Ester Industries Limited

Q3 FY17 Earnings Conference Call Transcript
February 08, 2017

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Ester Industries Limited Q3 FY17 Earning 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 call please signal an operator by pressing '*' then '0' on your touchtone telephone. 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 Welcome to Ester Industries Limited Q3 and 9M FY17 Analyst & Investor Conference Call. We have with us today, Mr. Arvind Singhania - Chairman and Mr. Pradeep Kumar Rustagi - 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 certain statements made in today's discussions may be forward-looking in nature and a note to that effect was stated in the con-call invite sent earlier. We trust you had a chance to go through the documents sent on financial performance earlier and have gone through the same. I would now like to hand over to Mr. Singhania, to make his opening remarks.

Arvind Singhania: Thank you Gavin. Good afternoon everyone and welcome to Ester Industries Q3 and 9 months FY17 Earnings Conference Call. Let me start by taking you through some of the key operational developments following which Pradeep will run you through our key financial highlights for the period.

Ester Industries continues its progress from being a pure-play commodity player to one which is R&D and innovation driven with Specialty Polymer being the mainstay of the transformation.Over the past few years, our attempts have been primarily focused towards developing creative and exciting product portfolio to help carve niche for ourselves in the space and I am pleased to say that we have made significant headway in that regard, as can be seen by the growing patent filings. We also very recently filed a new patent under the PCT for a master batch to produce specialised polyester yarn. The master batch is for a Cationic Dyeable Yarn which offers value advantages both from a quality and cost perspective. This product has already been approved by some Indian entities and is believed to enjoy strong potential in China and Taiwan as well. With this latest filing, our patent tally becomes 9 of which we have manufactured a total of 18 products.

The segment has a strong product pipeline of 30 products which are at various stages of development. While product development has been a core focus area for us, we are now also working towards scaling up our execution capabilities. In an effort towards addressing the same the company recently decided to set up an R&D innovation facility at Gurgaon at a cost of Rs. 50 crores. One of the key things which has been restraining the growth of Specialty Polymer business has been more than anticipated time in commercializing the products. While product acceptability has never been an issue there has been more than expected delay from clients end given their hesitance towards shifting from existing products to something new. Their apprehension to a large extent are logical as well. The risk of unknown always persists and there are instances of product inconsistencies. This R&D center will enable us lower the lead time and also have more control on quality.

We earlier used to outsource certain functions like downstream analytics, pilot scale manufacturing at clients end, which used to lengthen the entire product development to market cycle. As the new center becomes operational these functions will all be undertaken in-house which should help us reduce the overall process cycle. The facility will house 40 scientists and engineers who will be responsible for continuously researching and developing breakthrough innovations. Additionally, collaboration with leading Specialty Polymer developers will also help us to improve our knowhow. The tieup with Dupont for development of certain other Specialty Polyester polymer products is a step in that direction. Post completion of our transition process we are confident of delivering strong and consistent returns. I would like to reiterate what I said earlier. Accepting anything new takes time, it has been a learning curve for us, but it has taught us many a thing and we are more confident than ever in developing these businesses.

Moving on to our other legacy business, namely film business and Engineering Plastic business our aim here is to improve the overall profitability profile by undertaking measures towards increasing the share of high margin value added products. We are also working on several cost rationalization measures which should help us lower our cost outgo. The overall goal is to help the businesses reach and attain meaningful scale and complement the Specialty Polymer business. As part of our vision for the next five years, our target is to achieve revenues upwards of Rs. 1,700 crores by 2022 with revenues in the Specialty Polymer business growing 5 times from current levels, accompanied with stronger operating margins at approximately 25%.

In the Polyester business, our aim is to increase the share of value added products to 30% to 35% which will help margins in the business to improve by 200 to 300 basis points to 13% / 14%. Our plan for the Engineering Plastic business is to focus on margin improvements from the current 7% levels to about 11% by 2022 by way of increasing the share of high margin products in this business and volume growth. To sum up, we foresee notable traction in our business in the medium to long term. Our endeavor is to maintain sustainable growth by focusing on developing a comprehensive product portfolio, rich in innovation and customization ramping up executional capabilities and diversifying customer base. We are confident that success in the above mentioned areas would help us create significant value for all stakeholders.

With that I hand over the floor to Pradeep, who will run through the financial performance.

Pradeep K.Rustagi: Good afternoon everyone and thank you for taking the time out for our call. I trust that all of you have received the investor document circulated by us earlier. Let me quickly summaries the key financial highlight for the quarter and 9 months ended FY17 following which we can begin the Q&A session.

