Ester Industries Limited

Q1 and FY '18 Earnings Conference Call Transcript
September 18, 2017

Moderator Ladies and Gentlemen, Good Day and Welcome to Ester Industries Limited Q1 and FY '18 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 Good Afternoon everyone and welcome to Ester Industries Q1 FY '18 analyst and investor conference call. We have with us today Mr. Arvind Singhania, Chairman, and Mr. Pradeep Kumar Rustagi, 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 some statements made in today's discussion may be forward-looking in nature and a note to this effect was stated in the con call invite sent to you earlier. We trust you have had a chance to go through the documents on financial performance. 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 Q1 FY '18 earnings conference call. I would briefly discuss our business wise performance following which Pradeep will run you through our key financial highlights for the period. Our performance for the quarter was largely mixed with Legacy businesses performing well, but specialty polymer, our recent venture, continued to face challenges. Film and engineering business performed well despite uncertain business environment primarily surrounding GST implementation. The improved performance could also be attributed to our efforts towards improving the product mix and profile of these businesses by focusing on developing value-added products.

Let me now discuss business-wise performance starting with specialty polymers. The business as we have always maintained is largely innovation driven. Our efforts over the years has been towards developing cutting-edge products offering something new and exciting for our customers and we have been successful to some extent in that regard. We remain positive on the business and its potential going forward. Despite the near-term challenges, the long-term fundamental of this business remain largely in place and we are confident that in some time you will appreciate its true potential. At present, lower off-take and longer-than-anticipated time from customer end in confirming orders has impeded performance.

We have learnt though that this is the part and parcel of any business is innovative and R&D and the emphasis is on developing customers across the globe demonstrating the value of our offering and strengthening current client relationships besides leveraging our R&D capabilities to create a wide and rich set of offerings. In this regard, I am delighted to inform you that we have recently filed one more patent under PCT, modified polyester master batch for textile applications and manufacturing process thereof. This product will facilitate easy dyeability of polyester fiber and improve dyeing through cationic as well as disperse types. We are also collaborating with global players for developing different type of specialty polymer.

We had, as you know, last year entered into a tie-up with DuPont for development of specialty polyester polymers for niche applications. Such collaborations will not only help us enter newer markets, but will also help hasten our learning curve. We are receiving encouraging feedback for some of these products and are hopeful of the commercialization in short-to-medium term. Our commitment and focus on this business is reflected in us as of today having manufactured a total of 18 products and seven patent filings. We presently have a product pipeline of about 30 products, which are at various stages of development. The above initiative gives us confidence in navigating the near-term challenges and being on course over the long-term.

Moving onto our legacy businesses, performance of polyester film remain steady as demand supply parity resulted in stable realizations. Performance is significantly better as compared to the corresponding quarter last year and continues in trend from the sequentially preceding quarter. We saw some hiccups in June as a result of destocking and lower off take by customers in anticipation of GST, but are now seeing it revert to normalized volumes. Our strategy for the business as communicated earlier revolves around improving the product mix for increasing their proportion of value-added products. We believe that demand supply parity will further improve towards demand-side and there is no new capacity expansion being planned. Once announced, it takes about two to two-and-a-half years to set up new capacity while demand continues to grow. We expect the performance of polyester film business to remain strong over the next two to two-and-a-half years maybe more.

Performance of engineering plastic business remained relatively stable during the quarter. Our efforts have been directed towards improving the product mix and controlling costs. We are working towards increasing the share of specialty products, which will help us improve the overall profitability of the business. On the cost front, our thrust for reducing operating cost including power and fuel cost and overheads continues to be sustained. To conclude, I would like to state that despite the near-term challenges, the fundamental of the business remains strong. Our continuing emphasis is on transforming Ester into a company that is focused on three pegs of innovation, value creation, and efficiencies. The results of these initiatives will be increasingly reflected in all our businesses. With that, I hand over the floor to Pradeep who will run you through the financial performance. Thank you.

Pradeep Rustagi Good Afternoon everyone and thank you for taking the time out for the 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 following which we can have the Q&A session. Our growth revenue for the quarter stood at Rs. 205 crore as against Rs.181 crore generated during Q1 FY ‘17 higher by 13%. The growth was primarily owing to the improved performance of our legacy businesses films and engineering plastics. Specialty polymer business remains soft owing to lower off take and longer than anticipated time being taken by the customers to confirm orders.

