Ester Industries Limited

Q1-FY20 Earnings Conference Call Transcript
August 14, 2019

Moderator: Good day ladies and gentlemen and a very warm welcome to the Ester Industries Q1 FY20 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you sir.

Gavin Desa: Good day everyone and a warm welcome to Ester Industries Q1 FY20 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 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 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 request Mr. Singhania to make his opening remarks.

Arvind Singhania: Thank you everyone for joining us on our Earnings Call today. I have Pradeep Rustagi with me, our CFO. Let me begin the call highlighting the key operational developments post which Pradeep will run you through the financial highlights.

To begin with, we are pleased with the way we have started FY20, strong growth in revenue and profitability as can be seen by our numbers. A heartening positive thing about this quarter's performance as compared to last year is that this quarter's growth is more broad based with film and specialty businesses both contributing as opposed to last year's performance which was largely driven by the film business. Engineering plastics business continued to perform under very challenging environment, although we are undertaking requisite steps towards growing the business.

Let me now talk about specific businesses individually, starting off with specialty polymer business: As mentioned in the previous call, we did indicate that FY20 was going to be a good year for the business. We were witnessing a good number of enquiries for most of our products during the last quarter of the last fiscal which gave us the confidence for maintaining positive guidance for the business. This quarter's performance was largely driven by good demand for the Stain Resistant Masterbatch MB-03 product. The product has seen good demand in the US. We still maintain our guidance of supplying 1,200 to 1,400 metric tons of MB-03 during the year compared with an average of 300 to 400 tons per year in the previous years. In addition to the MB-03 product, we are also witnessing encouraging response for other products, i.e., innovative polybutylene terephthalate (PBT), deep dyeable Masterbatch MB-07, and cationic dyeable Masterbatch MB-06. These products are expected to begin contributing to the volume growth this fiscal. While commercial sales for MB-07 has just begun, we are pleased with the initial response. We have started receiving final approvals from various customers for MB-06 and we are confident that it will contribute with some volume in the current fiscal and significant volume from the next fiscal onwards.

Also, a quick word on the PBT product. As mentioned in the previous call, we have entered into a tie-up with a global chemical leader to manufacture and supply innovative PBT. This agreement is renewable by mutual consent after 2 years. PBT finds applications across varied industries and products; automotive to consumer products and from electronics to fibers. FY20 should see fulfillment of the contractual volumes of the product and grow from there next year onwards. We are confident that specialty polymer business will start contributing significantly in years to come.

Moving onto film business: Q1 witnessed the business maintain its recent momentum on the back of improved demand-supply equation. Volume growth remained firm during the quarter. Per unit realization sustained despite reduction in feedstock prices. This resulted in improved margins due to improved demand-supply scenario owing largely to delay in commissioning of a film planned by competitor in India. While we may see some volatility in the short-term due to new capacity additions, we remain buoyant about medium- to long-term prospects of the polyester film business. Our efforts towards improving the product mix by increasing the share of value-added products should help in maintaining the realization trend. We aim to increase the share of high-margin products to 30% by FY21 from present levels of about 20% to 22%.

Lastly, as far as engineering plastic business is concerned – as mentioned earlier, the business environment continues to remain challenging characterized by tepid demand, especially due to slowdown witnessed by auto and electrical sectors. Performance of the EP SBU remains in the black albeit with slightly lower margins. We are undertaking the requisite measures towards improving the business by improving the product mix, higher share of value-added product, and cost control.

In addition to the above, we had undertaken various cost rationalization measures which helped us to improve the margins and profitability of the business. In November 2017, we started a project to transform the company from being a functional-based organization to a process-based organization with multitasking of process team members being the crux of the project. The project was completed early this year and yielded an annualized saving of about Rs.8 to Rs.9 crore. Encouraged by the results achieved, we have started a project for automation of business processes with the core objective of using technology and process optimization to enhance visibility, control, and efficiency for improved decision making besides implementation of workflow-based approval system across processes. After full implementation, it would enable a better and well-informed business decision making, improved efficiency, and cost reduction by further Rs.4 to Rs. 5 crore per annum.

