



Ester Industries Limited

Q4 and FY '18 Earnings Conference Call Transcript

May 18, 2018

Moderator Good Morning Ladies and Gentlemen, Welcome to the Ester Industries Q4 and FY '18 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, Mr. Desa.

Gavin Desa Thank you. Good day everyone and a warm welcome to Ester Industries Q4 and 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 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 stated in the con call invite earlier sent to you. We trust you have had a chance to go through the documents. I would now like to hand over to Mr. Singhania to make his opening remarks.

Arvind Singhania Thank you, Gavin. Good Morning everyone and Welcome to Ester Industries Q4 and FY '18 Earnings Conference Call. I will discuss the key operating development in brief, post which Pradeep will run you through our key Financial Highlights for the period.

Starting off with the specialty polymer business:

After a soft start to the year, the business picked up some steam in the second half leading to the revenue growth in excess of 20% for the year. The business after going through some challenging phase in recent years is finally showing signs of stabilization. The performance during the second half especially last quarter reflected true potential of the business and result of a significant amount of hard work and patience. Innovation continues to remain top priority for this business and we continue in our effort towards developing innovative products and maintaining a healthy pipeline.

Moving onto film business:

The macro-environment for the business has improved following demand supply equilibrium, in turn supporting the prices. As many of you may know, the business environment has remained largely subdued since 2011 due to creation of excess capacity and a consequent fall in realization. Further, our efforts towards improving the product mix by increasing the share of value-added products resulted in the business growing 13%. At present, value-added product constitute 20% of the overall basket and we aim to increase this proportion to 35% over the coming years. In

addition, we are also working towards increasing the margins in the business to early teens from single digit at present.

Moving onto Engineering Plastics business:

The same continues to chug along well. Similar to film business, our strategy for engineering plastics entails increasing the share of high margin products. The profitability and margin for the engineering plastics business though will mostly be lower than the other two businesses, it will nonetheless keep contributing positively and consistently towards the business.

To conclude:

I would like to state that we are seeing visible improvement across all our businesses. In addition to the supportive macros, our strategic initiative towards improving the margin profile on the business coupled with efforts towards cost rationalization should help us deliver better and consistent performance going forward. With that, I hand over the floor to Pradeep who will run you through our financial performance.

Pradeep Rustagi

Good Morning everyone and thank you for taking the time out for our call. I trust that all of you have received the investor document circulated by us earlier.

Let me quickly summarize the key Financial Highlights for the quarter and the year ended March '18 following which we can begin the Q&A session.

Starting with the top-line:

Our revenue for the quarter stood at Rs. 220 crore as against Rs. 197 crore, higher by 12%. While on a yearly basis, the same net of excise in GST stood at Rs. 807 crore as against Rs. 703 crore reported during FY '17, that is higher by 15%. As mentioned by Mr. Singhanian earlier, the revenue momentum to a large extent was driven by the strong performance of Film business. Further, the uptick in the specialty polymer business witnessed during the second half of the year added to the momentum. EBITDA for the quarter stood at Rs. 24 crore as against Rs. 15 crore generated during Q4 FY '17. While on an annual basis, the same stood at Rs. 71 crore as against Rs. 49 crore reported during FY '17 higher by 45%. Margin for the quarter stood at 10.8% while for the year the same stood at 8.8%. In addition to higher revenue generation, our strategic cost containing initiative contributed to higher operational profitability and margins.

Going ahead as specialty polymer business develops and constitutes the largest share of overall pie and the product mix of our legacy businesses improve, we are hopeful that overall margin profile of the company will improve significantly going forward.

Finance cost stood at Rs. 8 crore while on annual basis the same amounted to Rs. 33 crore. Our total interest-bearing debt as on March 31st stood at Rs. 293 crore resulting in a gearing ratio of 1.04:1. We are undertaking measures towards lowering the debt and are targeting debt to EBITDA multiple to be at prudent level of three or lower. As you would have seen earlier, the promoters pledged shares in lieu of Rs. 53 crore of a term loan that was sanctioned by consortium of banks and NBFC. This term loan has been availed for improving the long-term working capital that is net working capital of the company. Interest cost for FY '19 is budgeted to remain almost equal to FY '18. Term loan repayment obligations will also remain at about Rs. 44 crore during FY '18-19 that is same as during '17-18. Depreciation for the quarter

under review stood at Rs. 8 crore while on an annual basis the same stood at Rs. 31 crore. Profit after tax for the quarter stood at Rs. 6 crore as against loss after tax of Rs. 60 lakhs reported during Q4 FY '17. While on an annual basis, the profit for the year stood at Rs. 5 crore versus loss of Rs. 11 crore generated during FY '17.

Moving on to segment wise performance:

Specialty polymer business after a modest first half bounced back in the second half resulting in a revenue growth of about 21% for the year. The business is shaping up well and we are hopeful that uptick witnessed during the current year will be sustained over the coming years. The business has an exciting product pipeline which should help sustain the momentum going forward.

