Ester Industries Limited

Q3 & 9M FY18 Earnings Conference Call
February 15, 2018

Moderator

Ladies and gentlemen, good day and welcome to Ester Industries Limited Q3 & 9M FY18 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. 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 Q3 & 9M FY18 Analyst and Investor Conference Call. We have with us today Mr. Arvind Singhania – Chairman and Mr. Pradeep K. Rustagi – the Chief Financial Officer. We will begin this conference 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 discussion maybe forward-looking in nature and a note to that effect was stated in the concall invite sent to you earlier. We trust you have had a chance to go through the documents and financial performance.

Also, we request you not to raise any customer order specific question. We thank you for your understanding as the Company is bound by confidentiality agreements.

Thank you. 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 & 9M FY18 Earnings Conference Call. I will briefly discuss the key operating developments, post which Pradeep will run you through our key financial highlights for the period.

So, let me begin the discussion by highlighting some of the key operational development across our businesses.

Starting with the Specialty Polymer business:

We are delighted with the progress we are making in this business. While the current financials may not reveal the true picture and potential of the specialty polymer business, we believe our efforts and investments are beginning to translate. We are well positioned to more than double our FY18 revenues in the coming year and are optimistic of going forward expanding this further through contribution both from MBO-3 as well as other exciting products we are working on. This business is one we are extremely passionate about and are confident that while the product concept to launch cycle can take a considerable amount of time the reward at the end makes it well worth it.

Moving on to the film business:

As mentioned in previous calls, the sector's fundamentals have changed for the better following the demand supply reaching near parity. Realizations are firmed up in recent time with volumes remaining steady on the back of better demand. Our continued emphasis is on improving the product mix by increasing the share of high margin products. At present value-added products constitute about 20% of the overall basket and we aim to increase its proportion to 30% to 35% in the next financial year. Our stringent cost controlling measures will also help us lower our expenses in turn helping as improve the overall margin profile of the business.

The engineering plastics business continues to perform well. The strategy for this business is on similar lines for our films business where in the focus remains on increasing the share of high margin products. I am pleased to report that we have been successful in doing that quarter-by-quarter.

To conclude:

I would like to state that we continue to be positive in our outlook and are confident on delivering improving performance on a sustainable basis. While speciality polymer business will continue to be the key catalyst for transforming the business I am equally optimistic that the profitability profile of our legacy businesses - Film and Engineering plastics will improve meaningfully in the coming year.

With that leave the floor to Pradeep, who will run you through our 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 documents circulated by us earlier. Let me quickly summarize the key financial highlights for the quarter and 9-months ended December 2017, following which we can begin the Q&A session.

Starting with the top-line:

Our revenues from operations for the quarter stood at Rs. 202 crore as against Rs.177 crore higher by 14%,while on a 9-month basis to the same net of excise and GST is stood at Rs. 586 crore as against 505 crore reported during 9M FY17 higher by a 16%. As mentioned by Mr. Singhania we are pleased with our revenue run rate especially considering the fact that H1 was relatively challenging for the business due to effect of GST roll out with effect from 1st July 2017. EBITDA including other non-operating income and excluding other comprehensive income for the quarter stood at Rs. 16.59 crore as against Rs. 11.64 crore generated during Q3 FY17. While on a 9-month basis the same stood at Rs. 47.55 crore as against Rs. 34.18 crore reported during 9M FY17. EBITDA margin for the quarter is stood 8.30% while on a 9M basis same is stood at 8.19%.

I would just like to mention here that we were able to maintain our margin despite the firming up of raw material prices. In addition to the price increase undertaken recently to offset the impact of input prices I would also like to state that our focus on cost control has helped us maintain and preserve the margins. Further our focus on improving product mix by increasing the share of high margin products have contributed positively towards maintaining the margins. Finance cost for the quarter is stood at Rs. 8.16 crore while on a 9-month basis the same amounted to Rs. 24.72 crore. Depreciation for the quarter stood at Rs. 7.85 crore while on a 9-month basis the same is stood at Rs. 23.32 crore. Profit after tax for the quarter is stood at Rs. 48 lakhs as against loss after tax of Rs. 351 lakhs reported during Q3 FY17. While on a 9-month basis loss after tax is stood at Rs. 31 lakhs versus loss of Rs. 10.09 crore generated during 9month FY17 this would read as 10.09 crore generated during FY17.

