Ester Industries Limited Q4 & FY16 Earnings Conference Call May 26, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Ester Industries Limited Q4 FY16 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Gavin Desa of CDR India. Thank you and over to you sir.

Gavin Desa: Thank you. Good Day, Everyone and Warm Welcome to You on Ester Industries Q4 & FY16 Analyst and Investor Conference Call.

We have with us today, Mr. Arvind Singhania – Chairman and Mr. Pradeep Kumar 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 Interactive Q&A Session.

Before we begin, I would like to point out that certain statements made in today's discussions 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 receive and go through the documents for financial performance.

I would now like to hand over to Mr. Singhania to make his opening remarks.

Arvind K Singhania: Good Afternoon and Welcome to Ester Industries Q4 & FY'16 Earnings Conference Call. We are delighted to have you all with us.

Let me start the discussion by discussing the Key Operational Highlights and Developments achieved during the year, following which Pradeep will run you through the Financial Highlights for the Quarter and the Year.

Before I begin, let me reiterate the Ester Industries is still a work in progress story. We are in the midst of completing our transforming process from being a commodity driven company to innovative and customer-centric company. While we are sometime away from achieving it completely, we are extremely pleased with our progress and with the way the things are unfolding. Specialty Polymer business is the key catalyst in our transformation process and we are very happy with the way the business is shaping up.

Just to briefly summarize: Ester Industries has three areas of businesses – Polyester Films, Engineering Plastics and Specialty Polymers. Our efforts are to reverse this order and emerge as a creative company with innovation at its forefront.

Let me start the discussion by focusing on our Specialty Polymer business before moving to our Legacy businesses that is Polyester Films and Engineering Plastics: Specialty Polymer, a brainchild of mine and a few other like-minded people at our office basically conceived five years back after much deliberation in decided to dramatically alter our areas of focus. We have invested close to Rs.50 crore in this business over the past five years and are delighted with the progress we have made in this relatively nascent business of hours. Our objective for this business was very clear since day one – we wanted this business to develop innovative and path-breaking products to our customers; we wanted Specialty Polymer business to clearly demark Ester erstwhile image of being perceived as commodity and one amongst many players and I am pleased to report that our past records have started yielding desired returns. We have built an exciting product pipeline under this business comprising of about 18 products at present, out of which we have filed patent for 8 of them.

Some of the key products which we have developed include the Stain Resistance Masterbatch for Carpets and PET Resin for Hotfill Rigid Packaging Applications which we have also talked about in the past. We also filed two applications for incremental development for Sulphurated Polyester Masterbatch product during the year. I would urge you again as I did in my previous call that, please go through our annual reports to gain better understanding on them.

Earlier in the quarter, we were also facilitated under 6 national awards for Technology Innovation in Petrochemicals under the category of Innovation in Polymeric Materials. We were selected as Joint Winner in the category of Innovation in Polymeric Materials for Modified Polyester for Hotfill Application by Injection Stretch Blow Molding Process.

Just to give you a brief background: We have successfully developed the Polymer with which Bottles and Jars can be blown with normal ISDN process without the need for heat fahren also for getting filling temperatures of up to 90 Deg.C. The use of PET Packaging Hotfill products is highly desirable and preferred by end user as it not only reduces the overall cost but also make it user-friendly by being light weight and unbreakable.

Further, we were also selected as Joint Runner Up in the category of Innovation in Polymeric Materials for Polyester Masterbatch to Impart Stain Resistance in Nylon for Carpet Applications. Our Masterbatch provides focus flexibility to producers of Nylon, Yarn for Carpets to adjust the content of the active ingredients for Stain Resistance to the specific needs, thereby reducing the cost as well as providing total flexibility in the production process. Such events not only tend to fore our technological innovative capabilities but also reflects our progress towards completing the transformation process.

Lastly, the other key reason for passionately pursuing this segment is the business opportunity it has to offer. Despite being a late entrant, Specialty Polymer business do off the other two in terms of size and profitability potential. We are committed towards investing in our R&D capabilities and building of our products pipeline. We are also very clear that Specialty business will be one key area of focus and will drive bulk of the company's growth going forward.