EBITDA for the quarter stood at Rs. 16 crore as against Rs. 14 crore generated during Q1 FY ’17, higher by 14%. EBITDA margin for the period stood at 7.8% as against 7.7% generated during corresponding period last year, higher by 10 basis points. Focus on improving product mix by increasing share of value-added products and costs rationalization activities to help preserve margins and profitability in future. Finance cost remains steady and stood at Rs. 8 crore for the quarter while depreciation also amounted to Rs. 8 crore during the period. Loss after tax for the period stood at Rs. 13 lakhs as against loss of Rs. 2 crore reported during Q1 FY '17. Improved performance of film and engineered plastics business helped in reducing losses for the period.

Moving on to segment-wise performance especially polymer business reported revenues of Rs. 13 crore as against Rs. 23 crore generated during Q1 FY '17. Soft performance as mentioned earlier was largely owing to lower off take and greater-than-anticipated time being taken by the customers to confirm orders. Polyester film business reported revenues worth Rs. 146 crore for the quarter as against revenues of Rs. 120 crore generated during Q1 FY '17, higher by 22%. Realizations remained stable on the back of balance demand supply situation. Our strategy for the business as communicated earlier primarily involves improving the product mix by increasing the share of value-added products in the overall portfolio.

Engineering plastic business as well delivered steady performance with revenues amounting to Rs. 46 crore as against Rs. 38 crore generated during the corresponding period last year, higher by 21%. EBIT for the business also doubled and stood at Rs. 4 crore as against Rs. 2 crore generated during Q1 FY '17. Similar to film business, we are working towards improving the product mix for the business by focusing more on high margin products. To conclude, I would like to reiterate that we are undertaking necessary measures towards improving the profitability profile of the company. Performance of specialty polymer business while remained soft at present, we are confident in its potential in the long run. Lastly, efforts towards improving film engineering plastic business' product mix should also aid us in delivering better performance in the future. That concludes my opening remarks. We would be happy to answer your questions now.

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

Saket Kapoor Sir, firstly looking at what the two financial years have gone by, what should be the likelihood in increasing turnover for FY '18, if you could give some ballpark figure, we closed I think so last year with a turnover of Rs. 840 crore?

Pradeep Rustagi The net of excise duty was about Rs.775 crore last year and this year we have budgeted and the first quarter performance also proves that. We are expecting about Rs.800 crore turnover during this year, Rs.800 to Rs.820 crore would be the turnover, net of excise duty in '17-18.

Arvind Singhania So increase of about Rs.100 to Rs.120 crore over last year, 15% to 16% increase over last year.

Saket Kapoor Sir, how are the utilization levels going to improve, what were the utilization levels of March '17 and what are they likely to be for March '18?

Pradeep Rustagi Film business there would be improvement by about 2% to 3%, we were earlier at about 90% to 92%, we would be about 95% or 96% this year and in EP compounds, there would be improvement of about 25%. Specialty polymer, there is likely to be some improvement in the top line. Last year, we did about Rs.41 crore, this year we are expecting better performance, so in totality the company would be able to do about Rs.800 to Rs.820 crore with capacity utilization in the main business is about more than 95%.

Saket Kapoor Sir, what are the key factors which are resulting in lower margins, what will change when we will be able to cover this finance cost as well as the depreciation part, how long will it take for us to be in positive?

Arvind Singhania I think I mentioned this in my last earning call also, this year we expect to be in the black. Last couple of years, the main business, the biggest top line earner for the company, the polyester film business was suboptimal performance because of very huge capacity creation in the last two years. Now because the demand-supply gap has narrowed, there is virtual parity between demand and supply in polyester film business. We expect that in next two to two-and-a-half years to be very good even maybe going forward beyond that as well.

Saket Kapoor Sir, what kind of pent-up demand do you see in the segment and from which sectors are you seeing this demand that the demand supply could shift towards the demand side?

Arvind Singhania Earlier, the demand growth used to be around 7% to 8% per annum. Now we are experiencing demand growth in polyester film business at about 12% to 13% per annum, so there is a substantial increase in demand growth, mostly it is coming from the packaging sector. Polyester film largely 90% of the business is in the flexible packaging sector, so that is where the demand growth is coming from.