To conclude: I would like to state that we expect both film and specialty polymer business to perform well driving the growth during the year. Higher revenue share from the specialty polymer business should also help in generating higher profitability during the year. Engineering plastics business while witnessing challenges at present will gradually revive inturn contributing to the overall growth of the business. With that, I hand over the floor to Pradeep who will run you through the financial performance.

Pradeep Rustagi: Good afternoon everyone. 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 summarize the key financial highlights for the quarter following which we can begin the Q&A session. Starting with the top line, our revenues from operation stood at Rs. 284 crore as against Rs. 226 crore reported during Q1 FY19, higher by 25%. The growth was driven by strong performance of the film and specialty polymer business. Engineering plastics business, as mentioned by Mr. Singhania earlier, continues to remain under duress amid slowdown in auto and electrical sectors.

EBITDA for the quarter doubled to Rs. 54 crore as against Rs. 27 crore generated during Q1 FY19. Higher profitability was largely owing to the positive performance of specialty polymer and polyester film business which benefited from the operating leverage and margin expansion in the film business. Finance cost for the quarter stood at Rs. 7.3 crore as against interest outgo of Rs. 8.5 crore reported during Q1 FY19. As on June '19, our outstanding interest-bearing term debt stood at Rs. 73 crore while interest-bearing working capital stood at Rs. 129 crore. Interest-bearing debt as multiple of annualized EBITDA stood at a healthy level of 0.95x as of 30th June 2019 in comparison to 2.71x at 30th June 2018 and 2.13x as at 31st March 2019.

Depreciation for the quarter stood at Rs. 8.6 crore as against Rs. 7.9 crore for Q1 FY19. Profit after tax for the quarter grew by 2.25x to Rs. 24 crore as against profit of Rs. 7 crore generated during Q1 FY19 and Rs. 8 crore during the quarter ended Q4 FY19. Higher profitability was largely on the back of positive performance of film and specialty polymer business. As mentioned by Mr. Singhania earlier, we expect the momentum in specialty polymer to continue throughout the year and further improve in coming years. In film business, additional supply which is expected to come on stream in the near future may soften the realizations a bit. However, we expect and believe that medium- to long-term prospects for the business will remain positive, though in the short term, there may be some volatility due to additional capacities starting up this fiscal. Our efforts to increase the share of high-margin value-added products may help us maintain the overall realization trend.

Engineering plastics continues to perform under challenging business environment. We are taking requisite steps towards improving and stabilizing the business, the revival process though will be gradual.

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

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

Saket Kapoor: Thank you Sir, really commendable performance from the team and also commendable job done in our investor presentation. Thrust has been given on all details and it is interesting to find a transparent way of communicating.

Your specialty polymer has been the surprise pack. As guided by you earlier that from 1st quarter onwards, we were in a position to book good revenues and profits. If you could give some more color. What was the volume for specialty polymer for this quarter?

Pradeep Rustagi: Total volume was close to 550 tons.

Saket Kapoor: We are looking for the sale of MB-03 in the range of 1200 MT to 1400 MT for the entire year?

Arvind Singhania: The 550 does not comprise of MB-03 only. There are other products as well.

Saket Kapoor: Can you give the breakup for only MB-03?

Arvind Singhania: 315 tons was MB-03 in Q1.

Saket Kapoor: We will be maintaining this run rate only going forward also or slightly better if we reach that 1200 MT to 1400 MT mark?

Arvind Singhania: Quarter-to-quarter, it has been very difficult for us to predict exactly what number it will be quarter to quarter but let me tell you in very clear terms that against 300 to 400 tons that we were doing annually in the past year, this year we expect to do 1,200 to 1,400. It may not be broken up exactly divided by 4. It may be more in some quarters and it may be less in some quarters. That depends on how the order flow comes in but please take note of the trend. The trend is against 300 to 400 tons that we were doing in the last few years, we expect to be in the range of 1,200 to 1,400 tons in this fiscal and grow next year further. Overall, the traction that we have seen in the Specialty Polymer business starting this fiscal, we expect this traction to gain momentum in the coming year, not only because of MB-03 but because of our other projects that are in hand as well. So, specialty polymers, I think this will answer everybody who is interested in this that the trend going forward for specialty polymer business is positive that we should be growing very well in the coming years not only because of MB-03 but also because of the other products as well.

Saket Kapoor: For MB-03, it finds application in which product, sir?