Polyester film business reported revenues worth Rs. 162 crore during the quarter as against revenues of Rs. 149 crore generated during Q4 FY '17. While on an annual basis, the same stood at Rs. 586 crore as against Rs. 518 crore reported during FY '17 that is higher by 13%. The improvement in business stems from healthy pricing environment on the back of demand supply equilibrium and our effort towards increasing the share of value-added products. Engineering plastic business continues to perform steadily and year amounting to Rs. 46 crore and 171 crore, respectively. Our efforts in recent years have been towards increasing the share of value-added products and improving the margin profile of the business.

To conclude:

I would just like to state that improving fundamentals of individual businesses bodes well for the future Specialty polymer business is shaping up well and we are hopeful that the momentum displayed during second half will be sustained going forward as well. As far as film business is concerned, the improving macros coupled with our efforts towards improving the product mix should help us deliver steady performance. Engineering plastics should continue to perform steadily and contribute to the profitability of the business.

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

- Moderator** Thank you. The first question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.
- Giriraj Daga** Thank you. Couple of questions sir. Firstly on the polyester film side, what kind of gross spread did we witness during the fourth quarter and what was it for the full-year? and if you can also suggest what is the current let us say 1.5 month number?
- Pradeep Rustagi** **For the quarter**, plain film was about Rs. 41 and metalized film over and above plain film was about Rs. 21.
- Giriraj Daga** What was the full-year number?
- Pradeep Rustagi** For the full-year the domestic plain film was about Rs. 32, non-metalized which is plain export was about Rs. 40, and metalized over and above the plain film was about Rs. 18 in domestic and export it was about Rs. 34.
- Giriraj Daga** Is the number like current number let us say April and May, so far numbers are different than 4Q are they are higher or lower?

Arvind Singhanian First quarter FY '19 will be a little bit better than the Q4 '18.

Giriraj Daga How do we look at this business, most of the increment will be coming out from the higher spread or we are expecting some volume growth also in this FY '19 polyester film business?

Arvind Singhanian Volume growth will be very marginal because we are not adding any new capacity so volume growth will be very, very marginal whatever improvement in efficiency they are able to bring around, so maybe we will increase the volume by about 3000 to 4000 tons for FY '19 over FY '18, but largely the improvement in the margin is coming from better market situation; number two, increase in the proportion of the value-added product; and number three, the cost-cutting and rationalization project that we have initiated which will start bringing in results, some results during FY '19 and the most chunk of it will be reflected in FY '20.

Giriraj Daga In terms of value addition, you said 20% and target is 35%, so if you can give year wise like FY '19 and FY '20 what should be the value addition proportion?

Arvind Singhanian FY '18 value-added was over 21%, we expect to take this up to exit rate in FY '19 should be around 30% to 35%.

Giriraj Daga My next question is related to Specialty Polymer, like what kind of guidance we are looking for FY '19 in terms of revenue and EBITDA there?

Arvind Singhanian We will be at about close to Rs.90 to Rs.100 crore.

Giriraj Daga EBIT margin should be in the range of?

Pradeep Rustagi 25% to 30%.

Giriraj Daga Last question from my side, Sir, what kind of CAPEX are we looking out for FY '19 and FY '20, we had earlier thought of even going for the film expansion also at some point of time, have we finalized those CAPEX plans when we will do it and what is the number attached to it?

Arvind Singhanian We are not going in for any major CAPEX for increasing capacity of film or any other business, we do not need to right now. We will be only doing normal maintenance CAPEX, but no major CAPEX are envisaged for FY '19.

Giriraj Daga What would be the number of maintenance CAPEX?

Arvind Singhanian That will be above Rs.25 to Rs.27 crore, it is a normal CAPEX.

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

Saket Kapoor Sir, how has the raw material prices behaved on an annual basis even quarter on quarter and what is the constituent of our raw material basket?

Arvind Singhanian The raw material prices have been on an increasing trend in the last two quarters and as you know crude has shot up to \$ 80 a barrel and our raw material prices are directly linked to crude, so there has been an increasing trend of raw material prices, but in all our businesses it is a pass-through model so any raw material price increase is passed on to the customer.

Saket Kapoor Is it a complete pass on?

Arvind Singhania Yes.

Saket Kapoor What are the constituents of the raw material, major constituents?

Arvind Singhania It is PTA and MEG largely for the film business and specialty polymer business and for the engineering plastics business, these are different kinds of raw materials like Polyamide 6, Polyamide 66, PBT, ABS, polycarbonate.

Saket Kapoor For the film part, how has the MEG prices behaved, Sir, due to the crude prices, they have also remained worrisome?

Arvind Singhania Yes, MEG prices and PTA prices both have gone up.

Saket Kapoor Could you give the average price for the PTA and MEG for the last quarter as well as for the last year?