Our revenue for Q3 FY17 were relatively stable at Rs. 177 crores as against 174 crore generated during Q3 FY16 and Rs. 163 crore reported during Q2 FY17. EBITDA for the period stood at Rs. 10.9 crore as against 12.2 crore reported during the corresponding period last year. The de-growth was primarily owing to lower proportion of high margin Specialty Polymer business resulting in reduction of operational profitability and margins. However, on a sequential basis there has been an improvement with Rs. 8 crore being reported during Q2 FY17. Loss after tax for Q3 FY17 is stood at Rs. 3.55 crore as against loss of Rs. 2.96 crore reported during Q3 FY16 and Rs. 5 crore during Q2 FY17.

Performance during Q3 FY17 would have been better but for one time exception charge of Rs. 1.69 crore pertaining to reversal of MODVAT on **HSD** availed in earlier years. The matter was under litigation and has been deciding in favor of the revenue. On a segment wise basis Specialty Polymer business de-grew by 15.8% during Q3 FY17 at Rs. 8.4 crore as against Rs. 10.02 crore during Q3 FY16. However, the business saw a growth of 100% on a sequential basis from Rs. 4 crore which was reported in Q2 FY17. The business posted a loss at EBIT level at Rs. 0.48 crore, compared to Rs. 1 crore reported in Q3 FY16 but showed some recovery from Q2 FY17 where it posted a loss of Rs. 2 crore.

Polyester film business performance witnesses some improvement in realization and margins. Revenue from the business was higher at Rs. 132.46 crore as against Rs. 129.31 crore generated during Q3 FY16 and Rs. 127 crore posted in Q2 FY17. EBIT for the business stood at Rs. 13.9 crore as against 10.59 crore during the same quarter previous year and Rs. 10 crore in Q2 FY17. Engineering Plastic business was marginally up during Q3 FY17 with revenue of Rs. 36.4 crore as against Rs. 34.8 crore generated during Q3 FY16 and Rs. 33 crore reported in Q2 FY17. EBIT for the segment had a steady growth at Rs. 3.27 crores. There was no major change compared to corresponding period or even on a sequential basis.

To conclude, I would just like to reiterate that we are working towards transforming the business by focusing on innovation and specialization and enhancing the proportion of value added products across all our business. That concludes my opening remarks, we would be happy to answer your questions now.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: My question was regarding the slide number 18 in your presentation where you have given a 5 year vision, if you could delve a little more about that and what is your confidence level in terms of being able to achieve because these look pretty aggressive compared to the current numbers that we are reporting.

Arvind Singhania: Sachin, my confidence level comes from what we have been interacting with our customers. We have already started commercialization last year of some of our products and we saw a dip in that for various reasons for one of our products for example the hot filled product we had a technical problem which was attended to and sorted out it took 7-8 months to do that and that has been sorted out so we expect to restart that business. Basically, there was no problem in that product at all. It was a contamination issue, which was external and we have eliminated it and the customer is satisfied and we expect to restart business based on their confirmation. Apart from that this product is under trail at many other similar customers, where we expect substantial volumes to come in over the next years. Similarly, for our stain resistance product where we had started selling, the product has been fully accepted and we have started selling, there was slight dip with one of our customer who was buying, but this customer is expected to restart in the next couple of months and along with that we have been working with a very large European producer who has just recently in fact 2 days ago given us an approval and qualified the product for use. So, we are expecting that we will start commercial business with him as well in the next 2 to 3 months. So stemming from all these apart from that we have many other projects which are in various stages not in terms of product development only but in terms of customer qualification. So, given all what we are experiencing right now, my confidence stems from there.

Sachin Kasera: You have mentioned about cost optimization and share about film business delve about that?

Arvind Singhania: Yes, so what we did was that 4-5 months ago we have started on this ambitious plan and to reduce cost by about Rs 25 crore per annum, across various heads of expenditure, whether it be variable or even fixed expenses. Some of those initiatives have already born fruit and are reflected in the 9 months gone by and you will see the full effect coming in FY18. So, we are confident of achieving close to Rs 25 crore of cost reduction overall without now drop in any production. So we are working on power and fuel, man power, admin cost, packing, various every head of cost is being looked at with the microscope and we are working and we have identified different areas there we will get this Rs 25 crore from and we expect to achieve this entire thing in the next 6 months. So, that is one part. The second part is we are targeting to increase the value addition by converting our portfolio of commodity Polyester Film to value added film. Now again we have introduced 3 or 4 products in the last couple of months, where we have met with good success we have a whole bunch of products which we are expecting to introduce over the next few months and this Rs 25 crore we expect to achieve over the next anything between 12 to 24 months. Overall this will bring about a Rs 50 crore, improvement in bottom-line as far as the film business in concerned.