Moving on to our two businesses – Polyester Films and Engineering Plastics. Here as well we are planning on changes in nature of the business by focusing on increasing the proportion of value added products in the overall mix. Bulk of the fortune of Polyester Films business constitutes a major chunk of our sales at present is dependent on crude oil prices and as such as a bearing on company's overall profit. In an attempt to move away and isolate the business from Specialty, the company is working towards improving its product profile by increasing the proportion of high margin value added products in the overall mix. We are undertaking necessary steps towards improving the share of Specialty and value added equivalence from 15% at present to 35 to 40% in the coming years. Similarly for the Engineering Plastics business, our strategy is to focus more on high margin products and increase in volumes. The Engineering Plastics business is still relatively small in size at present. We have also appointed a global consulting firm to assist us in formulating and implementing the growth strategy for the EP business towards creating a sustainable and profitable long-term business. We wish to scale up the Films and Engineering Plastics business to level wherein they could play a supportive role and complement the Specialty Polymer business.

With that, I hand over the floor to Pradeep, who will run you through the Financial Performance. Thank you.

Pradeep K Rustagi: Good Afternoon, Everyone and Thank you for taking the time out for our call. I trust that all of you would have received the 'Investor Document' circulated by us earlier.

Let me quickly summarize the Key Financial Highlights for the Quarter and Full Year following which we will have the Q&A Session. Our revenue including other operating income for the quarter stood at Rs.183 crore as against Rs.208 crore generated during the Q4 FY'15. While on yearly basis the same stood at Rs.771 crore as against Rs.896 crore reported during FY'15.

Reduction in revenues is primarily attributed to reduction in Chips sale. Chips is an intermediate product that was not contributing much to the bottom line. Reduction in revenue from Films and Engineering Plastics have been made good by an increase in sales from especially Polymer business from Rs.20 crore to Rs.66 crore during FY'16. Revenues during the year were also in part affected by declining crude oil prices which resulted in lower realizations and inventory valuation losses. Of the total Rs.183 crore revenue for the quarter, Polyester Films business reported revenues of Rs.123 crore, Engineering Plastics generated revenues of Rs.41 crore while Specialty Polymer had revenues of Rs.19 crore, while on a yearly basis, Polyester Films reported revenues of Rs.549 crore, Engineering Plastics generated revenues of Rs.155 crore while Specialty Polymer delivered revenues of Rs.67 crore.

As mentioned earlier by Mr. Singhania, our primary focus going ahead would be to scale up the share of especially Polymer business and proportion of high margin value added products in Polyester Films and Engineering Plastics business. Such product mix will help us open the cyclicality impact on the business. Performance of the Engineering Plastics business is showing signs of good progress as we continue to work on the advice of local consultants and are hopeful that the same will help us deliver strong and profitable performance going forward. Especially, Polymer business continues to gain traction as indicated by yearly numbers. As mentioned earlier, this business will continue to drive bulk of our growth in the future. We are pleased with the way things are moving in this business and are confident of delivering consistent performance going forward.

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

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Nimish Sheth from JD Advisory. Please go ahead.

Nimish Sheth: This is Nimish from Mumbai. I have three questions for you: The first is actually relating to the results that just declared; in the results table there is a note #4 which talks about some payment of incremental bonus, you made a provision for the same. So, I would like to know what is that amount; I am assuming that the full provision has been made in the fourth quarter and if it has in then how much of that has been made in the fourth quarter?

Pradeep K Rustagi: There was a retrospective amendment which required the bonus for the year '14-15 and '15-16, this was increased by the government. So we have made a provision for the '15-16 which has already been accounted for. For '14-15 this is not appearing in the accounts, saying that this has not been provided for, the amount is very small; about Rs.15-16 lakhs, because there have been stays granted by many courts; 11 high courts of India have stayed this retrospective amendment and therefore we have not made a provision of that amount of Rs.16 lakhs in our books, everything else has been provided for and the impact is not much; it is Rs.24 lakhs which has been accounted for in the December quarter, which is now carried forward, the payment will be made in the current year.

Nimish Sheth: The second question is on your Polyester Films business. This is the largest business you have and it accounts for the highest EBITDA amount. I am saying in rupee, not in margins. It has had a lot of tailwinds in the last couple of quarters. So just want to get a sense of how this business is shaping up now given that there has been very strong rally in crude oil prices and you mentioned in your presentation stability of raw materials, etc., so I think the price discounting or inventory losses that you talk about in the previous two quarters could be behind you, could you give us a sense on the same?