Pradeep Rustagi Currently it is about Rs.75, last year average for PTA was about Rs. 50 a kg, March quarter was about Rs. 60 and current prices of PTA landed to us is Rs. 63 kg. MEG average was Rs. 60, March was Rs. 69, and the current is about Rs. 73, so PTA and MEG cost per kg of film is currently at about Rs. 78, the second fortnight of May.

Saket Kapoor Next, in terms of debt, what are we doing to average our balance sheet? And what has been the utilization level for us for this financial year and what are we anticipating next year?

Pradeep Rustagi We are up-to-date with our repayments of term loan. The working capital limits the fund base, non-fund base put together is about Rs.276 and utilization at any time is about Rs.250 crore, so the working capital limits are utilized to the extent of 90% of the sanctioned limit.

Saket Kapoor I was asking about the utilization levels of our plant, what is our capacity utilization on levels on a blended basis for the polyester chips and film part?

Arvind Singhania Polyester film is running almost at 100%, we are running flat-out.

Saket Kapoor Order booking is done for a lag period of three to four months order booking in advance or ?

Arvind Singhania No, it is on a monthly basis.

Saket Kapoor We are very much in a good situation and there is ample demand?

Arvind Singhania Right now, it is very comfortable. PTA and MEG prices is not a concern to us, I have always maintained that.

Moderator Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia Sir, just wanted to know if you can share the breakup of EBITDA for all the three segments for the financial year FY '18, so you mentioned the EBIT, I want EBITDA for the segments?

Pradeep Rustagi We will share with you the numbers as per the segmental results which is the earnings before interest and tax and this takes into account the direct expenses pertaining to our business, EBIT margin for each business that I will share with you.

Shashank Kanodia Sir, that is already there in the presentation, but these are very high un-allocable expenditure which you have mentioned in the segmental?

Pradeep Rustagi The salary wages what is allocated to the business besides that we about Rs.15 crore of salary wages and then we have admin expenses and it is not allocated to business, so that is not there in the EBIT. EBITDA margin for the company is about 8.8% for the year.

Shashank Kanodia Sir, coming to the segmental front, so on the Specialty polymer front, we have started our supplies to the leading industrial carpet manufacturer, so how is the ramp up been progressing?

Arvind Singhanian I cannot take any names and I can give you a generic, we did about 160 tons in Q4 of FY '18 and we are doing an overall MB03 will be about 300 tons in Q1 FY '19.

Shashank Kanodia But our run rate is supposed to touch 700 to 1000 tons right on annual basis?

Arvind Singhanian Not in FY '19.

Shashank Kanodia Sir, any other further order book from the key competitor on that segment and some token amount?

Arvind Singhanian No, not as yet.

Shashank Kanodia Roughly, Rs.100 odd crore is then the safe assumption to make for specialty polymer division, sales value for FY '19?

Arvind Singhanian Roughly about Rs.90 to Rs.100 crore. We have some other product which we have just started moving, but it is just very early days. Our MB06 which is our cationic dyeable master batch and MB07 which is our easy dyeable master batch, these have started moving, we have orders from three customers, so we are just starting to execute. If all goes well then we expect to improve volumes on those businesses as well during the course of the year.

Shashank Kanodia Sir, what is the guidance for FY '20, what kind of numbers are you posting in this segment for FY '20?

Arvind Singhanian FY '20 will be better than FY '19 for sure, it is very difficult, this is a developmental business so we have to wait and see how these product of course we have got approval for these two new products, so now the first container loads are moving. If they run well then they can expect a good increase in FY '20.

Shashank Kanodia Second is the polymer film division, so what kind of improvement in EBITDA margins are you witnessing right now and how is the trajectory going forward?

Arvind Singhanian You are talking about the engineering plastics?

Shashank Kanodia No, Sir, polyester films.