Sachin Kasera: Of this Rs 25 crore cost reduction how much have been achieved till date?

Pradeep Kumar Rustagi: In the first 9 months, if you compare our 9 month result you will see a reduction in logistic cost, power and fuel, packing, storage and spare, man power, admin cost, so we already have achieved close to in the 9 months close to Rs 12-13 crores on an annualized basis.

Arvind Singhania: And the balance Rs 12 crore to Rs 13 crores we expect to achieve over the next 6 to 9 months.

Sachin Kasera: The second question was regarding R&D center being setup at a cost of Rs 50 crore, so are you going to fund it internally or are we looking to take any incremental debt for that because as of now we are not directly having enough cash flow to fund it internally....

Arvind Singhania: No, first of all you must understand that this Rs 50 crore is not a onetime investment that will happen overnight. This is going to be done in steps. So, starting from now between now and 18 months to 2 years is the time frame where we will do a scaled up investment of Rs 50 crore which will want to do from internal accruals not take additional debt for this.

Moderator: Thank you. Next question is from the line of Jaspreet Singh Arora from Systematix Shares. Please go ahead.

Jaspreet Singh Arora: Just wanted your comment on the same slide where we have been giving our vision, so just wanted to understand the current EBITDA margins, just to understand where exactly we are targeting. So as of 9 months in this Specialty Polymer what could be the EBITDA margins?

Pradeep Kumar Rustagi: In the first 9 months of this current financial year, currently because of the no volume of sales it is about 13% because the high value high margin products are not sold during this period of 9 months. Going forward we would be selling more of our stain resistant product and hot filled and the margins will improve. In the first 9 months because the low volume it is only 13% close to 13%-14%.

Jaspreet Singh Arora: And if you have it handy may be FY16 what was the number?

Pradeep Kumar Rustagi: Close to 18%. First 9M we did EBIT margins of 18% what happens that when we had larger scales the fixed cost remains same and incremental contribution goes to the improve the EBIT.

Jaspreet Singh Arora: If you exclude the current this financial year, so essentially we are talking of 18% moving to 25% over the next 4-5 years?

Pradeep Kumar Rustagi: Yes, we have more of high value products in the product basket.

Jaspreet Singh Arora: And if you could just help on the similar margins on the other two business Polyester film, what was the number against which we are targeting 13%?

Pradeep Kumar Rustagi: So, last year in the film business the EBIT margins were about 12% for the first 9 months which has reduced to about 9% in the first 9 months. The first quarter was very bad for film business, but things have started to improve from December quarter and EP it was about 6% last year which is now 7.5% in the current 9 months.

Jaspreet Singh Arora: Sir, this is EBIT you giving?

Pradeep Kumar Rustagi: EBIT yes, segmental results that we have published in quarter.

Jaspreet Singh Arora: So, I was just essentially looking at EBITDA since the target is for EBITDA, so …?

Pradeep Kumar Rustagi: Because as a matter fact we do not do the allocation of common expenses, so we do not work out on business to business the EBITDA margins.

Jaspreet Singh Arora: Now just putting in perspective the targets on EBITDA margin basis, so …

Arvind Singhania: That we can do and let you know separately.

Jaspreet Singh Arora: And the current share of value added products in polyester film would be how much, sir?

Arvind Singhania: You see up to now we were at about 15% but now already we have moved up in December we did about 19%-20% and we are very confident that over the next 18 months maximum 2 years we will reach anything around 35%. That will make very solid foundation for the film business that even during the worst market condition we will do well.

Moderator: Thank you and next question is from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.

Dimple Kotak: Sir, in your initial commentary you said that there is the delay from clients end due to because you have to shift to new products, so what is the existing competition for your products in the value-added segment and in the Specialty Polymers?

Arvind Singhania: In the Specialty Polymer business is actually not a competitive, there is no competitive product. For example, if I take my hot-fill product there is no competition available to it. It is a brand-new product and sometimes when you come out with the something very innovative people take time to really absorb it and see how to take it forward and it is not only an approval from our customer end. I will just give an example that the hot-fill polymer, first has to be approved by the bottle maker, he approves it, then it goes to the brand owner. So, the person who is making the product he has to be able to use the product and qualify that it works on his side. Then it goes to the retailer, the super market who is the final approver that the product is working and the people are attracted to it and are buying it. So, it is a very long chain of approvals, it not just that I made a polymer and the person has made a nice bottle out of it, it does not end there. The approval goes up to the super market owner stage.