Arvind Singhania: Basically, carpet industry in the US and also China. It is Stain Resistance Masterbatch. It provides stain resistance in nylon carpets.

Saket Kapoor: These margins are sustainable or can there be a further improvement with the volumes going forward in the specialty polymer segment?

Arvind Singhania: In the specialty polymer segment, for most of our products, margin is not an issue. Margins remain steady once they are fixed. It is only a question of getting the volume of that business. So, there is no need to worry that the margins will come under pressure because of competition.

Pradeep Rustagi: The selling price is linked to the raw material cost.

Arvind Singhania: Margin is fixed.

Saket Kapoor: Here, what constitutes the major raw material?

Arvind Singhania: Largely PTA and MEG. Specialty polymers by its name itself suggests that it is special. So, the recipe for different products differs and it may have a lower constituent of PTA and MEG. It may have some other specialty chemicals. But largely you can say PTA and MEG.

Saket Kapoor: How are the trends being there for raw material front? And there is a pass-on part also if there is a certain escalation or….

Arvind Singhania: Please understand that for our film business and specialty polymer business, raw material is pass-through. Whether it goes up or whether it goes down, it is pass-through.

Saket Kapoor: Coming to your polyester films segment, this segment has also performed extremely well for this quarter and the lion's share of the EBIT is contributed by the polyester films. As you have mentioned that new capacities getting added in the coming quarter will have some pressure on the margins, can we understand that this is the peak quarter for polyester films business, Q1, and from here onwards, only tapering off will happen?

Arvind Singhania: No. What I am trying to say is that demand & supply in polyester films business is quite balanced right now. Only 1 line has started up of Jindal in early August in this month itself and we have not yet seen any major turmoil. But I am cautioning just for the sake of good order that once the new line starts up, there will be no major change in demand-supply scenario because demand for polyester films is growing at 10% to 12% per year. At the current consumption rate of almost 500,000 tons per year, 10% means about 40,000 to 50,000 additional demand is there per year. The new capacity started by Jindal is about 30,000 to 35,000 tons per year. We expect this capacity to get absorbed with minimal disruption. There may be some volatility because once the line starts up, because of sentiments, there may be some volatility but we don't expect any crash or anything to happen. There may be short-term volatility but overall scenario for polyester films continues to be positive.

Moderator: The next question is from the line of Aman Sonthalia from AK Securities.

Aman Sonthalia: Sir, what is the current spread in BOPET? Sale price minus the raw material price?

Arvind Singhania: The gross value addition would be about Rs. 45.

Aman Sonthalia: What it was it last year?

Pradeep Rustagi: It was close to 55.

Aman Sonthalia: And what it is right now?

Pradeep Rustagi: Currently it is about 45.

Aman Sonthalia: So, it has come down by Rs. 10?

Arvind Singhania: Yes.

Aman Sonthalia: What is the export margin sir?

Arvind Singhania: Export margin is pretty similar to domestic margin, maybe Rs. 3 or Rs. 4 lower. The figures that I am giving you are for base film. When you do a blended margin with including value-added products, then it is a different number.

Aman Sonthalia: Sir, with the slowdown in the auto sector, whether EP & other business division will come into the loss because there is a significant variation in the sale of the auto sector?

Arvind Singhania: Auto sector directly impacts only the engineering plastics business. It doesn't impact our specialty polymer or our films business at all. So, engineering plastics, like we said, is going through challenging times because of the slowdown in the auto and electrical sectors. If the slowdown wasn't there, we would have performed much better. We are still in the black, we are still making money but our profitability has reduced because of this. The economic slowdown in the country does not impact in any way our specialty polymer or films business.

Aman Sonthalia: Sir, but the fall in the margin, the spread has come down from Rs.55 to Rs.45 as you are saying. So, the profit margin will definitely come down in the coming quarters.

Arvind Singhania: Rs.55 itself has been an exceptional number. This only signifies that the demand & supply was in our favor. Therefore, additional capacity is not going to make a very big material difference in the medium or long-term. The next line startup is only expected in Q1 calendar ‘20 or maybe Q2 calendar ‘20. By that time, demand will go further and will not upset the demand-supply equation too much. After that, there is no further new capacity announced. Even if any further capacity is announced today, it will take two years for it to start up.