- Arvind Singhania** Like I said the answer to the previous question from other analyst and investor, the margins have improved dramatically since Q2 of FY '18 into Q4 of FY '18 and have improved further in the Q1 of FY '19. Going forward, we expect this to improve in FY '19 in the coming quarters further because no capacity is there and we have achieved an equilibrium and demand supply, so we expect the margins will continue to improve during the course of FY '19.
- Shashank Kanodia** Sir, something like 13% or 14% is safe assumption to make in this segment?
- Arvind Singhania** Going forward, yes we can expect that towards the end of the FY '19 we can expect margins of about 13% to 14%.
- Shashank Kanodia** Sir, on the engineered plastic division, what kind of changes are we witnessing so that we can stage a turnaround on the margin profile in that segment or what initiatives are being developed there?
- Arvind Singhania** EBITDA margins in that business is around 6%, we are targeting to improve that over a period of time to about 9% to 10% over the next two years.
- Shashank Kanodia** Sir, what all are we doing to improve that margin, have we changed that product profile or customers?
- Arvind Singhania** We are changing some products profile to bring in higher margins business. Overall, for the company, we have taken on a very big cost cutting exercise plus efficiency improvement exercise which is called the process based. We are converting the way we manage our business from a function-based organization to a process-based organization. Till FY '19, we expect to cut total cost in the company by about Rs.20 crore, so part of that Rs.20 crore will be reflected in the FY '19 balance sheet and the full effect will come in FY '20 balance sheet.
- Moderator** Thank you. The next question is from the line of Anup Lal from Mount Intra Finance Ltd. Please go ahead.
- Anup Lal** Sir, most of the questions have been asked, but I just wanted to know that you have announced that you will be setting up a R&D Centre, so how things are panning out on that front and how products you are developing in the specialty polymer segment?
- Arvind Singhania** We already have an R&D Centre setup at our plant, the idea of moving the R&D Centre closer to Gurgaon was to be able to attract talent. It entails a heavy investment and right now we are taking it a little slowly because we do not want to make that investment where we do not get the adequate returns, so although we have the approval to do it, but we are trading cautiously, our work is not suffering on the account of R&D, we are still doing and developing new products all the time. As I mentioned in my previous answer to the previous question, we have been developing and introduced two new products already between the last call that we had, we have introduced two new products for which commercial volumes are started moving, so we are trading cautiously and we will take it up as and when we feel the need to do it.
- Anup Lal** So how much growth you see in the polymer sector?
- Arvind Singhania** In this year, we do not plan to initiate the work on the new R&D Centre in Gurgaon.
- Moderator** Thank you. The next question is from the line of Ayush Bhutada from Equitas Investments. Please go ahead.

Ayush Bhutada Sir, I wanted to know what are the realizations in our PET business?

Arvind Singhanian Realization right now, the price of polyester film is about Rs. 119, it is 12 micron plain corona in the domestic market.

Ayush Bhutada These are the plain films or the value-added films?

Arvind Singhanian No, this is plain film 12 micron corona.

Ayush Bhutada For the value-added one?

Arvind Singhanian There we have various products, we have 20 to 30 products that we sell with varying margins, so if you were to asked me that what is the additional, you can expect on an average about Rs. 25 to Rs. 30 higher than the base film prices.

Ayush Bhutada What about the prices in the previous quarter?

Arvind Singhanian In the previous quarter, we were more towards Rs.105 to Rs.108, if I am not mistaken,.

Ayush Bhutada So basically this price would be increasing in line with the increasing crude prices, right?

Arvind Singhanian Well, part of it is on account of the raw material increase which has been passed on and part of it has been towards improving margins.

Ayush Bhutada In the value-added films compared to your normal films, what are the margin percentages?

Arvind Singhanian Like I said the contribution margin on an average for our value-added product is about Rs. 25 to Rs. 30 more than plain film.

Ayush Bhutada That would be an EBITDA percentage of approximately?

Arvind Singhanian I am talking contribution margin is higher by Rs. 25 to Rs. 30 not the price, after deducting the additional variable cost.

Ayush Bhutada One more thing about the specialty polymer business, so currently at the production capacity of 30,000, what is our capacity utilization?

Arvind Singhanian Capacity utilization is very low. About 10%-20%

Ayush Bhutada Who are the other players in the specialty polymer segment?

Arvind Singhanian I am saying nobody can really copy our products because most of our products are patented.

Ayush Bhutada But similar products who the other players have patented?

Arvind Singhanian I am not aware of anybody doing products like that we are doing.

Ayush Bhutada Basically, we can increase our capacity utilization going ahead to what level?

Arvind Singhania Going ahead, we want to be able to take it up to about 50% to 60% over next year, FY '20, FY '21, capacity is not a constraint.

Pradeep Rustagi

Moderator Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera , In film we have seen very good margins because of both validation, cost-cutting, and demand supply being pretty balanced, when do you see fresh supply coming in, this trend should even continue in FY '20 by the way you have visibility right now or FY '20 we have some capacity coming in **Arvind Singhania** Only one line has been announced which will start in the middle of FY '20 and that is about 3,000 tons per month which is 36,000 tons per year. With the current growth in demand that we are experiencing of about 13% to 14%, this additional capacity coming 12 months later should not pose any problem because already we are in an equilibrium state and the demand growth will be good enough to take care of the additional capacity. No new capacity has been announced further than that and it takes at least two years for new capacity to come in after announcement.

Sachin Kasera Sir, what is the payback at the current margins for the new capacity?

Pradeep Rustagi Although we need to do the number work. It could be more than six to seven years at the current prices as per our initial assessment.

Sachin Kasera You are saying it takes minimum two years to come up with the new capacity?

Arvind Singhania Yes.

Sachin Kasera Second question was on the Specialty Polymer, you mentioned that I think 160 tons is what you are looking at Q1, is that the number I got it right or was that number for Q4?

Arvind Singhania We were talking only about the one product, it was about 160 tons and this quarter Q1 '19 will be about 300 tons.