Dimple Kotak: And second is sir, how many products are there in various stages of may be formation or R&D?

Arvind Singhania: 30 products.

Dimple Kotak: And sir, we have filed patents for how many?

Arvind Singhania: 9.

Dimple Kotak: Sir, how many approvals we have received?

Arvind Singhania: There are various stages of approval ma'am, the process of getting the patent granted takes anything between 2 to 3 years. There is a prosecution stage where you file a patent and then there is publishing in the journal and the newspaper, etc., then is there of objections are called for, then there is a hearing and then this whole prosecution stage goes on and it takes 2 to 3 years. So, basically we still get protection from the date of filing.

Dimple Kotak: Sir, till now how many products we have in our basket which has already got approval?

Arvind Singhania: No, we do not have any which we have got a formal patent granted.

Pradeep Kumar Rustagi: You talking about approval from the customer or granting of patent?

Dimple Kotak: Sir both, approval from customer that you have started production and commercialese …

Arvind Singhania: Approvals from customer they are many but actual patent granted they are because they just file, started filing in the last 2 years. So, we still have not a Patent granted, there are various stages of approval.

Dimple Kotak: And sir any in the nascent you said that there are the production in the various stages of approvals any recent product which you think that in the next 6 months you will be getting an approval? You file it from 2 to 3 years or something like that?

Arvind Singhania: Are you talking about patent of customer again ma'am?

Dimple Kotak: Patent sir.

Arvind Singhania: Patent we should get our first patents in next one year to 18 months. We should start getting the approval because patterns have been filed over the last 2 to 3 years. So, I think the first approval we should start getting in the next 12 months to 18 months.

Dimple Kotak: And sir, coming back to the commercial approvals, for that all your 9 products are approved? Not the patent.

Arvind Singhania: Yes, , we are doing more than 9. We have got 18 products that we are selling right now. Various different kinds, if I start talking about it we will take about 3 hours here.

Moderator: Thank you. Next question is from the line of Ketul Dalal from Dolat Capital. Please go ahead.

Ketul Dalal: Sir, Engineering Plastic business performance has been relatively flat this time. So, what is your outlook for this business? If you could please elaborate on the same?

Arvind Singhania: You see, basically it was flat because this was the only business of ours out of 3 businesses which we got affected by demonetization, because some of our biggest customers cut down the orders in the last quarter because of demonetization. So, we had flattish quarter and hopefully but Polyester Film and SP were not hit but Engineering Plastics was. So, hopefully with this effect going away and this quarter last bits of it from the next quarter we should be bouncing back.

Ketul Dalal: So, from quarter 4 is well we are expecting to bounce back or?

Arvind Singhania: Yes to some extent, not fully but to some extent. Most of it will go away in quarter 4 but some remnants may remain.

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

Saket Kapoor: Sir, firstly could you throw some light on the debts on the book. What is the current debt you are sitting on?

Pradeep Kumar Rustagi: The current level of both working capital and some debt put together, the interest bearing debt on the balance sheet as on 31st December is about Rs 285 crore.

Saket Kapoor: And out of that will you segregated the how much is the working capital.

Pradeep Kumar Rustagi: Term debt is about Rs 119 crore and balance is the working capital interest bearing debt.

Saket Kapoor: And what is the cost of funds?

Pradeep Kumar Rustagi: The average cost of our borrowings is close to 10% including bank charges. So all the financial expenses including bank charges that about 10% weighted average cost of borrowing.

Arvind Singhania: It will exclude bank charges is 9%.

Saket Kapoor: Sir, so this Rs 119 crore of long term borrowing is taken for which projects and which stage of implementations are we at for that?

Pradeep Kumar Rustagi: So, no these were taking long time back and …

Arvind Singhania: These are for projects already completed

Pradeep Kumar Rustagi: Already completed and where the commercial production is already started.

Arvind Singhania: We do not have any major CAPEX WIP.

Saket Kapoor: So, what is the repayment for March 2017 and March 2018?

Pradeep Kumar Rustagi: March 2017 the balance amount that has been need to pay during the last quarter is close to a Rs 7- Rs 8 crores and the 2017-2018 about Rs 44 crores.

Saket Kapoor: 44 in total.

Pradeep Kumar Rustagi: Yes 2017-2018 financial year, repayment obligation.

Saket Kapoor: Now sir coming to, what are the utilization levels for us sir?