Arvind K Singhania: As far as the Polyester Films business is concerned, please note that there are no strong tailwinds in this business, let me be very honest and very clear. If you take the last year into perspective, we had very good performance from the Polyester Films business in the first half of FY'16. But actually the margins reduced drastically in the second half and that continues to be the case. The only difference is that last financial year saw the decline of crude oil from very high levels of $100/barrel down to $125/barrel and then stabilizing now at about 45 or 50. So, because of this drastic reduction in oil and raw material bring linked directly to crude, we have to suffer very heavy inventory losses. That ended last year. So we do not expect any more inventory valuation losses to take place in the current financial year or going forward because we doubt that crude oil will come back to the levels of $25 or $30. But even if it does, we are talking about reduction from levels of $40-50 to $25-30. So it is not really much. The bulk of it happened last year from $100 to $30. That is why we had those losses. But as far as tailwinds in the business per se of Polyester Films is concerned, I do not think it is correct, we had no tailwinds, the margins have reduced dramatically compared to the first half of last year and we do not expect the margins in the Polyester Films business will improve in the coming quarters because a lot of additional capacity is being create over the next 12-months which is going to keep the pressure on as far as the Polyester Films business is concerned. What are we doing to mitigate this? As I said in my opening remarks, we are going very aggressively towards increasing our portfolio of value added products to overcome and mitigate partly this cyclicality and the commoditization of Polyester Films business. On top of that, we are taking very drastic steps to cut down overhead costs to make our business more and more viable. So, that is a plan of action that we can bring Polyester Films to a level where it does not act as a dream on our Specialty Polymer business which is really picking up speed as we talk.

Nimish Sheth: On your Specialty Polymers business, on the volumes in Q4 you have ended the year at Rs.67 crore, EBIT of about Rs.12 crore. How volumes track in the fourth quarter? What were they like in the full year FY'16? If you can give some sense on how volumes will grow in the current year?

Arvind K Singhania: In Q4 we did about 995 MT and we had a sale of about Rs.17 crore in the fourth quarter compared to a sale of only approximately Rs.10 crore in the third quarter of FY'16. So there was a substantial increase in the sales of Specialty Polymer. For the full year, we did a volume of about 3,540 tons compared to 1236 tons in the previous year, that means FY'15 and we did a turnover of about Rs.67 crore overall against turnover of Rs.20 crore in FY'15.

Nimish Sheth: On this base now of 3,500 tons what is the outlook for FY'17 in volume terms?

Arvind K Singhania: Against 3,500 tons in FY'16, FY'17 we are looking at a volume of about 6,000-7,000 tons and total sales turnover about Rs.120-140 crore.

Nimish Sheth: As these volumes grow up, do you expect margins to expand?

Arvind K Singhania: Yes, we definitely expect margins to improve in FY'17 over FY'16. In FY'16 our EBIT margin was about 18-19% and FY'17 with a turnover of about Rs.120-140 crore, we expect the EBIT margin to be 24-27%.

Moderator: Thank you. The next question is from the line of (Nisar Vakaria) from Lucky Investments. Please go ahead.

Sachin Kasera: This is Sachin Kasera here. A question on the value add that you mentioned on the Polyester Films side. Can you give us more detail as to what does it exactly refer to? What is the type of contribution margin you make in value add vis-à-vis the normal? What is the current percentage and how do you see that moving in the next two-three years?

Arvind K Singhania: There are various products in Polyester Films that can be considered as value added products and things like White Rotate Fill, Mat Fill, Heat Sealable Fill and now we are starting of a String Fill, we have been working on this product for the past two years and we needed to have certain machinery modification which is being done in June, the modification shutdown will start around 20th of June and by middle of July, the modification will be over. So we will be introducing the new products which is the String Fill where we hope we will be able to build very good volumes over the coming months and years and the value additions are good and part is the commodity products. We will continue to develop new products on top of this. So it is our target over the next two to three years to be able to take the value added portfolio from 15% to 40%.

Sachin Kasera: Internally, what is your benchmark? Today at 15%, what is the average contribution margin you make in value add vis-à-vis the normal commodity Packaging Films?

Arvind K Singhania: Average is about Rs.30-40 extra contribution margin in the value added products.

Sachin Kasera: If I heard it correct, you said that you are looking at 25% EBIT margins for the Special Polymer business next year?