Sachin Kasera How do you see the ramp up for this product in the next three to four quarters, in the sense every quarter on quarter will we keep seeing this increase or 320 tons in the June quarter it will stabilize?

Arvind Singhania It should stabilize, we do not know, we have to wait because like I said it is a month on month business, so we keep getting the orders on a monthly basis, so we expect they should stabilize and maybe grow.

Sachin Kasera In your sort of guidance of this Rs.90 to Rs.100 crore, what is sort of tonnage you are building in for this product?

Pradeep Rustagi It is about 700 to 800 tons.

Sachin Kasera Sir, since you said there is no major CAPEX, are we looking at any reduction of debt?

Arvind Singhania There will not be any major reduction of debt in FY '19, we have taken a Rs.53 crore term loan right now that is to shore up our net working capital, so our overall debt will not increase with this term loan, it is only for improvement of net working 44 crore repayment in FY '19, so our net debt should remain the same by the end of FY '19 and after that the repayment liability, we have about Rs.20 crore a year compared to Rs.44 crore in this year, so we will start seeing reduction of debt from FY '20 onwards.

Sachin Kasera Sir, my last question is on CAPEX, you mentioned that this year you are not looking at any major CAPEX, are there any major parameters or financial parameters we are looking at before we will start on a new round of CAPEX or it will be more on a opportunity basis?

Arvind Singhania It is not one or the other, you have to see the opportunity, you have to see the financial parameters, everything has to be taken together and in any case, we will not ever do any overleveraged expansions or diversifications.

Sachin Kasera My question was even if there is an opportunity, but as of now our balance sheet is a little stressed, so even if there is an attractive opportunity, are you open to doing CAPEX or is it that you want to say repay debt by at least Rs.70-Rs.80 or Rs.100 crore before we take up any fresh round of CAPEX, even if the opportunity is pretty attractive.

Arvind Singhania If the opportunity is there, we will look at ways to fund the CAPEX, a prudent way to fund the CAPEX and then go ahead, because we do not want to let opportunities pass, that is why I said it is not only a opportunity decision, it is also a decision if we are able to do the correct way of financing, we will go ahead with the opportunity.

Sachin Kasera Sir, what is the minimum sort of payback or return capital that we have now put in for taking up any new CAPEX of a reasonable amount?

Arvind Singhania If you are talking about CAPEX, for example, what we are doing in terms of cost-cutting and all, we are looking at very low payback, only one-year to two-year payback, so we will need to invest about Rs.10 to Rs.15 crore to achieve this 20 crore cost reduction every year, so these CAPEX are very short paybacks of one to two years maximum.

Sachin Kasera My question was more towards any major Brownfield or Greenfield CAPEX that we may do in the next two to three years?

Arvind Singhania Any major CAPEX that we do will be not more than five to six years.

Pradeep Rustagi With IRR of about 20 or higher

Moderator Thank you. The next question is from the line of Pranav Tendolkar from Rare Enterprises. Please go ahead.

Pranav Tendolkar I just have one question Sir, what is the split between long-term debt and short-term debt that is working capital lines and fixed term loan?

Pradeep Rustagi The RS.293 crore interest-bearing debt that we have on March 31st is term debt. The long-term debt is only Rs. 65 crore out of which Rs. 44 crore will need to be paid in '18-19 and balance all is, Rs. 228 is about working capital debt.

Pranav Tendolkar On that, we have receivables also on the other hand around Rs.150 crore or more?

Pradeep Rustagi We have adequate brand power, that is the reason the banks have extended this kind of working capital facilities to us, it is supported by inventory and debtors.

Pranav Tendolkar Sir, any idea of what is the credit rating of these customers that you provide business to?

Arvind Singhania We have dozens of customers.

Pranav Tendolkar Will it be A Plus credit rating?

Arvind Singhania Well if you are talking about the major carpet customer, they should be rated AAA.

Pranav Tendolkar For PET films?

Arvind Singhania They are very small customers, so there will be all kinds of ratings for the smaller PET customers.

Pranav Tendolkar Okay, but majority roughly, any idea?

Pradeep Rustagi This is not the criteria to select a customer actually.

Pranav Tendolkar I agree with it.

Pradeep Rustagi In most of the cases, we would not know their external credit rating.

Arvind Singhania In fact we supply as low as 10 tons a month, it is not possible for us to go and look at the credit rating of each customer.

Pranav Tendolkar I am just asking a different question, I am asking then will it be possible for you to reduce this working capital debt by factoring?

Pradeep Rustagi We have to look at the total top line also, so on a Rs.800 crore we have working capital of about Rs.225 crore and going forward as the top line increases we may not see reduction, but we are focusing on reducing the debt and inventory portion, so that we can rationalize our working capital utilization as well.

Pranav Tendolkar Our credit rating is BBB Minus?

Pradeep Rustagi Yes, it is BBB Minus.