Saket Kapoor Who are our PFL competitors in this segment and what is our market share?

Arvind Singhania We had about 9% to 10% is our market share in polyester film business.

Saket Kapoor Who are our nearest competitors for comparative purpose, like-to-like comparison?

Arvind Singhania Polyplex is there, Jindal is a very large player, then you have Sparsh, you have Vacmet, you have Sumilon, Surat Metallics etc.

Saket Kapoor In the listed space if we compare Jindal Poly, they are in the same business, same trend?

Arvind Singhania They have polypropylene also, we do not have any polypropylene. The comparable example would not be there. Listed company would not be there because everybody has different businesses, so it is very difficult to do a direct comparison one-to-one.

Pradeep Rustagi Most polypropylene and polyester are reported as one segment by the companies that are listed.

Arvind Singhania I think the nearest comparison would be Polyplex in terms of listed when you see their Indian operations, not their consolidated.

Pradeep Rustagi But they have polypropylene and polyester and both are reported as one segment.

Saket Kapoor We also talked about patents, what is the update on that and what kind of revenue are we going to do?

Arvind Singhania Out of the seven patents that we had filed, we have now got approval for two of our patent, one is for the HR03 which is the hot fill PET by normal injection stretch grow molding process, that patent has finally been approved, we have received it. The second patent we have got approval where the patent has been granted is the MB03 which is the sulphonated master batch for the carpet business. These two products we have now got the patent with us, the patents have been approved.

Saket Kapoor Sir, this quarter our EPS was around I think so 0.02 negative, so for this year as a whole we should work in an EPS of 0.10 positive at least?

Arvind Singhania It will be a positive year, that we are very confident.

Pradeep Rustagi For all the businesses, EBIT will be positive this year.

Arvind Singhania Overall for the company also, we are confident of having a positive bottom line.

Saket Kapoor Sir, if you can give some ballpark figure on that also, you must have worked out some numbers? Only in the vicinity plus/minus 5% to 10% is quite applicable due to the volatility.

Arvind Singhania I think comparable to '15, '16 year, may be better.

Saket Kapoor Okay, if we take the Financial Year '15 -16?

Arvind Singhania Yes.

Saket Kapoor It will be better than that also?

Arvind Singhania Yes, could be.

Moderator Thank you. We have the next question from the line of Ravi Nagda as an Individual Investor. Please go ahead.

Ravi Nagda Sir, what is the EBITDA you are targeting from the specialty polymer segment in this year?

Pradeep Rustagi In the current year '17-18, it would not be significantly better than last year, but going forward from '18-19 onwards, there could be improvements in specialty polymer business.

Ravi Nagda Sir, what is the debt in the balance sheet?

Pradeep Rustagi The total interest bearing debt on the balance sheet as on June 30 is about Rs.290 crore, out of which term debt is only Rs.95 crore as on June 30, balance is working capital which is continued, so the repayable debt is only Rs.95 crore as on June 30.

Arvind Singhania I would also like to mention that our cash flow position is very comfortable right now. All our accounts are absolutely in order with all the banks, there is no default, and we will continue to service our debt as per obligation, there is no problem at all, we are very comfortable with our cash flow.

Ravi Nagda Sir, do you think that your specialty polymer business is progressing as you have mentioned in the past, that growth is not coming that well that you have thought or customer is not responding well?

Arvind Singhania Well, it is taking more time than we had anticipated. This is a technology business, the gestation period is long in technology business, this we knew, but the anticipated gestation time and the actual gestation time there is difference it has been more in actual, so it is just taking longer time, we are still very, very confident and hopeful of our success in this business going forward. I think '18-19 will see a good jump in the specialty polymer business.

Ravi Nagda Sir, that R&D Centre that you are setting up in Gurgaon, what is the progress there?

Arvind Singhania We are still to identify the land, we are in the process of identifying the land

Moderator Thank you. We have the next question from the line of Shreshth Bothra from Dolat Capital. Please go ahead.

Shreshth Bothra Sir, I had a question relating to your polyester film business, your presentation highlights that you all have taken some cost reduction exercise during the quarter in the polyester films business, could you please throw some light on that?