Arvind K Singhania: Between 24-26-27%. As the volumes grow, our EBIT margins will also keep on improving if cost remain the same. Everything that we sell additionally, all translate into the bottom end directly.

Sachin Kasera: Any update on the Carpet Polymer as well as some of the customers on Hotfill, what is the progress you are making if you can give some sense?

Arvind K Singhania: As I had already mentioned to you earlier that one customer which is the second largest Carpet in the world in second largest in America, they are now being buying continuously from us since the last year and have in fact started increasing volumes with us. So that is very heartening, very comforting. On top of that, the largest customer continues to be in the qualification process. Progress has been made but they are known to be a little slow but we are very hopeful that once they come around we can expect pretty decent, very large volumes from them. Apart from that there are about 8-10 smaller customers who are in the process of qualifying the products where we should start receiving their qualification approvals starting in the next two to three months and then continuously one by one we expect them to keep adding on.

Sachin Kasera: So this Rs.120-140 crore outlook that you are giving for FY'17, that does not mean anything from this Carpet 8 or 10 small customers, right?

Arvind K Singhania: This Rs.120-140 crore does not include any volume from this number one customer who is still in the process of qualifying our product. We have made good progress with them, I must tell you, but I cannot take anything into account until I have something concrete. There are 8 to 10 customers in the US has smaller carpet mills who are also in the process of qualifying the product. Virtually nothing they have taken as far as volumes are concerned.

Sachin Kasera: 8-10 small customers combined they would be as big a potential as the second largest customer to whom we are supplying right now, sir?

Arvind K Singhania: It is a very good question that you have asked. I do not have an exact answer for you, but I would certainly imagine that these put together would certainly be in the same volume range as number two customer of America.

Sachin Kasera: On Hotfill can you give us any update?

Arvind K Singhania: Before I move on to Hotfill I also want to share with you that we have introduced our Carpet Stain Resistance product in China and Korea also. Of course, the potential in China and Korea going to be nowhere near the potential in America but it is not going to be negligible, it is going to be very interesting and very large well-known companies have shown great interest, sampling have already started. This product can also be used as a pain resistant not only for carpet but also for nylon apparel fabric.

Sachin Kasera: That would be some of these sports materials like players like Nike?

Arvind K Singhania: For woven fabric, a lot of this performance fabric especially for sports are made from nylon things and these also require Stain Resistance and any other materials and nylon has inherent disadvantage of not having stain resistance, so our products can provide that. This was a new application that we thought of and the market for that is going to be in the Far East because that is where all the high performance apparel fabric is really made, and the yarns are made in the Far East.

Sachin Kasera: But does it mean that we will have to work with players like Nike and Adidas for this sir, we need to get approval from them, they would be the…

Arvind K Singhania: We are not going to Nike and Adidas because Nike and Adidas do not make the fabric, in fact, we have gone to the producers of nylon fiber.

Sachin Kasera: I know that, but I was wondering whether we would need to take approvals from Nike and Adidas for this product?

Arvind K Singhania: I do not know exactly, this is not something that the customers have shared with us, but I would assume that if the final customer is going to be Nike or Adidas, their approval would definitely be required.

Sachin Kasera: But that is a job of the customer?

Arvind K Singhania: I will not be responsible for getting those approvals because my customer is the person who is spinning the nylon and yarn.

Sachin Kasera: It will take at least 12-15-months before we get any result whether positive or negative on this?

Arvind K Singhania: We just introduced it in fact, I had a trip to the Far East till February and that is where we started it, so sampling is just going to start there. For the Carpet customers have already been sampled and sampling process there has already begun and qualification process. But Carpet in China we expect to have a quicker turnaround because it is a proven product already.

Sachin Kasera: But sir normally since Carpet product is patented and most of the companies are a little shy of going to China because of the patent related issue. So we are pretty comfortable on that front as far as China is concerned?

Arvind K Singhania: No, we are not concerned at all about going to China. You are absolutely right that intellectual property is not respected in that country, we all know that. But as I also told you all before that this product that we are supplying and we are manufacturing, it is virtually impossible for anybody else to manufacture, it is a very complicated process. That kind of skill set and the kind of knowledge is not… I am absolutely sure that this cannot be copied. The customers that we are talking to for our product, they are very conscious of intellectual property, so they will not do anything to violate that. In fact, there is one company in Japan that we are also talking to. So even though the country may not respect intellectual property but these customers are of very high standing and multinationals and they will not violate any intellectual property.