Pranav Tendolkar I am just asking you assessment about can you reduce your own interest expense by factoring because in factoring you will take benefit of credit rating of the customer?

Pradeep Rustagi I am in discussion, in any case the LC bills that we receive, the domestic LC that we discount with our banks at about 8.5%, which is less in the factoring, so if you look at our balance sheet they would be discounted bills and out of which a major portion is about 8.5% rate at which it has been discounted.

Pranav Tendolkar Second question is in terms of your product roadmap over four to five years, can you just highlight how your revenue composition will look in four to five years in terms of PET because obviously you are not spending much on film business, so specialty chemical will be how much percent of revenue roughly in five years say down the line?

Arvind Singhania If I do not increase any film capacity, we are looking at it being about 30% to 35%.

Pranav Tendolkar Sir, how much film capacity is export or all are domestic?

Arvind Singhania 30% to 35% is exported.

Pradeep Rustagi It may reduce by few percentage points in '18-19.

Pranav Tendo **Ikar** Okay, this is about just the film revenue?

Pradeep Rustagi Yes.

Moderator Thank you. The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia Sir, my question is that how is the outlook of film business in the domestic market as well as in the International market whereas there will be increase in supply in the International market also?

Arvind Singhania Not really, there are no major capacity increases in the International market either, so we expect the film business to remain strong in the coming years.

Aman Sonthalia Whether it is not viable to setup a new film plant at the movement with the current trend?

Arvind Singhania It is viable, today's margins make it viable to set up a new film plant, actually what was happening in the past was that with the easy availability of debt, people got doing leverage expansion not only in India but in China as well, but with the money market and the debt availability becoming tighter, you will not see ruthless expansion going forward. As you know what the situation in India is today, debt is not easily available with all these companies that have gone into trouble is only because of overleveraging expansion. In fact there are 13 banks who have got into PCA category. I do not expect ruthless expansions to take place anymore because debt availability will not be easy, number one, and companies and promoters will be far more careful raising debt to expand, otherwise they can land themselves into IBC and NCLT. Even in China where the major capacity expansion took place in the last 10 years, it was because very easy debt was available from the Chinese Banks, but even in China, expansion has dropped dramatically not only in film sector, but across all industrial sectors, expansions are not taking place because Chinese Banks are not giving free debt anymore.

Aman Sonthalia My another question is how is the margin in this quarter compared to last year March quarter?

Arvind Singhania If we talk about the margin right now, the gross value addition in polyester film domestic including value-added product would be about Rs. 45.

Aman Sonthalia What was last year same time?

Arvind Singhania Last year it was about Rs. 32.

Pradeep Rustagi March '18 quarter it is Rs. 41.

Aman Sonthalia March '17 it was Rs. 32.

Pradeep Rustagi Yes, close to that.

Aman Sonthalia For the quarter, it is 41 or for the whole year it is 41?

Pradeep Rustagi For the quarter, it is Rs. 41 for plain film, non-metalized film.

Aman Sonthalia And for the same quality last year it was Rs. 32?

Pradeep Rustagi Yes.

Aman Sonthalia Sir, what is the cost of setting our 30,000 ton film plant?

Arvind Singhania About Rs.300 crore.

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

Ashwin Reddy I have two set of questions, one on the film industry and second on the specialty polymers, so on the film business part firstly, could you comment about how is the working capital in the industry itself has moved in the last four to five years and do you expect it to improve in terms of the receivable days or how do you see it panning out because one aspect is the margin, but how do you look at the working capital intensity in your business in the next two to three years?

Arvind Singhania There will not be a major change in the working capital requirement of the film business going forward. As the business improves, there will be some marginal improvement, but not a major improvement in terms of working capital requirement in the film business.

Ashwin Reddy On the capacity expansion, you did talk about the access to low-cost debt being factor that will enable you to have additional capacity expansion in the industry, but why do you believe that same situation what happened in the past will not repeat apart from this is there anything else, because ultimately whenever the end demand moves unless you have a really different product, it always happens that the capacity will invariably come through?

Arvind Singhania Yes of course what you are saying is absolutely right, the only difference I made out was there will not be irrational capacity expansion, of course, as demand will grow, capacity will need to be put we cannot stop the market, but the capacity expansion will be more rational and more in line with the growth rather than an irrational capacity expansion. It is the irrational capacity expansion which causes suppression of margins.

Ashwin Reddy Given the traction you are seeing in specialty polymers, is there a case to not expand capacity in the film business at all and keep investing your money and energy into the specialty polymer business only?

Arvind Singhania We have two businesses, we have to look at the growth of all our businesses. Film is the largest business today, so if there is a rational case for expanding capacity, there is an opportunity to do that, we will of course expand there as well.

Ashwin Reddy Just moving onto the Specialty Polymer bit, so per my understanding was that there would be an incremental revenue addition of around Rs.100 crore in FY '19 from the specialty polymer business, has there been kind of a tone down in your expectation slightly and when I couple this with the fact that the R&D lab that you plan is also

being pushed out, has there been any kind of a tone down in your own expectations in the Specialty Polymers business?

