



## **Ester Industries Limited**

### **Q2 & H1 FY17 Earnings Conference Call Transcript**

### **November 16, 2016**

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**Moderator** Ladies and gentlemen, good day and welcome to the Ester Industries Limited Q2 and H1 FY17 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you.

**Gavin Desa** Thank you. Good day everyone and welcome to Ester Industries Limited Q2 and H1 FY17 Earnings Call. We have with us today Mr. Arvind Singhanian – the 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 this effect was stated in the concall invite sent to you earlier. We trust you have had a chance to go through the documents and financial performance.

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

**Arvind Singhanian** Thank you Gavin. Good afternoon everyone and welcome to Ester Industries Q2 and H1 FY17 earnings conference call. I would take you through some of the key operational developments following which Pradeep will run you through our key financial highlights for the period.

Ester Industries in line with its renewed strategy is working towards transitioning itself from a quasi-commodity company at present to one which is more technology and innovation driven and as you would know any meaningful transformation does take time. However, we are encouraged with our progress in this regard as indicated by our product portfolio.

Our efforts in recent years have been primarily toward strengthening our R&D capabilities to enable us develop path breaking products. As a testament to our innovation capability many of you would remember that we were recently awarded at 6th National Awards for Technology Innovation 2015-2016 in petrochemicals under the category of "Innovation and Polymeric Materials."

We are heartened by the positive response from the customers for our products. However, a key learning for us is that a complete transition and action on this positive response takes time. People are apprehensive given that this is not a like-to-like substitution but a change to a new product and hence takes some time to evaluate across all parameters before making the shift. This is one of the most difficult and

frustrating part for any innovative company I guess. But this is also which makes the reward taste much sweeter. One has to go through multiple trials and errors before developing the final product. We are presently at a similar stage wherein despite attaining acceptance and clearances we are awaiting the final go ahead from the client before ramping up the production.

I would just like to reiterate that the eventual demand and benefit of the product is not in question. The market for the product is immense and we believe that it is only a matter of time before we start delivering. Just as a sign of our confidence in the business and its future growth potential the promoters recently increased the stake in the company by 4.92% taking the overall holding in the firm to around 59%. Another notable achievement is of the company entering into an agreement with DuPont for development of Specialty Polyester Polymers for niche applications. This besides recognizing our capability also paves the way for similar collaborations in the future with other global entities.

Also I am sure that many of you are also aware that we have filed patents for many of our products and processes. This in turn would ensure that our efforts and profitability is ensured and it is not subject to the risk of duplication which also encourages us to continue working towards investing more towards developing our innovation and execution capabilities.

Moving on to our other legacy businesses namely Film business and Engineering Plastics business; here again we are working towards improving its overall profitability profile by undertaking measures towards increasing the share of high margin value added products. We are also working on several cost rationalization measures which would help us lower our cost immensely. The overall goal is to help the businesses reach and attain meaningful scale wherein they would support the growth needs of the speciality polymers business. Further, it would also ensure that the legacy businesses are not subject to cyclicalities and result in delivering steady and consistent performance going ahead.

To conclude, I would just like to reiterate that even though the situation when viewed in H1 context looks grim we are confident of the potential of the business in the long term.

With that I hand over the floor to Pradeep who will run you through the financial performance. Thank you.

**Pradeep Rustagi**

Good afternoon everyone and thank you for taking the time out for 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 can begin the Q&A session.

Our revenue for the H1 FY17 stood at Rs. 330 crore as against 413 crore generated during H1 FY16. Revenues during the period under review were in part affected by the lower offtake for Specialty polymer and Engineering Plastics business absence of chip sale coupled with lower share of value added products in the overall mix. EBITDA for the period stood at Rs. 21 crore as against Rs. 48 crore reported during the corresponding period last year. The de-growth was owing to lower share of margin accretive Specialty Polymer business and lower proportion of high margin value added products. Loss after tax for the first half of FY17 stood at Rs. 6.6 crore as against PAT of Rs. 7.8 crore reported during H1 FY16.

On a segment-wise basis Specialty Polymer business de-grew by 30% during H1 FY17 at Rs. 26 crore as against Rs. 38 crore during H1 FY16. EBIT margins during

the six months period ended September 2016 are marginally higher at 20% as against 19% registered during the corresponding period last year.

Polyester film business performance was largely impacted by weak realizations and higher conversion cost. Revenue from business stood at Rs. 237 crore as against rupees Rs 297 crore generated during H1 FY16. EBIT for the business stood at Rs. 19 crore as against Rs. 41 crore during previous year.