Pradeep Kumar Rustagi: You are talking about the plant capacity utilization or what?

Saket Kapoor: Yes, what utilization are we working sir? Because my query is pertaining to this because finance cost are eating up, we are bleeding because of the financial cost only. So, why is this happening and at what capacity are the plants running sir?

Pradeep Kumar Rustagi: Yes, I will tell you, the Film plant is currently running at a more than 95%, Engineering Plastic we are operating at about 55% to 60% and we look at the Chips and the Special polymer put together at about 70%.

Arvind Singhania: Actually Specialty Polymer is running at a very low level because from the next quarter onwards we expect to start improving volumes, so you will see a major improvement in the following financial year.

Pradeep Kumar Rustagi: So, if we were to separate Chip from a Special Polymer Chips is close to 95%, if Special Polymer would be about 20%.

Saket Kapoor: What kind of incremental revenue are we going to expect from the Specialty Polymer for FY18?

Arvind Singhania: It will be a substantial increase from FY17.

Saket Kapoor: What is the 9 months' figure sir for the Specialty Polymers?

Pradeep Kumar Rustagi: In the 9 months' we have done sales of Rs 34 crore to be precise.

Saket Kapoor: And what is the EBITDA on it?

Pradeep Kumar Rustagi: EBIT margin on this was about close to 14%.

Saket Kapoor: And what are we expecting for FY18 sir, on the Specialty Polymer segment?

Pradeep Kumar Rustagi: There will be a substantial increase on this number, I can assure you.

Saket Kapoor: It will be 3x that is substantial?

Pradeep Kumar Rustagi: We are working on the budget number which would be ready by let say end of March.

Saket Kapoor: And the margins would also improve since your scale will up?

Arvind Singhania: Definitely because ones the fixed cost remain the same as you keep on increasing volume and the higher value-added products are sold the EBIT margins will spike phenomenally.

Saket Kapoor: We posted a mere profit of only Rs 3 crore, whereas interest cost is around Rs 9 crore. So, what are the steps that will be taken in the near future and how confident are you that this will get reversed because we are bleeding on the bottom-line?

Pradeep Kumar Rustagi: No, the interest is to be serviced, not out of the PAT details to be serviced out of EBITDA. The EBITDA was positive at about Rs 11 crore.

Saket Kapoor: How will the situation improves because when investors look, they look at the bottom line numbers. So, bottom line numbers do not look very encouraging sir.

Arvind Singhania: It has improved over the previous quarter and we will expect the improvement to continue quart er-on quarter.

Saket Kapoor: Sir, if you come to the pie chart where in you have spoken about the revenue contribution how likely is this revenue contribution about to change in the coming years with your projections fructifying.

Arvind Singhania: Well the contribution from Specialty Polymers will keep on increasing substantially year-on-year and eventually like I said that in 5 years' time we would like to see Specialty Polymers with about 30% to 35% contribution to topline in Ester.

Saket Kapoor: Sir, I am getting your point, you have given a vision for 2022 of about Rs 1700 crore turnover. So, sir it should happen in a stage by stage manner sir, we will be closing FY17 with the probable turnover of may be in the ballpark of Rs 800 crore?

Pradeep Kumar Rustagi: Close to Rs 765 crore.

Arvind Singhania: Close by Rs 800 crore, yes 770.

Saket Kapoor: 765 was March 2016, so we will be there only for this year also?

Pradeep Kumar Rustagi: Yes, almost same as last year.

Saket Kapoor: But if you could your outlook for 2018 and 2019 how this path of 1700 will look because we are not going to get in one go, it should be in a staggered manner, so what are we looking for 2017 firstly and then how are we leaping into FY18? So, when it would give a more clarity sir?

Arvind Singhania: We are actually in the process of making the final budget for FY18 and it will take us another till end of March to finish it but I cannot give you an exact number right now but I can tell you that it will be a good jump over FY17?

Saket Kapoor: Sir, now coming to your, in the presentation you have given that the promoters have purchased along 5% shares in the company. Sir, has this happened to open market or any preferential allotment was there?

Arvind Singhania: No, open market. It is not a preferential allotment.

Saket Kapoor: If I look at your share holding pattern for March 2015, the promoters used to hold 72% in the company and currently we are down to around 59% after including this 5%. Yes. Could you explain this journey?

Arvind Singhania: We were down to 54% after the preferential allotment then we increased by 5% we are now at 59% point something.

Saket Kapoor: Sir, just wanted to understand this journey from March 2015, what was the preferential allotment, how much was the amount raised and at what rate?