Moving on to the segment wise performance:

Speciality polymers business reported revenues net of excise duty and GST of Rs. 10 crore as against Rs. 8 crore generated during Q3 FY17. While on a 9-month basis it remains relatively stable at Rs. 37 crore. While the performance for the business remain relatively soft we are seeing things improved gradually hopeful of delivering a much better performance in near to medium term. Polyester Film business reported revenues net of excise duty on GST was Rs. 147 crore during the quarter as against revenues of Rs. 132 crore generated during Q3 FY17. While on a 9-month basis the same stood at Rs. 425 crore as against Rs. 368 crore reported during 9-month FY17. As mentioned by Mr. Singhania, earlier while the sectors fundamentals have turned for the better on the back of improving demand supply clarity. The rising raw material prices may restrict margin expansion.

Performance of Engineering plastic business continues to improve with net of excise duty and GST revenues for the quarter and nine month being Rs. 44 crore and Rs. 125 crore respectively, higher by 22% and 23%. Similar to film business we are working towards improving the product mix for the business while focusing more on high margin products. To conclude, I would like to reiterate that a collection of factor that include successful innovation , strategic initiative towards improving product mix and driving down cost along with improving sector fundamentals will we believe help us deliver better performance going forward.

That concludes my opening remarks, we would be happy to answer your questions now.

Moderator Thank you very much. First question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor Our quarterly numbers are very lumpy in nature with lot of variations in profit and losses being posted depending upon the market condition. So, how should investors look at your company? What sort of benchmark can we use for earnings?

Also, what sort of earnings are we penciling in for FY19-20?

Arvind Singhania Well what you are asking for is a guidance, we are not giving a guidance but what we can tell you is the performance of the Company going forward in FY19 will be substantially better than FY18.

Saket Kapoor What was the utilization levels for both the verticals for Q3 as well as 9M?

Arvind Singhania Well film is running almost at a 100% capacity utilization

Pradeep K. Rustagi Engineering plastics at about 65% to 70% utilization level

Arvind Singhania And speciality polymer the capacity utilization is very low because we have a very large capacity at almost 30,000 tonnes per annum.

Pradeep K. Rustagi , Currently let say around 20% is the capacity utilization in especially polymer.

Saket Kapoor And that would be ramped up as to what level one or two years down the line.

Arvind Singhania I think we have already mentioned in our opening remarks that our specialty polymer business will more than double in FY19.

Saket Kapoor From 20% to 40%?

Pradeep K. Rustagi No, well the revenues of the specialty polymer business which were at about Rs.42 crore in FY17 will close FY18 at a revenue level of about Rs.50 crore to Rs.55 crore and we expect for FY19 to more than double the revenues of the specialty polymer business.

Saket Kapoor And sir if you could tell us, what is the deprecation involve for the polymer business, amount in depreciation amount.

Pradeep K. Rustagi We look at depreciation for the entire company which is about let say it is close to Rs.7 crore per quarter.

Saket Kapoor For a yearly basis for the polymer point then because the depreciation is going to be constant and then we can get the idea what can be the bottom-line contribution.

Pradeep K. Rustagi For the company the depreciation is close to Rs. 7.5 crore per quarter, so for the year it is about Rs.28 crore to Rs.29 crore.

Saket Kapoor For the Berkshire part of deal could you now elaborate more of it? What kind of confirm orders are getting our hand and what is the execution period?

Arvind Singhania I am sorry we are not at liberty to talk individual companies and take their names we are bound by confidentiality agreement …

Saket Kapoor That was made public by the company only, we came to know …

Arvind Singhania Yes, I know but we cannot talk about it any further much beyond that and but we will substantially increase our specialty polymer business which has taken a very long time because the gestation period for product qualifications are very high. So it has taken as a long time but now it is finally started giving results. So that is the reason we are saying polymer business will more than double its revenue in FY19.

Saket Kapoor Sir, just to get the point then the major contribution of the growth in the polymer business would be on the premise of this order from Berkshire that much we can conclude?

Arvind Singhania Yes.

Saket Kapoor That is the main catalyst for the growth that we are going to witness going forward.

Arvind Singhania Yes, correct

Saket Kapoor And for the raw material front and how was, the what backend jobs is to be done to so that we are not exposed to the vagaries of the raw material prices availability and how was the raw material prices behaved for this quarter as well as for the 9-months?