Aman Sonthalia: Not in domestic or in the international market also?

Arvind Singhania: International market is going on. There are 2 or 3 capacities are coming up but even internationally if you take, the demand growth is about 5% to 6%. On a global demand, it will grow by 5% to 6% is a huge number. We don't expect any major bunching of capacity as it happened let us say 5-6 years ago.

Aman Sonthalia: Sir, right now, the margins have come down in India a little bit. Internationally, the price has also come down or whether it is an Indian affair only?

Arvind Singhania: Like I said, the margins for domestic and export move in the same direction.

Aman Sonthalia: So, both internationally and in India, margin has come down a bit?

Arvind Singhania: Yes.

Moderator: The next question is from the line of Sachin Kasera from Svan Investments.

Sachin Kasera: You mentioned that the value addition has come down from Rs.55 to Rs.42. So, the Rs.55 was the value addition for the June quarter and it has now reduced to Rs.42. Is that what you meant?

Pradeep Rustagi: The current range is about Rs. 45. Last quarter, actual number was about Rs.55.

Sachin Kasera: This Rs.55 was the base film or this was our margin? Because ours will be better due to the value-added product, right?

Pradeep Rustagi: No, this is the blended. When we say blended, it means the domestic market blended. It does not export and metalized.

Arvind Singhania: I must correct the numbers, I am sorry. Rs.55 was the blended margin for the domestic market.

Pradeep Rustagi: Metalized is not included in this, metalized is separate. Metalized is Rs. 20 over Rs.55.

Arvind Singhania: So, the blended margin for other than metalized in domestic was Rs.55. This blended margin has come from Rs.55 to close to Rs. Rs.45 or Rs. 46 in the month of August.

Pradeep Rustagi: July it was better.

Sachin Kasera: This is the base film, but almost around 20% of our revenue comes from value-added. So, ours would always be a little better than the base films, right?

Arvind Singhania: Yes, the blended margins including it will be better.

Sachin Kasera: So, what is according to you a more sustainable number? This quarter, we have done like Rs.50 crore is what you have reported. Is Rs.35 or Rs.40, a more sustainable number according to you or it is more like Rs.25 to Rs.30 crore is the sustainable number?

Arvind Singhania: It all depends on the short-term volatility how much it will be. It is very difficult to say. Like I said, in the short term, there may be some volatility but in the medium to long-term, it should all come back to normal. Rs. 55 gross value addition for film is actually quite high.

Sachin Kasera: What is the 5-year average for the base film value addition? Would it be like Rs.40 or Rs.35?

Arvind Singhania: I will just give you that number. It will not be 45 or 50, cannot be.

Sachin Kasera: Because that would give us a sense of what is a stable number.

Arvind Singhania: Stable number, going forward I think we should be able to maintain about Rs. 45.

Sachin Kasera: Secondly, you have mentioned regarding some expansion plans in the films business. Can you just dwell a little bit about that? What exactly are we planning there?

Arvind Singhania: We have only said that we will take a call on expansion in BOPET film towards the end of the year. We have not made any final decision whether we want to expand or not.

Sachin Kasera: But considering that we still have almost Rs.200 crore of debt on the balance sheet including working capital, do you think that the current balance sheet will be able to support a reasonably large CAPEX?

Arvind Singhania: Our debt to EBITDA is less than 1x. If I have to put in a new line, it will cost me about Rs.300 to Rs.350 crore. And given the internal accrual, even if I have to take another Rs.100 or Rs.150 crore of new debt, we can very well sustain it especially given the fact that we expect a lot of traction in the coming years from specialty polymer business which does not entail or require any major CAPEX.

Pradeep Rustagi: Last 5 years, the average was about Rs. 36 for plain domestic film.

Sachin Kasera: So, we should be around 44 or 45 because of the value addition that we do?

Arvind Singhania: No, this is for plain domestic. The blended including the value added will be higher.

Sachin Kasera: I am saying sir, if we take the 5-year average of Rs.35 and if the market is at 35, we should always be a little higher because of the value addition of around 20% of our volumes.

Arvind Singhania: No, rs.35 is for plain film. It is not the blended margin including value added.

Sachin Kasera: That's what I am saying sir. If the market is at 35, for Ester, it should be a number much higher because we have around 20% of the volumes coming from value added.