Sachin Kasera: Is there a chance for us to license the technology to somebody like Toray Fibers of Japan?

Arvind K Singhania: No, I do not think that is really an opportunity because Toray and Tagen companies like them, they may use our product, but they are really not in the business of Specialty Polymers to manufacture such, this does not exist in that portfolio.

Sachin Kasera: Can you tell us a little bit about the Hotfill now on the European market and US market separately?

Arvind K Singhania: So the business is continuing with that one party that we have already started with and I am very happy to inform you that just we have two weeks ago introduced this product to the world's second largest converter of pet bottles in the world in America and they have shown extreme interest in this product and the samples are going within the next couple of weeks I think. What I am trying to say is that we are now taking steps to effectively do a lot of business development and introduce this product to all the top converters in the world.

Sachin Kasera: You will be reaching them directly?

Arvind K Singhania: Yes, this is all direct marketing.

Sachin Kasera: Considering our bouquet of patented products are very large and we are trying to core n number of territories, what is the recruitment drive we are doing on sales and marketing because I would believe as of now we would have a limited marketing team, in fact, I believe a lot of it would be led by yourself, but as we find new territories and get into more products, do you think that it makes sense to have some more locals in US, Europe, China for marketing team expansions?

Arvind K Singhania: Excellent question again and you hit the nail on the head. We had just finished interviewing for the position of business development for our Rigid Packaging business and we have shortlisted two candidates and we shall be finalizing one out of these two within the next three to four weeks. You are absolutely right that it is not possible for me and Mr. Kulkarni alone to do marketing and business development across. This will be a gentleman most likely based out of Europe and who will cover the Rigid Packaging customers in Europe and America to start with, and as the market grows, as the volumes grow, we will get separate marketing people for the US and Europe.

Sachin Kasera: Can you give us the profile of the person you have recruited, he is a senior guy, he has got lot of instincts on it, what is the type of…?

Arvind K Singhania: He is a fairly senior person that we are looking for and he is from the industry, he understands the downstream converter business very well, has existing relationships, he is technically qualified, because this is not a commodity selling, this is Specialty selling. So any business development person must possess very-very good knowledge of the downstream converter process. So both the persons that we have shortlisted, both of them have immense experience of the Rigid Packaging process and the market and existing relationship with customers.

Sachin Kasera: Any update for us on the Beer Kegs side?

Arvind K Singhania: Beer Kegs is a little bit of slowdown right now because there are a lot of management changes happening in that company, the samples were ready but unfortunately the management changes things have slowed down, I am afraid that a part of it has slowed down a little bit right now.

Sachin Kasera: In the Beer Kegs side, currently we are working with only one potential customer, right?

Arvind K Singhania: Yes, right now we are working only with one but once we get this business development person on board, we intend to start the business development process with other customers as well, because right now we have been working with a brand owner and once we have business development person on board we intend to actually try to take this business through our converters to the brand owners, because they have existing relationships.

Moderator: Thank you. The next question is from the line of Nidhi Agarwal from Sharekhan. Please go ahead.

Nidhi Agarwal: My first question is employee cost has risen by 27% this quarter. So can you throw some light on the same?

Pradeep K Rustagi: There was a provision which was earlier written back and reduced from the expense itself, but write-back has gone to non-operating income and therefore you are seeing increase in the salary and wages by 27%, actual increase is not 27%, part of it has gone to other income, so on the one side you have expense increase, on the other side you have non-operating income going up significantly. If you compare year-to-year it is only 8-10% increase during '15-16, this has gone up by about 8-10% as compared to '14-15.

Nidhi Agarwal: The other thing is that most of the players in Polymer sector, they are reporting good results because crude prices fallen. So how different is your business model in Film business we are seeing margin pressure?

Arvind K Singhania: Please understand that margin of our Polyester Films is not really dependent on the price of the crude. The margin of Polyester Films are dependent on the demand/supply situation of Polyester Films, with very little linkage to …prices have fallen. We have actually just passed on all the reduction in raw material prices to our customers, we have had to. The margins in the Polyester Films business are because of commoditization. The margins are dependent on the demand/supply situation of Polyester Films and not on the price of raw materials per se.

Nidhi Agarwal: We have also had some inventory losses because…?