Arvind Singhania See, raw material has risen in the last 2 quarters. They have been on a rising trend, but we been able to pass on. See in our specialty polymer business, we have a pass-through system for all our products that whatever raw materials rise take place we are able to pass it on. In fact, we have, in most places we have raw material link pricing formula where we fix prices and margins uptick then there every month raw material plus or minus is adjusted in the selling price. As far as Film is concerned we have seen increase from August, the prices had reach between Rs. 75 and Rs. 80 a kilo for per film which today are standing at about Rs.112 to Rs.115. The price increase in raw materials has been about …

Pradeep K. Rustagi Let say between PTA and MEG put together has been about Rs. 7 to Rs. 8 as from Rs. 63 it has gone up to 73; close to Rs. 10 has been the increase in the raw material prices.

Saket Kapoor So if you could give the, what is our raw material basket in product basked.

Pradeep K. Rustagi For film and Specialty polymer (PTA) Pure Terephthalic Acid and (MEG) Mono Ethylene Glycol and for Engineering plastic these are other there are PBT polymer, PA6, PA66, PC, ABS, etc.

Saket Kapoor And the PTA and MEG sir, in terms of what percentage of raw material is PTA and how much is MEG?

Arvind Singhania 0.86 kilograms of PTA per kg of chips and at 0.33 or 0.34 kilograms of MEG per kg of chips.

Saket Kapoor And you told sir, PTA availability has improved with the Reliance coming with Green facility.

Pradeep K. Rustagi Availability is not an issue. It is both the materials are different.

Saket Kapoor Sir, both are sourcing domestically only or are we importing?

Pradeep K. Rustagi No, we are not importing there are 3 sources of PTA in India and 3 sources MEG. We buy from Indian Oil and India Glycol MEG and PTA we buy from MTPI**.**

Moderator Thank you. The next question is from the line of Kunal Shah from Allegiance Advisors. Please go ahead.

Kunal Shah The first question is sir what would be our debt levels and the weighted average cost of capital?

Pradeep K. Rustagi So weighted average cost of capital is about 10.5% and the debt is about, the interest-bearing debt is about Rs. 290 crore out of which term loan is about Rs.75 crore and balance Rs.215 crore is the working capital debt.

Kunal Shah So on an average the interest cost would remain at Rs.35 crore – Rs.45 crore what is there right now or it is going to further increase, sir?

Pradeep K. Rustagi For the debt we have it will remain at Rs.35, with the repayment it will get reduced and depending on the CAPEX which are that we may do in future. It will vary according to the borrowing. The weighted average cost would go beyond 10% if there is no increase in the interest rates.

Kunal Shah And what I mean since we are looking at doubling the revenues for the polymer business what kind of money that would be requiring to fund the CAPEX?

Arvind Singhania There is no major CAPEX required for the Specialty polymer business.

Pradeep K. Rustagi We told that we are operating at about 20% capacity utilization really would not require any CAPEX.

Kunal Shah And sir the polymer business margins as this put on the investor presentation is 14% that is before interest right sir? So at the EBITDA levels what could be the margins level for the polymer business, sir?

Arvind Singhania Going forward we expect this EBIT margins to improve substantially because as the volume grows EBIT margins will grow more than proportionally. So going forward we expect our EBIT margins to be about 30%.

Kunal Shah EBIT margins to be about 30%?

Pradeep K. Rustagi Yes, for the segment, as we go by the segment result.

Kunal Shah So then considering the volumes we were doing the blended margins would be around 15% to 16% sir?

Arvind Singhania Overall.

Kunal Shah Overall, yes sir. I considering polyester and engineering plastic business put together.

Arvind Singhania Could be anything between 13% to 15%.

Kunal Shah And when we talk about doubling the polymer business, what kind of numbers, I mean Rs.80 crore to Rs.90 crore kind of number for the next FY?

Pradeep K. Rustagi I think we will be in excess of it could be anything between Rs.100 crore to Rs.130 crore.

Kunal Shah Rs.100 crore to Rs.130 crore.

Kunal Shah and considering the other traditional business sir 5% to 10% growth or how should we look at it from the next point of view sir?