Arvind Singhania: We issued about Rs 2 crore 7 lakh share at about Rs. 10.11 paisa and we raised about Rs 21 crore.

Saket Kapoor: That is to this Vettel International?

Arvind Singhania: Yes, that is right.

Saket Kapoor: And EBIT was Rs. 5 face value shares issued at Rs. 10?

Arvind Singhania: Yes, face value Rs. 5.

Pradeep Kumar Rustagi: At a premium of Rs. 5.10 paisa.

Saket Kapoor: And what was the reason for this usual equity dilution?

Arvind Singhania: It was a strategic investment.

Saket Kapoor: Means they are associated with any of the technology with us Vettel International?

Arvind Singhania: Not with any technology per se but definitely in terms of market reach.

Saket Kapoor: Could you dwel more because now they are currently holding around 11%-12% still they are holding they have diluted their holding?

Arvind Singhania: 17% they are holding right now.

Saket Kapoor: So, there is overhang of this expended equity coming into the market again, so just wanted to understand what terms and conditions are there with them?

Arvind Singhania: There are no terms and conditions with them …

Pradeep Kumar Rustagi: It is on par with other shareholders.

Arvind Singhania: It is at par with other shareholders.

Saket Kapoor: No, you said it was for a strategic reason, so just wanted to understand we diluted equity at such rates and what was the benefit we have got? Because equity got diluted in a big way?

Arvind Singhania: The equity was diluted at SEBI pricing at a SEBI pricing formula. So, it was not any special pricing that was given to them, it was a SEBI approved.

Saket Kapoor: I am not looking for the pricing sir I was just dwelling on what was the strategic benefit?

Arvind Singhania: We can have a product but if we do not have an introduction to the correct people, the customers to introduce our products to, then those products are no good. So, it was strategic from that point of view.

Moderator: Thank you. We take the next question from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: It is just continuing on with the previous question, so these preferential allotments which was made now this is like basically you are saying to get market access. Now to what extent that market access you have already achieved or are there other deliverable from their side, which you will be getting over the years?

Arvind Singhania: Well, again it is mostly introduction to customer because they one of the largest people in this polyester business, so they have relationships and access to these customers, which we never had. So, that was one of the main key reasons for this strategic investment and we will continue to derive this advantage from them in the near future as well.

Shekhar Singh: But is there a lock-in for the shares that they have or they can sell it anytime?

Arvind Singhania: No, there was lock-in at the time of the allotment which is over, I mean the allotment was done in 2015 and there was a one year lock-in, which is over and it is over in June 2016.

Shekhar Singh: And sir, just like on this Specialty Polymer business since you have a plan of almost increasing the revenues 5x, so just trying to understand does this business work on order book or how is it? what gives you the confidence that you will be able to increase it by 5x?

Arvind Singhania: I will tell you because the products that we have developed and which we have started receiving approvals and also started commercial sales – there are two things. Number one is what the customers tell us in terms of the volume that they will buy from us and then we also extrapolate that what the potential of each product can be from various others customers around the world. It is not a number pulled out of a hat. It is a number that we have consciously sat down and evaluated based on the potential of each product.

Shekhar Singh: And are there any competing products in this area in the sense like somebody else who can actually come in and fight for the same volume?

Arvind Singhania: It is not that, I mean for example in again I come back to the hot-fill product we do not know any other resin in the market globally that can give you hot-fill at 90-91 degree centigrade. And we have done it with a technology, nobody can copy our technology for doing it. Somebody else comes with the newer technology which I doubt very much because there are not very many people who are doing serious research and development on Specialty Polyesters.

Shekhar Singh: And what is the main area in which is Specialty Polyester will be used?

Pradeep Kumar Rustagi: Various applications across the board. See polyester is a very versatile product. It is used in garments, textile, in carpets, in bottles, rigid packaging, in thermoform products, again rigid packaging and flexible packaging polyester film which we do ourselves, in engineering plastics, industrial applications, so we are actually making specialty polymer for across the board all the applications.

Moderator: Thank you. Next question is from the line of Kunal Shah, private investor. Please go ahead.