Arvind K Singhania: Yes, lot of inventory losses because of drastic reduction in crude and the consequent…

Nidhi Agarwal: How much was that for the year?

Pradeep K Rustagi: Last year '15-16 total inventory losses were about Rs.3.5 crore.

Nidhi Agarwal: Coming to Specialty Polymer, I want to understand how difficult is it for competitors to copy your technology or come out with similar products?

Arvind K Singhania: Specialty Polymer I would say it is not possible for various reasons as I have explained before. #1, the primary is that we have patent from these products and process, so nobody can copy that, nobody has infrastructure to create these products. Lastly but not the least, anybody who tries to violate a patent and go with this product to the customer, they will not be entertained because the customers do not want to end up into any legal, because if they consume a product which is violating a patent, they are also liable and these customers sitting in Europe and America very mindful of the fact that they do not want to violate or do anything illegal.

Nidhi Agarwal: This Rs.120-130 crore revenue that we are talking in Specialty Polymers, do we have any firm orders, what is the revenue visibility there?

Arvind K Singhania: We do not have exact firm orders if you ask me from these customers but these are based on the forecast given by our existing customers of what they intend to buy during the year.

Nidhi Agarwal: So will it be mostly in Carpet segment or Hotfill PET applications?

Arvind K Singhania: It will be in Carpet segment, in the Hotfill segment, in the other products that we are doing for example we expect 306 which is the product that we have developed for the Fabric market for the Textiles, Apparel market, actually gives you a look and feel of Viscose Rayon Yarn which is very expensive. So we have created a product which is a Polyester product. We can make Yarn which gives you the look and feel of Viscose and Rayon … product but at much lower price. So that is it. When we have PET which is made from recycle **PET …**then we have FR for the Fabric, we have got 13 products.

Nidhi Agarwal: So with current capacity how much revenue we can generate in Specialty Polymers?

Arvind K Singhania: Currently capacity we have about 20,000-30,000 tons, about Rs.600-700 crore is what we can generate.

Nidhi Agarwal: What was the CAPEX for FY'17?

Pradeep K Rustagi: Total we expect about Rs.18 crore overall in the company for purchase of various equipments and machines across all the businesses of Engineering Plastics and Specialty Polymer.

Arvind K Singhania: Our FY'17 is also expected to be Rs.18-20 crore as well. This is normal CAPEX spending that we have in our company every year.

Nidhi Agarwal: Debt has reduced but interest cost has not reduced in line with reduction in debt?

Pradeep K Rustagi: Debt has also not reduced much. The reduction in interest cost is only about a crore. There was a buyer's credit outstanding, trade finance which is at lower rate which has been converted to rupee debt. Rupee debt is carrying higher rate of interest. That is the reason you are not seeing the actual impact in the interest cost.

Nidhi Agarwal: So are we planning to reduce debt?

Pradeep K Rustagi: The installments that are due are paid on time, so in the financial year '16-17 we have to pay about Rs.35 crore back to the bank which we would be doing on due dates.

Arvind K Singhania: Total long-term debt outstanding is about Rs.130 crore that we have in the company.

Pradeep K Rustagi: In the next 3-3.5-years all these amounts will be due for payment at the rate of Rs.35-40 crore a year.

Nidhi Agarwal: Which you are likely to pay internally?

Pradeep K Rustagi: Yes, because our depreciation charges itself is about Rs.33 crore. So that way even we generate enough cash to repay the banks.

Nidhi Agarwal: Any guidance on revenue and margins wise for Engineering Plastics and Polyester business for this year?

Pradeep K Rustagi: We have budgeted an increase in Engineering Plastics business as against Rs.155 crore we are targeting Rs.200 crore in the '16-17. In Film business as against Rs.549 crore, out of which Rs.20 crore was Chips business, Rs.540 crore so just about same number in Film business. The revenue target for the year is about Rs.870-880 crore.

Nidhi Agarwal: How fungible is the capacity across these segments?

Arvind K Singhania: These capacities are not fungible.

Pradeep K Rustagi: We have enough capacity to achieve the targeted numbers of sales revenue.

Moderator: Thank you. The next question is from the line of Pritesh Vora from Incedo. Please go ahead.

Pritesh Vora: What exactly we do in Engineering Plastics division?

Arvind K Singhania: Engineering Plastics division basically does a compounding of various Polymers with various additives and minerals for applications in the injection molding industry for use in automotive, electrical, electronics and industrial applications.