Arvind Singhania As far as polyester film is concerned there is no capacity increase this year. But the margins have improved substantially, and we expect the margins will remain at very healthy levels for the next 2 years because there has been no capacity expansion. All the capacity expansion which happens last year the growth rate in the growth in demand for polyester film is about 12% to 13% per annum. So, right now we stand at near parity in terms of demand and supply in polyester film and that is one of the reasons why we been able to increase our margins substantially in the last quarter. And going forward we expect the margins to further improve and remain strong for the next couple of years.

Moderator Thank you. The next question is from the line of Ravi Nagda, as an Individual Investor. Please go ahead.

Ravi Nagda Sir, you had recently won an order from US. Sir what is the potential of this product you see?

Arvind Singhania Well, the potential for the quarter for this product is quite good. I think from where we have now reached we could be looking at another increase of about if I were to consider this business overall potential could be in the region of about 4,000 tonnes per year.

Ravi Nagda 4,000 tonnes and you have a patent for this product, sir?

Arvind Singhania Yes, we do.

Ravi Nagda You see sir other manufacture of carpet manufacture shifting to this product?

Arvind Singhania Yes, we expect some other smaller manufacturers to also get into, who are also evaluating the product and we expect some future business increase in the coming months.

Ravi Nagda So, sir any other products you have developed you have got any good response beside this product, sir?

Arvind Singhania Yes, we have a pipeline of products under development and qualification at different levels at different levels of the development stage. So, we have product like, we have talked about the beer keg product. This product was started about 4 years ago but then for the last 1.5-2 years the project came to a standstill because our customer had lot of organizational changes. So, they could not continue with it that qualification process with that customer has restarted in January and we expect to see some results coming in the next couple of months. Apart from that we have a project on washable and 20-liter water jar, water dispenser jars. So we have a very good product which can be hot washed at about 75 degrees. So, this product is under qualification in various parts of the world including Latin America, Mexico, in China, in India. So, this is another product that is undergoing trials that various customers across the world. And then apart from that we have 2 other products which are at advanced stages of qualifications which are the MB-06 which is the cationic dyeable masterbatch and the MB-07 which is the easy dyeable masterbatch. The potential for this product is very good. We have got some very encouraging results from some of our customers in the last few weeks and going forward we see a good potential coming from this business. This business could good have a potential of almost anything between say about 8,000 tonnes to 12,000 tonnes per year.

Ravi Nagda Sir, do you see this business at an inflection point now, sir?

Arvind Singhania Yes, we do.

Moderator Thank you. We have the next question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor Sir, I was just delving on the point that MEG which you told we are sourcing it from India Glycol. Sir, they are generally the green energy producer and the product is placed, the price is higher than that additional prepared from petrochemical. So, why are we paying on a higher price for …?

Arvind Singhania We are not paying any higher price.

Pradeep K. Rustagi: We do not pay any higher price it is sold at the same rate as petrochemical MEG is given.

Saket Kapoor But they have branded at green energy that is why I put that query to you.

Pradeep K. Rustagi For big customers like Coco cola, Pepsi they have charged premium for green energy, not from us.

Saket Kapoor It is market price?

Arvind Singhania Yes, market price

Pradeep K. Rustagi No difference between their MEG and petrochemical based MEG.

Saket Kapoor How was the price behave sir for the last quarter?

Pradeep K. Rustagi: It has increased a lot in the last 4 to 5 months, MEG prices have increased by about Rs. 15 to Rs. 16 a Kg in the last 4 to 5 months.

Saket Kapoor And sir currently can you give an idea sir what have the price being for January, February?

Pradeep K. Rustagi Current price would be about close to Rs. 70 net of GST.

Saket Kapoor And the average for December quarter was?

Pradeep K. Rustagi So, the September quarter the MEG was that about Rs.62, December it was about Rs.64- Rs.64.5 March quarter the current size is about Rs. 70 and for the quarter it is expected to be about Rs. 71-72.

Saket Kapoor You are talking of March 2018 quarter it is being that trend of 71-72?

Pradeep K. Rustagi March 2018 quarter Rs. 71-Rs. 72.

Saket Kapoor: Sir, we have locked the quantity and the rate for this entire quarter it is in advance everyone.

Arvind Singhania: We have contracts for our raw materials for PP and MEG we have contracts with our supplier. So, availability of raw materials is not an issue.

Saket Kapoor Not an issue, only the price is fixed every month depending upon this import parity price?

Arvind Singhania Yes, correct.