Kunal Shah: I got one question regarding the cash flow sir. Whatever little explanation we had during this concall sir, whatever I understood is we have debt as of Rs 285 crore out of which Rs 119 crore is a long-term debt and balance is working capital. So, Rs 7 crore to Rs 8 crore is going to get repaid till March 2017 and approximately Rs 44 crore of repayment which is going to happen in the financial year 2017-2018. So, looking at the cash flows what we are generating right now our operating profits for the whole year are in the range of like approximately Rs 50 crore. This I am talking about without the payment of interest, right. So, correct me if I am wrong sir with the numbers because I am just looking at your March '16 operating profit numbers and the current 9 months what is gone is by, so in the next year if everything goes smoothly with the margins you are doing in the last year, forget about the profit operating cash flows would be somewhere in the range in the 40 crore to Rs 50 crore. On top of that we have two service, the debt of Rs 44 crore and also the interest payment, so are we going to again dilute equity or are we going to have more debt? That is the first thing. The second thing we are spending approximately another Rs 50 crore which will happen in transition, right, obviously but when we say Rs 50 crore, right how are we going to plan about getting the money for spending that Rs 50 crore in transition as well and what is this stage, I mean have we finalized something or it is where does we get a figure of Rs 50 crore and is there a plan, how are we going to spend that Rs 50 crore, what is the benefit that we are going to get out of that Rs 50 crore we are spending because our operating profits look very less in this financial year in comparison to the net debt that we have to service in the coming year along with the interest and we are very optimistic on R&D.

Arvind Singhania: First of all this Rs 50 crore is going to be for the R&D, is not going to be spend overnight. It is going to be spent in phases over the next two years and this will be spent according to our available cash flow. Entire project report was made and it was passed by the board it has been approved by the board. So, we are going to tailor make our expenditure on R&D based on the cash flow that is available to the company. A full project report has been made as to the benefits and have been fully analyzed by the Board and approved by the same. As far as the cash flow is concerned we do not take the FY17 year cash flow as the cash flow going ahead in the future as well. We are expecting substantial improvement in the FY18, which will take care of the repayment liabilities.

Pradeep Kumar Rustagi: And we always have certain amount of unutilized working capital limits, which is also available as and when there is a need for company to draw.

Kunal Shah: No, sir the reason why I am coming is because at the credit rating what you have got from ICRA, okay? they also do not sound to be very optimistic the credit rating which is given by ICRA, because for long term they have given BBB which is like a moderate risk or stable kind of rating not too optimistic and also this short-term rating which is **AAA+** again not sounding very optimistic. So, that is the reason for asking about our debt servicing and also on top of that we have got very optimistic plans for further investing in R&D?

Pradeep Kumar Rustagi: So, R&D Mr. Chairman has already told that it will be spread over a period of years as and when cash flow permits.

Arvind Singhania Again, it is cash flow permitting.

Kunal Shah: So, as of now it is just a plan, we do not know whether, I mean if cash flows permit …

Arvind Singhania: We have to start in a very small way even if we have to start with only a crore Rupees. We are going to start because there are something that we need to urgently to speed up the development effort. I need not spend maybe Rs 20 crore in the next few months, we may just spend crore or 2 just for my immediate needs but I made a comprehensive project over the last few months and we studied the benefit analysis and this was discussed at the board level and then it was approved.

Kunal Shah: So, the second sir, I have been an investor long throughout, right. Sir in September 2015 again you were on national television saying that very optimistic like we will double our turnover in the next 3-4 years. So, this is 2015 but 2015 and 2016 again have not been very good for us in lines with your ambitious expectations, sir. So, again when we look at Vision 2022 in lines with what ambitious plan we had in March 2015 or probably before that. So, what is the road map sir? We are very optimistic when we say that till 2022 we are going to double up right but where do we get that number of doubling up till 2022 in the first place and what is the roadmap as somebody questioned right sir. How do we look at financial year 2018, we have got a broad vision, we want to double our revenues, right. We had the two years back also but as of now we are nowhere near to that. So, when I look at your presentation of financial year 2022, right how do I look at, how is it going to happen in stages, it is very good that we are planning to double up till 2022, right but there has to be some stages, right that till financial year 2019 I am going to do this still financial 2020. So, how do we see it or project it in the next financial year or probably 2 years down the line sir?

Arvind Singhania: Well, it cannot happen overnight, I mean it is not that today we are at Rs 800 crore turnover and in the next I will talk to you Vision 2022 and we should be at Rs 1700 crore, no obviously it is going to happen in steps. Now, basically this Specialty Polymer business is a brand new business for us and we are expecting a substantial contribution from that business over the next 5 years. From literally zero we expect to take it up to Rs 500 crore, Rs 600 crore, Rs 700 crore over the next 5 years with substantial bottom line, because there the margins are really protected. Even our Engineering Plastics business we will continue to expand and grow, because we are only at about Rs 170 crore of turnover today over the next 4 to 5 years we are looking at taking it up to Rs 400 crore to Rs 500 crore and in the next 5 years we will look at least one line coming in from Polyester Film as well.