Arvind Singhania: Yes, the Rs.35 will be a different number. Rs.35 will be more like Rs. 43 including value added.

Sachin Kasera: On the specialty, how do you see the ramp-up for the full year?

Arvind Singhania: This year we expect a turnover of about Rs.70 to Rs.75 crore compared to last year of Rs.31 crore.

Sachin Kasera: Sir, in the past, we had certain instances where the customers had given a certain confidence and then they did not lift the quantity. You mentioned about a significant ramp-up in the MB-03 this year and further growth over the next year. What is our confidence level and what is it based on? Because we had a couple of experiences in the past where it did not translate into the required quantities.

Arvind Singhania: As of now, the customers are continuously buying from us on the basis of what they have told us. One customer has reduced his current year's volume. That is why we have reduced our guidance from 1,400 to 1,600 tons we had given in the last call to 1,200 to 1,400 this year. We believe in complete transparency. Therefore, whatever we hear from our customers, we pass on to you either on the upward or on the downward. We feel confident that largely the traction in the specialty polymer business will continue to gain momentum in the current and the following fiscals.

Sachin Kasera: Do you think the margins can improve further as we ramp up? Because this quarter, we have done around Rs.16 crore. You are indicating that we should be at a much higher run rate going forward. So, do you see further scope for margin expansion in the specialty polymer from what you have reported?

Arvind Singhania: No, the margins for each product are pretty much fixed. So, the margin per kilo is not going to change. It is just the volume that will come in that will decide the total EBIT margin. Unlike films, specialty polymer does not experience any volatility in margin.

Sachin Kasera: Do we have any CAPEX plan for the current year? Anything major?

Arvind Singhania: We have some CAPEX plans but these are normal CAPEX. Like I said, no major films expansion has been announced and we will take a call on this by the end of the year. We have CAPEX plans which include setting up of a coater for more value-added films which will start up by the end of this year or early next year, which is about Rs.15 to Rs.20 crore. We have some CAPEX in the specialty polymer business which will help gain more volume in the specialty polymer business. Apart from that, we have regular CAPEX totaling about anything between Rs.75 to Rs.80 crore including this offline coater and extruder.

Sachin Kasera: What is the type of payback we expect from these 2 CAPEX, coater and extruder?

Arvind Singhania: The payback is expected to be very-very short. It should be in the 1.5 to 2 year range.

Sachin Kasera: What is the net debt reduction you see you should be able to achieve this year over last year?

Arvind Singhania: We have given the numbers. The total debt stands at about Rs.202 crore right now. Interest-bearing working capital liability as on 30th June is Rs.129 crore compared to Rs.166 crore on 31st of March. So, in 1 quarter, we have reduced by about Rs.37 crore.

Sachin Kasera: And we hope to reduce by another Rs.20- Rs.25 crore despite a Rs.75- Rs.80 crore CAPEX for the remainder of the year?

Pradeep Rustagi: For the CAPEX, we will be raising term loan. So, there would be lower utilization of working capital limits while the term loan outstanding will increase. At the end of the year, the outstanding interest-bearing debt would be in the range of anything between Rs.180 to Rs.190 crore.

Sachin Kasera: Still lower than the Rs.210 as on June?

Arvind Singhania: Yes, its Rs.202 right now.

Pradeep Rustagi: And we are talking of interest-bearing debt. It is not total outside liability. Total outside liability is more than that.

Sachin Kasera: In value-added films, what is the extra value addition you are able to make? Rs. 10 to Rs. 15 per kg? Because 20% of our volumes which are value added.

Arvind Singhania: Yes, so the blended margin goes up by about Rs. 10 to Rs. 12 per kilo on the overall volume in the domestic market.

Pradeep Rustagi: It is market specific. And metalized is separate.

Moderator: The next question is from the line of Prateek Chaudhari from Samarth Capital.

Prateek Chaudhari: Sir, on the margin side for specialty polymers, it is almost a 40% EBIT margin. That sounds very abnormal. What are your thoughts on that?

Arvind Singhania: This is very specific to specialty polymer business. It is not a commodity business. It is a technology business. Most of our products are patented. Therefore, we have no competition in these products. We are able to get a healthy margin on these products. It is a question of only volume. We have been working in this business for 8 years. It has taken us a long time. We went through a lot of pain. Technology business has a long gestation period but once you get in, it gives you sustained performance. I know it sounds too good to be true but that it is a fact. The margins are what they are.