Saket Kapoor Sir, the main point for which we are working is how were your utilization levels you have given us the guidance that the utilization levels are going to improve 2 years down the line. Then only sir the excess profitability what we can expect and the viewed into because right now the levels are low, and you have to pay the depreciation in the interest on the entire part. So, the trigger for us is only to understand how sooner your real capacity utilization goes up. So, that was the only point?

Arvind Singhania Which business are you talking about?

Saket Kapoor Sir, I am talking about the specialty polymer business that only will improve and the bottom-line would shape better then only as the utilization levels improve.

Arvind Singhania Sir, the bottom-line is going to improve substantially not only because of speciality polymer which is of course one of the major inputs for improved bottom-line in the coming months. But the bottom-line is also going to improve because of polyester film business where the margins have improved substantially and will become stronger as we go forward.

Pradeep K. Rustagi 75% of our revenue comes from polyester film that is also going to see improvement in this following year.

Moderator: Thank you. The next question is from the line of Luv Shah from Pinky Ventures Private Limited. Please go ahead.

Luv Shah: Well looking at the Earnings Presentation we can see that the Engineering Plastics division has also done well for the recent quarter as well as of the 9-months of the current year. Any outlook that you would like to give on this business may be if you can also talk about the overall industry size and how are we placed and what are the growth revenues that we are forcing in this segment?

Arvind Singhania Well, we expect our revenues going forward to increase by about 15% to 20% in FY19 we are following the similar strategy as in film to see more and more of our product portfolio turn to speciality which will help improve the bottom-line as well.

Luv Shah: Sir, if you could highlight what are the industries that we are broadly catering to from this segment?

Arvind Singhania We are catering to Electronic, Electrical and Automotive &Industrial applications.

Luv Shah And so Electronics would be the highest portion of the revenue ? …

Arvind Singhania Electric business in the highest proportion right now. We are working very hard on the, to make a bigger impact in the automobile sector. So, every year improving our volume going into the automotive business as well.

Luv Shah And in the automotive segment what is the competition, is this players like Kingfa the competition?

Arvind Singhania Well, everybody is the competitor. We have the likes of lot of the International large players like BASF, DSMGE, Kingfa**,** Lanxess they all there in this business. There are many compounders in this business and competition is there, but it is a quasi-commodity product it is not a fully commoditized product and you have to go through customer qualification process. So, while there is a lot of capacity and lot of competition we are still able to make a decent margin here.

Luv Shah So, you would say this is a fragmented market, is it?

Arvind Singhania It is a fragmented market.

Luv Shah So, any idea about what could be the market shares broadly? Who will be the top 3 players in this in India?

Arvind Singhania The top 3 players. Again, see when you talk about engineering plastics it is a very generic terminology and if I were to take our business which is mostly TDT, Nylon-6, Nylon-66, polycarbonate, etc., some of our larger competitors would be companies like, DSM, BASF**,** Kingfa, Lanxess, etc.

Moderator Thank you. The next question is from the line of Ashwin Reddy from Samatva Investments. Please go ahead.

Ashwin Reddy So, my question is on the Speciality Polymers industry. Can you talk a little bit more about the R&D team that you have the amount that you spend or how much is your expense per year on the R&D that you have on this and it is not be about the specific customer but in general is it like customize for a particular customer do you walk with the customer and then finalize the product or do you do the R&D yourself and then you take it to the customer? How do you work, I mean I am just trying to understand better about the whole process and your R&D bid in the speciality polymer business?

Arvind Singhania So, we do the R&D ourselves. The entire R&D is done by us in-house with our own people and our own infrastructure and then the products are sent to the customer for trials and qualification purposes. So, that and then whatever improvements are required it goes back and forth. It can happen that we also do customize products for some customers but there is also a product like MB-03 or MB-06 or MB-07 or our beer keg or our let us say easy dyeable product. These are standard product which we can sell to many customers.

Ashwin Reddy And there is no restriction on you selling the same product some other customer, right. The customer …

Arvind Singhania No, nothing of that sort.

Ashwin Reddy: And also I read somewhere that news that you putting up an R&D center in Delhi are that done now or investing that now or ….

Arvind Singhania We are going to invest in the next coming few months we are going to start investing in that R&D center.

Ashwin Reddy And right now what is the team size that you have for the R&D team that you have?