Arvind Singhania We have actually, cost-cutting exercise is pretty much a continuous exercise in our company and we had undertaken one such very strong initiative last year which helped us reduced cost across all fronts in terms of even variable cost and fixed costs and that helped us immensely. One other things that we did was that we have done a lot of power saving by going into buying power on the trading platform rather than just from the state electricity board, so this is resulting now in a savings of about Rs.30 lakhs approximately per month for the last few months, and going forward from first of December we are entering into a medium term open access for buying power from private parties, where we expect the savings to double to around Rs.60 lakhs per month from December onwards, so that is one of the savings. The other savings that we are getting in terms of packing cost, in terms of other variable cost, productivity improvement, so various exercises are going on and these are continuous in nature.

Pradeep Rustagi Our salary wages and overhead expenses have remained stable, so despite inflationatory pressure, there has not been any increase in the overheads and the salary and wages expense.

Moderator Thank you. We have the next question from the line of Jaineel Jhaveri from JNJ Holdings. Please go ahead.

Jaineel Jhaveri Sir, I just wanted to what is the amount that we will be spending this year for CAPEX?

Pradeep Rustagi This year the CAPEX would be nominal, most essential and the bare minimum that we would be spending would be about in the range of Rs. 5 to Rs.6 crore.

Jaineel Jhaveri Nothing new is planned for this year?

Arvind Singhania No major CAPEX either in planning or in actuals.

Jaineel Jhaveri In terms of loans, what kind of repayment schedule, how much do we need to spend?

Pradeep Rustagi On the repayment side as I told, there is a Rs.95 crore term debt outstanding as on June 30, out of which Rs.29 crore will need to be paid between July 1 and March 31, 2018 and '18-19 the repayment obligation is Rs.43 crore, so if we sort of we do not take any debt and debt is paid on time, by March '19, we would have only about Rs.20 to Rs.25 crore on our balance sheet.

Jaineel Jhaveri If you were working at high utilization, what is it the kind of maximum revenue possibility from all the three businesses put together so as a company consolidated as a whole, what is the max revenue we can get?

Arvind Singhania That is very difficult to answer because specialty polymer itself because that is running at very, very low capacity utilizations, so it entirely depends on that. If I were to take specialty polymer at let us say about even Rs.100 crore and take the others at full capacity utilization, we are talking about Rs.1,100 to Rs.1,200 crore could be the turnover from Ester without any major CAPEX.

Jaineel Jhaveri This year you are all saying that you all will get about Rs.800 crore?

Arvind Singhania Rs.800 to Rs.820 crore this year, net of excise.

Pradeep Rustagi Going forward from July, there would not be any gross sales, GST is not coming, it is only net sales, only one number of sales.

Jaineel Jhaveri Sir, just one observation, we have been following you guys for quite some time now and I have always felt like the company has put some numbers out there, but is not able to reach up to those numbers, just my observation is that are these numbers that you all are saying today absolutely achievable even in the worst case scenario?

Arvind Singhania We are very confident of achieving these numbers that we are talking about, yes, we have talked about achieving these numbers. The main shortcoming has been from the specialty polymer business where we are expecting this numbers to start coming in from this year onwards, but unfortunately because of the delay in the commercialization from the customer side, we have not been able to achieve it. We are still very confident about this business and we are very hopeful that from next year onwards, we will be able to see better numbers in specialty polymers and overall for the company a much better performance.

Pradeep Rustagi The two external events has also affected the performance of the company, the demonetization and the destocking prior to the GST roll out by most of the FMCG, retail companies.

Arvind Singhania If it wasn't for GST, we would have reported much better numbers in Q1.

Pradeep Rustagi Our December and March quarter was affected because of demonetization.

Jaineel Jhaveri In Q2 can we expect similar numbers in terms of last year's Q2 or will they actually be better means that the demonetization effect has worn off and we can expect growth?

Arvind Singhania The GST effect is not only in Q1.

Pradeep Rustagi Actually, the majority of the GST effect is coming in the month of July and August, part of it came in the month of June prior to roll out.

Arvind Singhania Because the GST was implemented on first of July.

Jaineel Jhaveri Correct, so Q2 should be weaker than last year's Q2 basically?

Pradeep Rustagi Q2 could be very similar to the Q1 of current financial year, let us put it this way though there would be growth in the top line.

Moderator Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments. Thank you and over to you.

Arvind Singhania Ladies and Gentlemen, thank you very much for participating in the Q1 earnings call of Ester Industries. We look forward to seeing you again for the next quarter.