Kunal Shah: So, just trying to understand again then what is went wrong from 2015 till 2017 that we were optimistic at that point of time as well to double our revenues in next 3 to 4 years but we are at the same flat level. So, what went wrong in this two years that we are at still at the same pace, sir?

Arvind Singhania: Basically the Specialty Polymer business the scaling up that we were expecting in FY17 did not happen the way we had planned it. It does not mean that it will not happen at all.

Pradeep Kumar Rustagi: Secondly, there was a drop in the raw material prices which also affected our topline. So, the drop in the raw material prices was also required to be passed on to the customer. So, that also affected our topline.

Arvind Singhania: Our film business which is the majority topline in our company, 2 years ago we were talking about raw material prices in the Rs.80-Rs. 90 range they drop to Rs. 55. Now, when there is a reduction in raw material price we have to pass it on in finished goods. I wish we could have kept entire drop in raw material price but that does not happen.

Kunal Shah: No, sir the only thing what I am saying is how much homework are we doing when we are doing projections? The whole purpose of asking this question is like what are the ground levels working that we are doing when we are doing a presentation, right I mean presentation looks very optimistic but then what kind of ground work are we doing to actually make it achievable what we are saying, sir. All fine sir, the last question sir, what I would like to conclude is with sir, we had diluted around some portion of equity to Vettel International Limited, just for Rs 21 crore which eventually did not help us to reduce the debt also but going by what you saying it helped us in some strategic way which obviously looking at the financial results we would not be able to understand, right. So, what are the possibilities of further dilution of equity just in case if next financial year also if we are at the same levels and we are not able to service the debt god forbid, okay, I am just saying as a backup plan. Then do we have further dilution equity happening or what happen just trying to understand?

Arvind Singhania: I am answering that question. We are not going to dilute equity.

Kunal Shah: Sir, just in case as a backup plan if you are not able to service that, service the debt in the next financial year then what happens? I am just asking sir as an investor

Arvind Singhania: We have plan A, plan B, plan C, we cannot discuss everything on an open line. We have been in existence for the past 31 years and rest assured that we will perform to your expectations and more.

Pradeep Kumar Rustagi: I must say the, we did not have the profit in the 9 months but there was not even a single day delay in servicing the debt. So, we work on many plans together and if something doesn't not click the other one clicks.

Moderator: Thank you. Next question is a follow-up from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.

Dimple Kotak: Had this question on a preferential issue was done to whom sir? I miss the name.

Arvind Singhania: Vettel International.

Moderator: Thank you. Next question is from the line of Nikhil Kumar Sinha from Angel Broking. Please go ahead.

Nikhil Kumar Sinha: I would like to know that in the last financial year FY16, as you pointed out that the prices of the raw material have decreased and for which you had to pass on to the customers as well. But in terms of seeing the quantity of polyester chips being sold to customers there has a drastic change in reduction in the quantity as well. So, based on that comparing FY15 and FY16 there was a drastic decrease and my second part of the question is considering the raw material price decrease and the crude price now supposed to be increased how much impact will be there in terms of cost being pass on to the customers and your margins getting affected due to that.

Arvind Singhania: See our margins in a Polyester Film business are decided based on the demand supply of Polyester Film in the market. Any movement in raw material is passed on, whether it is upwards or downwards. So, like when the prices started reduce drastically over the last 2 years we had to pass on the raw material decrease. Now in the last 2 months of prices of raw materials have increased again we have been able to pass it on.

Nikhil Kumar Sinha: Sir, in terms of Polymer Chips how much quantity have you been able to sell this year?

Arvind Singhania: We stop selling Polyester Chips. We do not do that as a business any more.

Pradeep Kumar Rustagi: We have sold no quantity of Polyester Chips after December, 2015. No sale of Polyester Chips for film grade after December 2015.

Nikhil Kumar Sinha: And sir in terms of Polyester Films, just wanted to know how much market share will you be having in India, means other specialty polymers is generally exported, so in terms of Indian market polyester films is the main product which you will be selling. So, how much in terms of market share will be there the company having?

Pradeep Kumar Rustagi: About 10%.

Moderator: Thank you. Ladies and gentlemen, this was last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you, sir.

Arvind Singhania: Ladies and gentlemen, thank you very much for joining us for the Q3 Investors and Analyst Call. We look forward to seeing you next time again soon, thank you.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Ester Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your line.