Arvind Singhania About 20 people we have in the R&D team.

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

Saket Kapoor Sir, I was just dwelling on one more point, you told that 75% of your turnover is from the film business and the remaining is from the speciality business?

Pradeep K. Rustagi Currently, yes.

Saket Kapoor: And currently our film business is running at around 100% capacity?

Pradeep K. Rustagi Near full capacity

Arvind Singhania Almost.

Saket Kapoor So sir, running at near full capacity we are producing these numbers that means I mean sir what will then improve then that we will be able to cover the finance cost what is the, is this the nature of the business that we have to pay finance cost something like Rs.25 crore for 9-months during the business of Rs.600 crore working at full capacity? How are we going to then and the better margin so that we can breakeven that was my question?

Arvind Singhania See as I have explained that film business always runs at near-capacity utilization. The margins are decided by the market based on demand supply scenario and let me give you some specific numbers. Last year our average base film which we call us a 12-Micron Corona, the gross value adds on that product in FY17 upto now has been about Rs. 30 gross value add. Going forward we see this number to go beyond Rs. 40. So, you can imagine that Rs. 10 increase in margins, we had a substantial impact on bottom-line.

Saket Kapoor With no inflationary trend you had only putting at the incremental margin of Rs. 10?

Arvind Singhania I am talking margin. I am not talking about price.

Pradeep K. Rustagi Secondly, as far as interest cost is concerned you have to look at the total revenue of the company not only film business because the interest cost is for the company and it is about 4% of the turnover which is not very high.

Saket Kapoor So, sir going forward for FY19 the percentage is going to remain the same whatever the incremental turnover will be we had …

Pradeep K. Rustagi We believe that FY19 would be lower than as a percentage.

Saket Kapoor As a percentage to sales it will be lower than 4%?

Pradeep K. Rustagi Yes, expected to be lower than 4%.

Moderator Thank you. We have the follow up question from the line of Ashwin Reddy from Samatva Investments. Please go ahead.

Ashwin Reddy I just forget to check with you, so on the debt can you talk about how the management thinks about debt in the next 2-3 years? How should we think about the repayment schedule and what the number?

Pradeep K. Rustagi So, the Rs.75 crore that we have Rs.8 crore needs to be paid by March 2018 and then next year we have to pay about Rs.43 crore and then Rs.17 crore-Rs.18 crore and then hardly an amount left after that.

Arvind Singhania Let's say a substantial portion of our repayable deb will be reduced by FY19.

Ashwin Reddy Because when you will be generating much more cash in next 2-3 years just thinking how should I think about that? Then secondly on the CAPEX, what is the CAPEX that we expected for the next 2-3 years what is the cumulative CAPEX across all divisions put together maintenance?

Arvind Singhania Well Rs.10 crore to Rs.15 crore will be our normal CAPEX spend Which for Company of our sizes a normal number for almost a Rs.900 Rs.1,000 crore company will spending about 10 crore to 15 crore on normal CAPEX. Any major CAPEX we had not yet taken a call.

Ashwin Reddy But in terms of capacity expansion it looks like right now the focus is on the speciality polymers, so I am assuming films will be not be a big focus area for you going ahead. So, we should not expect much CAPEX there, is that a right thought to have?

Arvind Singhania Well, it is the focus area. It is the largest contributor to the topline of the Company. So, it is definitely a focus area and at the appropriate time we will definitely look at expanding our film business as well. But just to answer your question we are a prudent Company as far as debt is concerned. We do not believe in growth with updates on a foundation of debt. Because we have no desire to get into a debt trap, so we want a profitable sustainable growth and we will have prudent debt for the growth of our Company.

Ashwin Reddy And finally one question on the strategic angle of raw material because somehow I keep hearing that the capacities expansion of PTA is kind of not having very easily in India. How do you see the raw material availability going ahead?

Arvind Singhania We do not see any issues as far as raw material available. We have had a long relationship with our suppliers and going forward we are confident that all our need will be met by existing suppliers.

Moderator Thank you. We have next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain Sir, about this polyester film what was the capacity utilization in the current quarter?

Arvind Singhania See, we are running at almost full capacity in polyester film.

Sunil Jain May be 100%?

Pradeep K. Rustagi It's close to 95%.

Arvind Singhania 100% does not happen but close to 95% can be considered as almost full capacity utilization.

Sunil Jain Do you share the volume figures?