Engineering plastics business also contracted marginally during H1 FY17 with revenue of Rs. 66 crore as against 79 crore generated during H1 FY16. EBIT for the segment remained steady at Rs. 4 crore.

To conclude, I would just like to reiterate that we are working towards transforming the business by focusing on innovation and specialization and our confidence of attaining our goal shortly.

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

- Moderator** Thank you very much. We have the first question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor** Sir, if you could please give us some more clarity about the business model for Specialty Chemicals part? Are we there in the BOPP films segment also and your nearest competitor in these segments?
- Arvind Singhanian** No, we are not in the BOPP segment. We don't make any BOPP films that is polypropylene, we only make BOPET which is Biaxially Oriented Polyester Films, so we don't make any BOPP.
- Saket Kapoor** What is our raw material?
- Arvind Singhanian** Our raw materials are PTA, Purified Terephthalic Acid and Mono Ethylene Glycol that is used to make polyester.
- Saket Kapoor** Currently how have the prices been and what is our position in terms of obtaining our raw material, do we enter into long-term contracts or are we dependent on spot deals?
- Arvind Singhanian** Yes, we have long-term yearly contracts with our suppliers both for PTA and MEG.
- Saket Kapoor** Ok and is there any Escalation clause?
- Pradeep Rustagi** It is linked to a certain benchmark price based on which the monthly pricing moves. The other cost remains static during the year, only the benchmark reference price changes which is internationally determined.
- Arvind Singhanian** It is benchmarked to international landed prices basically.
- Saket Kapoor** But the PTA generally I think domestically Reliance is the main producer here?
- Arvind Singhanian** There are three producers, Indian Oil, Mitsubishi which has now been sold to Purnendu Chatterjee, Haldia Petro and Reliance and I believe there is a new one starting up in the next few months, JBF is starting up a PTA in SEZ area.

**Pradeep Rustagi** The pricing mechanism is the same with all the suppliers. They all follow international prices.

**Saket Kapoor** And we are sourcing it from Reliance?

**Pradeep Rustagi** No, we source it from MCPI.

**Arvind Singhania** Mitsubishi.

**Pradeep Rustagi** Which is now Purnendu Chatterjee Group company.

**Saket Kapoor** We have long term borrowings, what is the purpose for the same and is it Dollar denominated?

**Pradeep Rustagi** Majority, I would say 98% of our long-term borrowings are Rupee term loans and these were taken for acquiring fixed assets, plant and machinery, etc.

**Saket Kapoor** Has that all been done? What are our utilization levels then?

**Pradeep Rustagi** All the machines have been fully operational.

**Arvind Singhania** There is no major ongoing CAPEX.

**Saket Kapoor** Ok and what is the utilization levels for our plant?

**Pradeep Rustagi** Different plants have different capacity utilization ranging from anything between 70% to 95%.

**Saket Kapoor** On a blended basis how much it is, blended basis capacity utilization, if we take an average?

**Arvind Singhania** You can't do that because all three products are completely chalk and cheese so they are completely different.

**Moderator** We have the next question from the line of Pranav Joshi from Dolat Capital. Please go ahead.

**Pranav Joshi** What are the efficiency measures that have been taken for the Polyester Films and Speciality Polymers business going forward?

**Arvind Singhania** I will answer that separately for both the businesses. As far as the Polyester Film business is concerned we have taken two steps, number one, a very drastic cost-cutting and rationalization initiative has been started in the company to bring down the cost substantially and across the board at all levels across all costs heads that is number one. Number two, we are ramping up our value added portfolio business and we are laying a lot of emphasis on that using our technology expertise. We want to increase and ramp up the proportion of the value added products. We want to do that in a short period. Right now anything between 15-17% of our portfolio is on value added products and the next two years we want to take it up to 30-35%. This is going to ensure that the cyclical factor is removed from the equation as far as Polyester Film is concerned.

On the speciality polymers it's not a question of efficiency it is just a question of increasing the volume of sale which is going to bring in a substantial increase in the topline and bottom line.

**Moderator** We have the next question from the line of Jaspreet Singh Arora from Systematix Shares. Please go ahead.

**Jaspreet Singh Arora** This line that we have mentioned on the promoters hiking stake in the company by 4.9%, is this a development of the current quarter because as per last quarter September it remains the same?

**Arvind Singhania** Yes current quarter.

**Jaspreet Singh Arora** So that would automatically mean that we are exhausted for the current financial year?

**Arvind Singhania** Yes. I could acquire 0.08%.

**Jaspreet Singh Arora** But given the limitation you can't do.

**Arvind Singhania** Yes I can't go beyond 5% in any financial year.

**Jaspreet Singh Arora** On the business side though you have given quite a bit of clarification but as we speak in the current quarter do you think this quarter could throw some positive surprise on any of the segments just from a growth perspective?