Prateek Chaudhari: There is no abnormality as far as the current quarter specialty polymer margins are concerned?

Arvind Singhania: Margins, like I said, there is no problem on per kilo margin on the product, it is just the volume. You get the volumes, you will get the margins.

Prateek Chaudhari: In the presentation, one of the slides says that most of the products in the specialty polymers will be upwards of 20% margins but these are like upwards of 40% margins. So, I was trying to figure out if there is some abnormality which just happened for this quarter.

Arvind Singhania: It also depends on the product mix. Not every product will have the margins like the stain resistant product. Some products, instead of 40%, may have 20% to 25% EBIT margin. It all depends on the product mix for that quarter or for the year when you talk about the year as a whole.

Pradeep Rustagi: In this quarter, 60% of the volume that we sold in specialty polymer was MB-03. So, the mix was very-very favorable in this quarter.

Prateek Chaudhari: This mix is likely to remain the same for the remainder of the year?

Arvind Singhania: Yes, more or less. It could vary 10% to 15% here or there.

Pradeep Rustagi: The EBIT margin range if you were to ask, it will be anything between 30% to 40%.

Prateek Chaudhari: Sir, you said this year you are targeting around Rs.70 to Rs.80 crore and there are many products in the pipeline, some under approval and some under testing. So, say over a slightly medium-term time frame, what could this business possibly achieve based on whatever cues you have from your development and from your customers?

Arvind Singhania: I have given numbers of this in the past and I would just like to say that we can expect substantial improvement in volumes and turnover in this business in the following year.

Prateek Chaudhari: What are your thoughts on reducing debt?

Arvind Singhania: We are only at Rs.200 crore and if you take the annualized EBITDA….

Prateek Chaudhari: The thing is why pay Rs.25- Rs.30 odd crore interest cost per annum?

Pradeep Rustagi: We are now at 2.58% of the net sales as interest cost.

Arvind Singhania: Let me make a very specific statement that our whole objective is to reduce debt as much as possible and that is going to be our endeavor. So, you have already seen a major reduction over the last year. When we were talking 1 year ago, we were at about Rs.280- Rs.290 crore debt level and EBITDA was much lower. Right now, we are talking at Rs.200 crore debt. So, there is a debt reduction of Rs.100 crore in the last 12 months, and we will continue to endeavor to reduce debt further. And by the end of the current financial, you will see a substantial reduction in debt from the current levels.

Moderator: The next question is from the line of Sajan Didwania from Frontline Capital Services.

Sajan Didwania: First of all, congratulations for the great set of numbers. Sir, you said for Q1 FY20, the polyester film margin was Rs.55 per kg. What was the same for the Q4 FY19 and Q1 FY19?

Pradeep Rustagi: The Q1 June '18 quarter was close to Rs. 40 and in domestic market excluding metalized film, we were close to Rs. 50 in March '19 and Rs. 55 in June '19.

Sajan Didwania: Currently, it is around Rs. 45 in August?

Pradeep Rustagi: Plus of Rs.45.

Sajan Didwania: What is the capacity utilization in polyester films business in your company?

Arvind Singhania: Is running very high, almost at full capacity.

Sajan Didwania: The 28% growth we have seen in the polyester films revenue in Q1, how much we can say it is due to volume and how much can be said it is due to value/price and how much can be said due to lower raw material cost?

Pradeep Rustagi: Volume, we will give you the number for the film volume. The total quantity of sales in June '19 quarter is 14,500 tons as compared to 13,500 in March '19 quarter and 12,500 tons in June '18 quarter. So, there has been 1,000 tons improvement over March 19 quarter and close to 2,000 tons over June '18.

Arvind Singhania: Over the corresponding quarter, we have grown by about 15.5% in volume.

Sajan Didwania: There is no chance of adding any volume as because we are running into full capacity?

Arvind Singhania: There will be no major increase in volume in the next 3 or 4 months. After that, we have planned some de-bottlenecking that may increase the volume by another 5 odd percent but that is towards the end of this current calendar.