Pradeep K. Rustagi Yes, I will give you the sales quantity for December quarter it worth 12,600 tonnes.

Sunil Jain And sir about this margin what you had said about the product prices increase and raw material prices increase that is happened in the fourth quarter or it was there in the third quarter also?

Arvind Singhania Third quarter was less; the real impact is coming starting in Q4 FY18.

Sunil Jain Whatever you are doing an EBIT of around 10 crore that is moved up to Rs. 10 to Rs. 20 you mean to say.

Arvind Singhania No. See, we had a gross value add in up to now in FY18 the gross average gross value add it was about Rs. 30 and now going forward we expect it to be in excess of Rs. 40.

Sunil Jain So, but that gross value-add whatever the extra is coming will normally get translated into EBITDA or there will be some additional expenses also?

Arvind Singhania Yes, they will be translated into EBITDA.

Sunil Jain And sir secondly your this MB-03 product, sir in this new order whatever you got this was the only company where you had supplied a trial order in second quarter or this is different and that was different?

Arvind Singhania No, we have been supplying this product for the last 2 years to other companies as well.

Sunil Jain You mean to say it is an additional order what we got which were expecting apart from the existing our supplier. So, then the guidance you had not increase sir what I was expecting then we should have impact on the overall revenue guidance for the next year?

Arvind Singhania I already mentioned that we expect our specialty polymer business to more than double over FY18. So FY18 will ended up about Rs.50 crore – Rs.55 crore and FY19 would be in the region of Rs.100 crore to Rs.130 crore revenues in the specialty polymer business with EBIT margins of about 30%.

Sunil Jain This guidance even you have said in the last time also where this order was not there. My question was coming more from that, we were expecting this type of orders at that time also?

Arvind Singhania See, this is a development business and we have now learned out of experience that the gestation period in technology business can be very high sometime even much more than what we anticipate. And we have been working in this business for the past 7 years and with this particular product we have been working with customers for the past 5 years it took almost 3.5-4 years for us to crack our first customers and now we have this particular product only is going to give us a much higher volume in FY19. Technology business is not a quarter-on-quarter business. It is a step-up business, the moment you have success in one product you will see a big step up in revenues and profitability and then there may be a lull before the next product or products comes through.

Sunil Jain Sir, this supply of this product you had mentioned will be starting in February, so this will be a more of a gradual pick up or it will be a more of a steady supply which will start from the current quarter?

Arvind Singhania Well, the supplies are starting this month and like our other products there will be regular supplies of this product too.

Sunil Jain So, whether initial supply will be offers small quantity and then gradually it will pick up like or it will be more of a normal supply as starting from February?

Arvind Singhania So, well it may take maybe a 2 or 3 or 4 months to reach the full weighted demand. It will not in a year to reach full weighted supply volume.

Moderator Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi Sir can you share some thoughts on Engineering plastic which is right now you are operating at 65%-70%. How is it shipping up? when do you see capacity going to 85%-90%? What are the developments which you bidding in place?

Arvind Singhania Well like I said we are looking at increasing the revenue on top-line in FY19 by about 15% to 20%. So that will see a substantial increase in capacity utilization.

Nitin Gandhi So, 65%-70% will jump by 80%.

Arvind Singhania Yes.

Nitin Gandhi: And any realizations per tonnes over margin improvement or any better quality products?

Arvind Singhania See, we are going to be looking at improving the basket of higher value products in engineering plastics as well but being a quasi-commodity, the margin pressures are always there in this business because there are so many players. So, while it has profitable it is not going to be like film or speciality polymer where the margins can go berserk just because of the demand supply. Demand supply has an impact that it keeps some margins under control but it is not like film where you can fall short of capacity and then you may have some, it is more stable margin business.

Nitin Gandhi What is that number?

Arvind Singhania We are doing an EBITDA margin of about 6%-7% right now and going forward it will remain in that ballpark. Our target is over the next 3 to 4 years to be able to take the revenue to about Rs.350 crore – Rs.400 crore and take EBITDA margin up to about 9%.

Moderator Thank you. Ladies and gentlemen, that was the last question and now I hand the conference back to the management for closing comments. Thank you and over to you.

Arvind Singhania Ladies and gentlemen, thank you very much for participating in Ester Industries Earrings Call we look forward to the next Conference Call after a few months. Thank you.