**Arvind Singhania** There is some improvement in the polyester film business in terms of the margins compared to the previous quarter. Talking about the current quarter meaning Q3 of FY17 so there is some improvement, not a drastic improvement of going back to last year's levels but there is some improvement. We have improvement in terms of capacity utilization and efficiency in terms of operating efficiencies in the plant which should show some results in the current quarter. As far as the speciality polymers business is concerned I won't expect much during this quarter or the next but definitely I again reiterate that this has been a very big learning for us, first time we have gone into the technology business, while all our products are accepted, there is no question of non-acceptance or any problem, it's just that the transition time to our products is taking longer than we anticipated. Whatever we discuss and I have mentioned in my previous earnings calls and in my interaction with investors and everybody, was based on what we were told by our customers. But unfortunately I think even the customers sometimes their hands are tied in terms of the actual transition that takes place. So I just want to reiterate that as far as the Speciality Polymer business is concerned it is just a question of time and a huge learning experience for us that we have to be a little bit more conservative in our ramp up and volume increase and volume forecast and we have to temper that and not go exactly on the basis of what even the customers indicate to us because sometimes we are also not able to keep up to what they are saying. Not because they don't want to it is just that there they have some limitations in the transformation process.

**Jaspreet Singh Arora** The Engineering Plastics business you mentioned a muted performance on account of optical fiber cables segment, so what would be this segment contributing in the overall engineering plastics revenue? Also is Optical fiber within in Engineering Plastics?

**Arvind Singhania** Yes, optical fiber is within engineering plastics.

**Jaspreet Singh Arora** So what is that percentage?

**Arvind Singhania** It is basically a tender based business, so this depends on the government tenders.

**Pradeep Rustagi** In the first six months of current financial year only OFC grade we have done turnover of about Rs.13.56 crore on a quantity of 908 tons.

**Jaspreet Singh Arora** Rs. 13.56 crore in the first six months?

**Arvind Singhania** 908 tons.

**Jaspreet Singh Arora** What would be the similar figure last year in 1H?

**Pradeep Rustagi** Last year value-wise it was about Rs. 20 crores with tonnage about 1514. The prices have increased, the raw material feedstock prices have also improved and therefore this has also gone up.

**Jaspreet Singh Arora** I was trying to understand the decline in revenue in 1H versus 1H last year, so Rs. 66 crore versus Rs. 79 crore, so that gap of Rs. 13 crore would be primarily on account of which segments within engineering plastics?

**Arvind Singhania** If you see a lot of it has been on account of the drop in raw material prices.

**Jaspreet Singh Arora** And therefore realization?

**Arvind Singhania** So what happens is whenever the raw material prices come down even our selling prices come down.

**Jaspreet Singh Arora** Despite that our profitability is flat, is marginally up actually.

**Arvind Singhania** Correct.

**Jaspreet Singh Arora** Coming back to our view on the Specialized Polymer, you are saying it is difficult to take a call and it is difficult to take a positive view even for the balance four months that probably one should take a better view only for the next financial year.

**Arvind Singhania** I think that would be a fair assessment rather than my giving you a very bullish number for the balance part of the financial year I would say that the next year would seem to be much better, way better, this was a complete new learning experience for us.

**Moderator** We have the next question from the line of Dinesh Kotecha from KRIC. Please go ahead.

**Dinesh Kotecha** I wanted to know our EBITDA margins when it will be restored according to the present condition and what is the work-in-progress and in which particular segment are we doing the work-in-progress?

**Arvind Singhania** Work-in-progress in what terms?

**Dinesh Kotecha** The CAPEX for Speciality and Polyester and Engineering Plastics.

- Arvind Singhania** We don't have any major ongoing CAPEX programs. So there is nothing in work in progress.
- Dinesh Kotecha** And when is the margins going to be restored according to you, earlier margins of H1 FY16?
- Arvind Singhania** We should see some improvement in Q3 over Q2, definitely we should see some improvement and as we go ahead from quarter to quarter we should continue to see some improvements.
- Dinesh Kotecha** Engineering plastics what is the pressures of the competition now?
- Arvind Singhania** There is competition in every space and we have been able to manage the competitive environment. We have been able to maintain our margins over the corresponding quarter. So while the competitive environment will remain across the board everywhere we are able to manage the situation.
- Moderator** Ladies and gentlemen, as there are no further questions I would now like to hand the floor over to the management for closing comments, thank you and over to you.
- Arvind Singhania** Ladies and gentlemen, thank you very much for participating in the earnings conference call for our company, Ester Industries Limited. Thank you very much.