Sajan Didwania: Any cost pressure right now? The crude prices are going down and almost stabilized around $60.

Arvind Singhania: Raw material prices have dropped over the last few months. They have dropped substantially.

Sajan Didwania: But in June quarter, you have got a very good margin, maybe due to the impact of raw material and the selling price changes and which have….

Arvind Singhania: Again, I repeat myself, raw material does not decide the margin of polyester films. Demand & supply decides the margin of polyester films. It is a pass-through.

Pradeep Rustagi: For example, in December '18 quarter, the raw material per kg of film was Rs. 90 and now the raw material has reduced to Rs. 60.

Arvind Singhania: The margin is purely dependent on demand & supply.

Sajan Didwania: So, basically you mean to say the sale price changes with the demand & supply?

Arvind Singhania: Raw material is a pass-through in any circumstances. If the demand & supply is positive in our favor or it is negative in our favor, it is a pass-through.

Moderator: The next question is from the line of Nitin Gandhi from KIFS Trade Capital.

Nitin Gandhi: Sir, just want to reconfirm. We did specialty 550 out of which MB-03 is 315. Last year, it was 300 to 400 tons which we are targeting this year 1,200 to 1,400, right?

Pradeep Rustagi: Yes.

Nitin Gandhi: Though 1st quarter itself is 550, for the full year, we are saying 1,200 to 1,400 only?

Arvind Singhania: 550 is not entirely MB-03.

Nitin Gandhi: So, 1200 to 1400 is MB-03?

Arvind Singhania: Only MB-03.

Nitin Gandhi: This is at what utilization?

Arvind Singhania: No, the capacity utilization is not a factor in specialty polymer. We have enough capacity.

Nitin Gandhi: Theoretically or at optimum level, what is the likely production?

Arvind Singhania: We can go up to 15,000 to 20,000 tons a year, maybe more, depending on product mix. It could actually be anything between 20,000 to 30,000 tons.

Nitin Gandhi: How much investment we have done here?

Pradeep Rustagi: Over a period of last 7 to 8 years, we have spent in the fixed assets close to Rs.35 crore.

Moderator: The next question is from the line of Satish Jaykumar, an individual investor.

Satish Jaykumar: Sir, I have a question regarding the research & development facility. Two quarters back, you told we are opening research & development facility in Delhi and we are doing research. Can you throw light on that? And is there any patent growth from previous quarter to current quarter?

Arvind Singhania: There is no patent growth over previous quarter and the current quarter and we continue to increase our R&D facilities in Khatima at our plant site right now. We have deferred the plan to put up the new R&D center in Gurugram as we had planned earlier.

Satish Jaykumar: Sir, as a retail investor, I have only one concern with your company. The debt levels are very high, I feel.

Arvind Singhania: At 200 crore, we are less than 1 multiple of EBITDA? On Rs.1100 crore turnover, we have Rs.200 crore debt with interest cost at 2.5% of net sales?

Pradeep Rustagi: The repayment obligation is only Rs. 23 crore a year.

Arvind Singhania: I think our debt levels are below prudent levels and we are going to bring them down further. Debt should not be a concern to any investor or analyst at all as far as Ester is concerned.

Satish Jaykumar: What is the total research & development expense you are doing?

Pradeep Rustagi: Last year, we have spent close to Rs. 3 crore.

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

Saket Kapoor: As Mr. Singhania was telling, the debt will be reduced significantly whereas Mr. Rustagi was telling that the CAPEX will be there and debt will be somewhat at the level of Rs.190 crore only vis-a-vis Rs.202. Just if you could clarify what will be our long-term debt and the working capital debt as on 31st March 2020. What are we envisaging?

Pradeep Rustagi: As of 31st March 2020, our working capital debt would be about Rs.110 and term debt would be about Rs.80 crore.

Saket Kapoor: What is the term debt today, sir?

Pradeep Rustagi: Term debt today is only Rs.73 crore. So, there would be repayment in the remaining 9 months and there would be fresh term loan taken to meet the CAPEX expenditure that we have planned. We look at the term debt and the working capital together. We can pay the term debt but the banks don't accept prepayment and they charge prepayment premium. So, we keep our working capital accounts underutilized because the interest cost for both the term debt and working capital facility is same.

Saket Kapoor: What is the interest cost for us?

