sizable capacity expansion for enhancing this portfolio.

Saket Kapoor: Okay. Sir, for value addition what kind of Capex have we envisaged for the existing line?

Girish Behal: So for the enhancing Specialty Films, so probably, we have committed additional Capex in the coating and metalizing machines.

Saket Kapoor: Any amount that you would like to say? How much?

Girish Behal: I think it will be in the circle of about I think all assets put together, it will be close of close to about Rs. 40-odd crore.

Saket Kapoor: And sir, for the new greenfield plant, Girish sir, you were mentioning that we will not have the same product profile there. So any reason, sir, why it will be only commoditized film that we'll start with, or if you could give some more color which aspects are you going to cater from the new facility?

Girish Behal: I think that the new line is especially design line. There also our strategy of serving specialty film would continue to play. But the movement the line starts in the specialty portfolio will not come from Day 1. So there are also there are plans for building a specialty portfolio from that plant as well.

Saket Kapoor: Okay. But sir, taking this into account, the current environment, would we take a number of time for us to ramp up the capacity, or how will the ramping up will happen so going since they are seeing a drop in demand. How do we see the commercialization coming up, sir? And what is the event base we are working with?

Girish Behal: I think, let's say, we are talking about in today's scenario where there is a recession fear across the globe, that may have some minor impact on the ramp-up, but that would not be significant.

Pradeep Rustagi: I would just like to add, Saket, you said drop in demand. There is no drop in demand. It says that the additional capacities are available. We are not seeing contraction in demand.

Saket Kapoor: Right, so to reach the optimum level for the new plant, will take longer time. So this understanding is correct, sir?

Girish Behal: There could be a minor issue, but we don't expect any significant change in the ramp-up time, which we have envisaged.

Saket Kapoor: And sir, the per kg margin, you were mentioning some figures, Girish sir, I missed that. What are we seeing that to increase going ahead because of the lower raw material prices?

Saket Kapoor: Okay. So Rs.20, Rs.25, you mentioned, I missed – there was a drop in the line.

Girish Behal: Yes, Rs.20, Rs.25 is that spread probably that is happening as of now. But then the way we expect things, the spread levels to improve going forward.

Saket Kapoor: What was the spread for the first half, sir?

Girish Behal: I don't have the numbers.

Pradeep Rustagi: Yes, I have the number. The first june quarter, it was very good. It was plus of Rs.50. In September quarter, it dropped to about Rs.28 or Rs.29.

Saket Kapoor: And last year, average, sir, do you have it?

Pradeep Rustagi: Last year, I have quarter-by-quarter, not the – so if we talk of 12 micron corona, June '21 was about Rs.36, September was about Rs.36. December was very good at Rs.46. And March, it improved to about Rs.55, Rs.56.

Saket Kapoor: My one question was unanswered about the debt part, sir. The cost of fund has gone up, sir?

Pradeep Rustagi: Yes. Yes. The debt the cost of debt in Ester Industries has gone up because the reverse repo rate has increased, 140 basis points is the increase. But our increase is not 140 basis points, it's close to 100 basis points. But on a net outflow basis, we should see less burden on the P&L because we have this value of about Rs.200 odd crore. which will generate some income. And therefore, net outflow on account of finance interest expenses would be lesser in the following quarter.

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

Ravi Nagda: Sir, my question is about Specialty products. You said from most some products, which are in the patent will start contributing. So, what are your products? Can you give details of the products?

Girish Behal: I think in the initial remark, we mentioned about MB03, IQPBT and MD07. So there's a long list of products that we do there.

Ravi Nagda: But some time back, you had said LMC03, that could be the -- product. And we're still not seeing...

Pradeep Rustagi: That is also a product under development, yes.

Ravi Nagda: Under development or it is approved?

Pradeep Rustagi: It was approved. See, the volume offtake has to begin in a big way because of the inflationary pressure in the U.S., there is some slowdown in the take-off.

Moderator: The next question is from the line of Miraj, an individual Investor.

Miraj: Sir, the sales in this quarter are a little bit less. So in the next quarter, could it be lower or is it showing some growth?

Pradeep Rustagi: It would be difficult to share the number at this point in time. But it could be lower than the September '22 quarter.

Miraj: Okay, sir and this Telangana plant, in December by when will it earlier, you had mentioned that it will start in October. So now it will start in December, right?

Pradeep Rustagi: So the operation at the Telangana plant will start in December so its impact on revenue will be seen from the March quarter. We would have started the plant earlier, but there is an external matter. We have not gotten the power connection yet. The state government is yet to provide that. Once, that is available, we are ready to go with the commercial production. From our side, we have completed all aspects of the commissioning and trial production, etc.

Miraj: So, it's revenue will start coming in from Q1 FY'24, right?

Pradeep Rustagi: Fourth quarter of FY'23, you can assume.

Moderator: The next question is from the line of Ravi Nagdha. an individual investor.

Ravi Nagdha**:** Sir, this LMC03 will it be a game changing new product in Specialty Polymer, whose volumes have been very good? Something that you are introducing next year.

Pradeep Rustagi: There are many products in various stages. A few have been approved by the customers, few are in the process of being approved. And all the products that we are talking about are getting developed. They are going to add to the profitability of the business. So each one is going to have good margins, and we expect to maintain EBIT margins of more than 32%, 35% going forward as well. So each product that will get developed or that will get commercialized will add to the performance of the business.

Ravi Nagdha**:** And sir, and this Spcialty Polymer business is concentrated in the U.S. so it is very risky as it is in a single country. So are we trying to target China, Europe, so do some sales there?

Girish Behal: Our current Specialty Polymer business is there in the U.S., is it also there in China, it is also there in Europe to some extent. And we are focusing on all the geographies because we are working on various products various concepts, which are promising, let's say, which can offer a potential of thousands of tons of one particular product in all the categories that we are working on. And we are focusing on all the geographies. We are not only focusing on U.S.

Ravi Nagdha**:** And sir, that product called LMC03, the use of that is to make the final product recyclable, right?

Girish Behal**:** LMC, yes, it removes, let's say, a binding component with the polyester component to make the entire product recyclable as it is.

Ravi Nagdha: That product has been approved. So, what is the reason that the sales have not been started yet?

Girish Behal**:** There are -- because there are various steps of qualification involved in each of the products. So it is taking time, and it is at different stages of approval at different customers.

Ravi Nagdha: So sir, what is a realistic timeline for that to approve?

Girish Behal**:** I think it's very difficult to clarify an exact timeline because each project and each customer and each company is different. So what we can say at this stage, at least the product and the approval process is moving well. And there are certain concerns related to the global economic scenario, probably this may put some weight on the entire progress. But we remain optimistic about the future, which these products are offering.

Pradeep Rustagi: We have been maintaining that so from the let's say, by June of '22 - '23, the first half of the calendar year next, we should see immediate traction in the Specialty Polymer business.

Ravi Nagdha**:** And from this all MB06, 07, all of these, all products?

Pradeep Rustagi: The other products, the existing products also.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the Management for closing comments.

Pradeep Rustagi: Thank you so much for participating in the earnings call. We look forward to meet you all next quarter in the month of January or February early February or late January. Thank you