Arvind Singhania Slightly, but we are just being little bit more conservative rather than just overoptimistic.

Moderator Thank you. The next question is from the line of Aditya Sundaram, an Individual Investor. Please go ahead.

Aditya Sundaram Sir, most of my questions have been answered, but I have a few which I still want a clarification on. One, largely deals with the specialty polymer business, what I would like to understand from you is the two products that you have launched, the products stain resistant master batch and the master batch for cationic dyeable yarn, I wanted to understand the competitive nature of similar products in the industry currently, could you elaborate a bit on that please for me?

Arvind Singhania The two new products that we have launched are the cationic dyeable master batch and the easy dyeable master batch. Now the cationic dyeable chip available in the market is a commodity product. Our master batch enables the customer to use normal chips just mixing about 5% to 7% of our master batch which will see better performance and lower cost and better inventory management, so the big advantage is for people who are making yarn out of recycled PET, if they want to make a cationic dyeable yarn out of recycled PET, the only way they can do it is by using our master batch, there is no other way of doing it.

Aditya Sundaram But are there similar products that allow for this kind of process to take place in the market?

Arvind Singhania No.

Aditya Sundaram Basically, we have market leadership currently in that kind of product, right?

Arvind Singhania Yes, so also in the case of easy dyeable master batch, allows the polyester yarn to be dyed at a much deeper and darker shade using the three different size.

Aditya Sundaram I was basically saying that before the product was launched they were already doing a particular color, now when you have launched this particular master batch, the color differential is still not changed too much by any great delta and still you are reducing the process time for them, that my understanding is correct?

Arvind Singhania Yes, so our product gives them a deeper and darker shade using our master batch.

Aditya Sundaram With a shorter process time, you are mentioning, correct?

Arvind Singhania Yes.

Aditya Sundaram One more thing just a slight clarification with the cationic dye yarn master batch that you have spoken of, you mentioned actually in your presentation there is strong potential in China and Taiwan for this, I just want a clarification on this because as per my understanding, there are certain amount of master batch production companies there and compounders as well like Schulman and Ampacet present there, do they have competing products there or are we a stand out product there as well in this foreign markets?

Arvind Singhanian Cationic dyeable master batch cannot be made through the compounding route, it can only be done through the polymerization route because it is reactive, in compounding you do not have any chemical reaction.

Aditya Sundaram There are no competing products in those markets right now?

Arvind Singhanian No.

Aditya Sundaram Lastly, my question comes back to the raw material part of it, I just wanted to know basically for the PTA side, is the national gas price decrease aiding us in any particular way in terms of?

Arvind Singhanian We are directly linked to crude not natural gas.

Moderator Thank you. The next question is from the line of Viraj Parekh from KR Choksey Securities. Please go ahead.

Viraj Parekh I wanted to touch upon a few points, can you kindly help me with the segmental breakup of the revenue in percentage terms?

Pradeep Rustagi The film business we did a turnover of Rs.586 crore with EBIT margin of 10.08%, specialty polymer we did turnover of Rs.49 crore with EBIT margin of 19.44% and in engineering plastics turnover of Rs.171 crore with EBIT margin of 7.32%.

Viraj Parekh Sir, secondly coming on to the EBIT margins with respect to different segments and understanding your view, what is our future outlook and growth plans going forward with respect to the specialty polymer business considering the high margin that the business enjoys overall as compared to other segments?

Arvind Singhanian I said in five years' time 30% to 35% will be the revenue coming from the Specialty Polymer business in case we do not increase film capacity.

Viraj Parekh Sir, you have touched upon on this points earlier, but I wanted to know more about the industry going forward, what do you see the prospects with respect to the specialty polymer business considering competitors, considering raw material pricing, and considering the overall applications in the various industries to which we cater, how is the outlook looking in a span of say three to five years?

Arvind Singhanian The Specialty Polymer depends largely on R&D, our ability and capability to develop new products, that is what it depends on. The growth of the industry has no bearing, the raw material pricing has literally no bearing. None of these factors play a role in the specialty polymer business, it is purely dependent on our ability capability to introduce new products which the market wants.

Moderator Thank you. The next question is from the line of Shrinath Sridhar from ICICI Securities. Please go ahead.

Shrinath Sridhar Sir, the first question is what is the realization in your normal BoPET and the metalized BoPET as of today?

Arvind Singhanian As of today, the normal BoPET is selling at about Rs. 118 to Rs. 119 12 micron corona PET film and if I add Rs. 18 to make metalized, so about Rs. 136.

Shrinath Sridhar Just to understand this, since your capacity is around 57,000, so last year as per your annual report, we sold about 42,000 tons of BoPET and 9,280 tons of metalized BoPET, so what would be that ratio this year?