Pradeep Rustagi: A mix of export credit, pre-shipments packing credit, and term debt/working capital is 11.5%.

Saket Kapoor: And long-term borrowing is also 11.5%?

Pradeep Rustagi: Yes, as I said, there is no distinction between the long-term and the short term. The banks are now charging almost the same rate for working capital and term loan.

Saket Kapoor: How is the cash flow being utilized for this quarter? I think we made around Rs.37crore and after adding depreciation of Rs.7 crore, it is Rs.44 crore.

Pradeep Rustagi: The cash as we generate, we keep our working capital accounts underutilized, so there is a lot of headroom available in the working capital today. We cannot prepay the term loan, and we don't spend money just like that. So, the only avenue left to us is to keep the working capital accounts underutilized.

Saket Kapoor: Sir, as on June, how much is the receivables?

Pradeep Rustagi: My receivables as on 30th June is Rs.129 crore.

Saket Kapoor: What is the receivables cycle? Generally, how is the debtor cycle converts into cash?

Pradeep Rustagi: There are 3 products; polyester films, specialty polymers, and engineering plastics and then there is domestic and export. So, it is different for different products.

Saket Kapoor: Average you give sir.

Pradeep Rustagi: Average would be about 45 to 50 days.

Saket Kapoor: Lastly, the point about sustainability of these numbers, Sir, as investors, can we look on this base of say around Rs.37-Rs.38 crore PBT, the likelihood of continuity in this vicinity 5% to 10% here or there? Looking at the business sentiment and the order booking in the specialty polymer segment and our films segment doing exceedingly well and the demand & supply in our favor, can we envisage that these numbers can be looked at an annualized basis also?

Arvind Singhania: Like I said, Rs. 55 margin for films is rather an exception. So, given a short-term volatility, we expect to be way better than last year in terms of profitability in Ester.

Saket Kapoor: But last year, our number for PBT was only Rs.47 crore. We have already done Rs.37-Rs.38 crore. So, it is already done and dusted.

Arvind Singhania: That is what I am saying that the current year is expected to do far better than last year.

Saket Kapoor: That is well taken, sir. Just wanted the sustainability part to understand. How to suppose this on a sustainable basis. How much deviation can be expected?

Arvind Singhania: Let me put it very clearly. While we would love to have it, but Rs. 55 gross value addition for polyester film, I don't think is sustainable on a long-term basis. More like Rs. 45 is sustainable. If it is the math on the basis of Rs. 45 that is what the numbers will look like.

Saket Kapoor: Utilization levels will not be a question for us? We will operate in this near to 100%?

Arvind Singhania: No, utilization is never a worry for us.

Pradeep Rustagi: We have done sales of 14,500 in this quarter. So, it will be range bound in the following quarter also.

Arvind Singhania: It will be the same.

Saket Kapoor: How the MEG and the PTA prices have been for the last quarter?

Arvind Singhania: They have reduced. Right now current raw material cost is about Rs. 61 to Rs. 62 per kg of film.

Saket Kapoor: From Rs.90 to Rs.61 you say?

Pradeep Rustagi: Rs.90 it was in December quarter.

Saket Kapoor: We had a technology partner and a shareholder in the name of Vettel International that is holding around 15% stake in the concern. Earlier, they were interested and there was some selling also on account. Considering the prospects and the change in the reported earnings, are the promoters now interested in taking their stake higher as there may be a seller in the market in the form of Vettel and also you have that option of raising your stake also up to 5% in the current financial year. What is your take on that?

Arvind Singhania: I don't know if Vettel wants to sell or not. I don't think they want to sell right now. With the improving performance, I don't think they would be a seller, but we will consider increasing our stake if a suitable opportunity comes along.

Saket Kapoor: My understanding is that currently the market is not valuing your company properly.

Arvind Singhania: It is not only the opportunity. From a performance perspective is one thing, there are other factors also to be taken into account.

Saket Kapoor: Sir, we are looking for a good performance going forward also and all the best to the team. Good job done on all parameters. Thank you sir.

Moderator: That was the last question in queue. I now hand the conference over to the management for their closing comments.

Arvind Singhania: Thank you everyone for coming and joining the Q1 FY20 investor and analyst call and we look forward to having you all with us again next quarter.