Pritesh Vora: So we supply the materials, we do not do the end product, right?

Arvind K Singhania: Yes, we supply the compounded polymers and our primary customers are injection molders who make components through the process of injection molding and supply to automotive companies to electrical and electronics companies and to the industrial applications.

Pritesh Vora: What sort of EBITDA margin it generates?

Arvind K Singhania: This is a very low CAPEX business.

Pradeep K Rustagi: EBIT margin on standalone basis is about 10%

Arvind K Singhania: EBITDA would be a little lower and right now we are at about 6-7% and we intend to take this over to the next couple of years the EBITDA margin up to 9-9.5% which I believe is a very good margin.

Pritesh Vora: In the first question you mentioned about the Specialty Polymer, you are doing some Polymers for the Nike and other things. What exactly are you going to do in this Specialty Polymer division?

Arvind K Singhania: We are not producing Polymer for Nike or Adidas. It is just one of the applications on our Polymer. So these are Specialty Polymer that we are doing for various applications across the board including Carpets and Textiles, Rigid Packaging, Flexible Packaging, Industrial Applications. So, these are Specialty Polymer which we have been working on for the past five years. I think you must have heard all the products that we have done – two main products being the Stain Resistance Masterbatch for the Carpet industry and the Hotfill application for the Rigid Packaging industry.

Pritesh Vora: So do we have plant and equipment already there to manufacture the Specialty Polymer or how is it?

Arvind K Singhania: We have been doing commercial sales since last one year. FY'15 we did Rs.20 crore, FY'16 we did Rs.67 crore, FY'17 we intend to do between Rs.120-140 crore. Plant and equipment is already existing. In fact, we used existing batch facility which became free in 2011 and we are using an old depreciated plant when we made a virtue out of it.

Pritesh Vora: What sort of EBITDA you will generate when you do Rs.120 crore?

Arvind K Singhania: At Rs.120-140 crore level, we should have EBIT margin of between 24-26%.

Pritesh Vora: The vagaries often volatility in the prices, so if you have generation of such a good Polymer business, why do you want to concentrate on Polyester Films, I have not understood the focus of the company?

Arvind K Singhania: That is our legacy business, it has been with us for 27-28 years and I have no intention of growing in it, I just want to make it a very viable unit because it is a commoditized product, I have no intention to grow my capacities in commodity businesses, my focus is very largely on our Specialty Polymer business. That is where the growth of Ester is going to come or the growth of Ester is only going to come from technology businesses in the future.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Vasaria. Please go ahead.

Giriraj Daga: What is the EBIT guidance you are looking for FY'17 in Engineering Plastics?

Pradeep K Rustagi: EBIT margin would be 8-9% only with the current trend.

Giriraj Daga: Even the Films business will also be similar?

Pradeep K Rustagi: Films business as Mr. Singhania told that this business would be under some sort of pressure during FY'17 because the new facilities are coming in.

Arvind K Singhania: But we are going to work very aggressively to bring down cost, and increase our value added portfolio and operating efficiencies.

Giriraj Daga: Can it be lower than the FY'16 level because since it also includes about Rs.3.5 crore of your inventory losses?

Pradeep K Rustagi: Should be the current year ballpark.

Giriraj Daga: What is the Q4 inventory losses if you have handy?

Pradeep K Rustagi: In the Q4, there was no major inventory valuation loss, all the inventory valuation losses were up to December '15 because there was no major movement of raw material prices in the last quarter.

Giriraj Daga: Any debt reduction number plan you have?

Arvind K Singhania: We are keen to reduce our debt from internal accruals.

Giriraj Daga: What is the debt repayment schedule in FY'17?

Pradeep K Rustagi: The payment obligation is about Rs.35 crore for financial year '16-17.

Arvind K Singhania: Our total long-term debt is about Rs.130 crore, to be repaid at the rate of Rs.35-37 crore every year for the next 3.5-years.

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

Arvind K Singhania: Ladies and Gentlemen, thank you very much for coming for the Earnings Call for Q4FY'16 and for the whole year FY'16. It has been a pleasure talking to you all and sharing with you our performance for the last year, our forecast and prediction for the coming years. I look forward to seeing you all and talking to you all again towards the end of July-early August for our Q1 earnings call.

Pradeep K Rustagi: Thank you.

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