Arvind Singhanian Approximately the same because we are not increasing our metalizing capacity, so the ratio of the metalized to plain film will remain the same.

Shrinath Sridhar Then how did you improve the value added product then, I assume that metalized is the value added, right?

Arvind Singhanian No, there are various other value added products that we are doing and they do not need to be metalized, some of it is metalized, some of it largely is not metalized.

Pradeep Rustagi We have done 52,400 sales quantity in '17-18, plain and metalized put together, it is 51,200 last year.

Arvind Singhanian This year we intend to improve that by about 55,000 tons.

Shrinath Sridhar Realizations have gone up this year compared to last year?

Arvind Singhanian Yes.

Shrinath Sridhar Can we easily look at about Rs.650 crore than coming from the polyester film segment this year?

Arvind Singhanian I would imagine, yes.

Shrinath Sridhar Engineering plastics will they remain at the same levels or do you expect a 10%

Pradeep Rustagi Currently, this year we did Rs.171 crore, so next year we are targeting Rs. 200 plus crore.

Shrinath Sridhar Rs.200 plus crore and with 8% you are saying of EBITDA margin, now you are at 6.5?

Pradeep Rustagi I am saying EBIT margin of 8%.

Moderator Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga Just one clarification on the specialty polymer to the largest supplier on the carpet side of it, you mentioned you are doing about 300 ton in the first quarter and somewhere you mentioned that for the full year you have taken a number of 700 to 800, is that the number I got it right?

Arvind Singhanian Yes.

Giriraj Daga We were looking to have a number materially higher than the four digit number, so I want to understand what is the confusion out there?

Arvind Singhanian This is what we are estimating because what the customers will take, there may be a further increase with addition of new customers.

Giriraj Daga Sir, I just want to dig a little bit further, we were doing 300 ton in the first quarter and for the full year we are looking at 800 tons?

Arvind Singhania Yes.

Giriraj Daga The second is that base from Rs.49 crore to Rs.90 to Rs.100 crore, then I believe this incremental would add about Rs.25 to Rs.27 crore, then what are the other products which we are assuming for our FY '19 target of Rs.90 to Rs.100 crore?

Arvind Singhania There are various other products that we are doing, so there is PTT is coming, IQPBT will come in, then there will be MB07, MB06, there will be E06, there are various other products that we are doing.

Giriraj Daga We have assumed certain number of I think Rs.20 to Rs.25 crore revenue coming from these other new products?

Giriraj Daga Last year, we did Rs.49 crore where I believe Rs.5 to Rs.6 crore was already from MB03 and incremental if I am talking about Rs.800 crore of revenue, we are looking about Rs.30 crore, that is a incremental Rs.25 crore is coming from MB03 then some Rs.20 to Rs.25 crore will have to come from some other products, right?

Arvind Singhania Yes, of course.

Giriraj Daga That is what the number I was referring to this Rs.20 to Rs.25 crore will be coming from the products you mentioned just now?

Arvind Singhania Yes, those are the products.

Moderator Thank you. The next question is from the line of Akshay Barjate from Rubicon Capital. Please go ahead.

Akshay Barjate Sir, we have scaled up quite nicely on the specialty polymer side over the last three years particularly thanks your R&D program for all the various products that you come out with, so my question is mainly on the R&D side, how much have we invested in developing these pipeline of products over the last four to five years, what did we spend in the last one year and what is our investment outlook for the coming two to three years for that development pipeline, you can give me the number in absolute terms or as a percentage of revenue?

Pradeep Rustagi I think '17-18 our spend on R&D across Company would be about Rs.3.5 to Rs.4 crore and a year prior to that was about Rs.2.5 to Rs.3 crore, and this is all charged to the P&L, it is not that we capitalized the charge to the profit and loss and last year about Rs.4 crore.

Akshay Barjate What would we have spent in total because I think we began this R&D program quite a while back, maybe four to five years back, it has taken us some time to build this pipeline of products, so how much would we have invested in total to develop this pipeline?

Arvind Singhania We have invested close to about on R&D would be Rs.25 to Rs.30 crore.

Akshay Barjate What do we plan to invest say over the next three years?

Arvind Singhania Over the next three years, our total R&D spend for the Company will remain about Rs.4 to Rs.5 crore a year.

Moderator Thank you. The next question is from the line of Ameya Mahulkar from Emkay Global. Please go ahead.

Ameya Mahulkar Sir, what is the total capacity for PET films?

Arvind Singhania 57,000 tons.

Ameya Mahulkar What was the capacity utilization for FY '18?

Pradeep Rustagi It was about 92%.

Ameya Mahulkar Sir, is there any expansion plan for the PET films specifically?

Arvind Singhania No concrete plan.

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

Arvind Singhania Ladies and Gentlemen, thank you very much for joining the earnings call for Ester Industries Q4 FY '18 and we look forward to joining you again after one quarter. Thank you.