Ester Industries Limited

Q4 FY '24 Earnings Conference Call
May 24, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Ester Industries Limited Q4 FY '24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you, Dorwin. Good day, everyone and a warm welcome to Ester Industries Q4 and FY '24 Analyst and Investor Conference Call. We have with us today, Mr. Arvind Singhania, Chairman and CEO; Mr. Pradeep Kumar Rustagi, Executive Director -Corporate Affairs; Mr. Girish Behal, Business Head of Film - SBU; and Mr. Sourabh Agarwal, the CFO.

Before we begin, I would like to point out that some statements made in today's discussions may be forward-looking in nature and a note to this effect have been sent to you in the invite earlier. We trust you have had a chance to go through the documents and financial performance.

I would now like to invite Mr. Arvind Singhania to make his opening remarks. Over to you, Mr. Arvind.

Arvind Singhania: Thank you, Gavin and thank you, everyone, for joining us today. I will briefly talk about the key business developments post which Pradeep will walk you through our financial performance.

I would like to begin the call by talking a bit about our JV with Loop Industries Inc. You all may be aware that we recently executed a 50-50 joint venture agreement with Loop Industries. The purpose of the JV is to build, own and operate a manufacturing facility in India. This manufacturing facility will produce a unique product offering of lower-carbon-footprint, recycled dimethyl terephthalate, or rDMT, recycled monoethylene glycol, or rMEG and convert part of these products into various specialty polymer grades for various applications. Loop's patented technology offers significant advantages over traditional mechanical PET recycling.

Let me talk about the significance of this JV and why we believe it's a game-changing development for our company. In simple terms, I will try to explain what this JV aims to achieve and what is the potential of this initiative. This technology is gaining a lot of traction because sustainability nowadays is at the forefront of every company's agenda, especially consumer-branded product companies.

Using products made from recycled inputs is largely the way to achieve sustainability. Mechanical recycling is the technology that currently is being used to recycle PCR PET bottles. PCR PET bottles is the only material that is being used to produce recycled feed through mechanical recycling process for manufacture of PET bottles, polyester fiber and film.

Now if you think about it, mechanical recycling is not offering full circularity in true sense. It provides circularity as far as bottle-to-bottle conversion goes but it is not able to offer the circularity in other products like fabric and garment because the input feed is PCR bottle scrap while the output is PET for bottles, fabric or garments. Loop patented chemical recycling process will be able to use any kind of used polyester waste whether adulterated or un-adulterated. Products manufactured through Loop technology will enable the consumer-branded product companies to achieve full circularity.

Under this technology, we will be able to use PCR PET bottle scrap, yarn or fiber to produce rDMT and rMEG production of PET polymer for PET bottles polyester yarn fiber or film. so this chemical recycling is the only technology which will give you full circularity.

Mechanical recycling technology, which has been existing for the last many years, has its limitations. DMT and MEG specialty chemicals global market size is huge and is estimated to grow at a CAGR of about 4% through 2033. Low carbon DMT and MEG are in high demand but available options are limited and costly. This opportunity offers immense potential to grow and scale up the operations. Loop technology is the only technology that has reached ready for commercialization stage. The other key trigger is that the governments across the world are pushing towards recycling sustainability and zero-waste policies.

As stated in the investor presentation, we expect the JV company to commence commercial operations in early 2027. The project is estimated to be set up at a cost of USD165 million. The funding for which will be in the form of debt and equity in the ratio of 60-40 with Ester's equity commitment in the JV being USD33 million, or INR275 crore. We will be approaching the capital markets to raise funds through the equity route for this investment. We expect the project to generate an IRR of about 25% and equity IRR of 35%, translating into a payback period of about 5 years.

To start with, JV company will annually produce 70,000 tons of rDMT and 23,000 tons of rMEG, which will be scaled up over time. JV combines Loop's cutting-edge technology and access to global brands with Ester's nearly 40 years of experience in polymerization, operational prowess and local expertise.

Having said that, let me now talk about the performance during the fiscal year gone by. As mentioned in our earlier calls, the external environment remains challenging for film business as anticipated due to temporary demand-supply imbalance. Financial performance of films SBU for the Q4 FY '24 and FY '24 are reflective of the business grappling with the challenges. While near-term challenges and pressures on margin persist, our optimism about medium and long-term prospects of the business are reinforced by growth in demand at a healthy rate and plastic waste management rules that are slated to be effective from 1st April 2025.

The plastic waste management rules mandate 10% recycled content in flexible packaging laminates. This regulation will further boost the demand for polyester film with conversion taking place from other substrates to polyester because other substrates cannot offer recycling content. Regarding specialty polymer business, we have started to witness gradual pickup in volumes of some of our marquee products trending higher. Demand has seen some revival and is showing early signs of stabilization.

Moving on to individual businesses, starting with Specialty Polymers. As mentioned earlier, we did witness some improvement during the quarter over Q3 FY '24. Offtake for some of our marquee products, namely MB-03 and innovative PBT put together grew 20% on a sequential basis, actual volumes of both for the fiscal being 1,719 tons.

In addition to these products, we are also witnessing good traction in some of our recently introduced products. Our product pipeline as well remains encouraging. As you may recall, this business is largely IP protected and as such, the threat of competition doesn't arise. The softness in the business is largely owing to the demand uncertainties that prevailed in major markets for these products because of the recessionary trend. We are positive about the prospects of the business and expect FY '25 to be a much better year in terms of sales, in volume metrics, as well as value terms and profitability.

Moving to our Film business, the market experienced a surge in capacity due to commissioning of new production lines in the last 2 years. As a result, supply has significantly exceeded demand despite demand growth remaining strong and domestic demand increasing at an annual rate of more than 13% per annum. This imbalance has caused a decline in both prices and margins.

For the quarter, consolidated sales volume reached 20,000 metric tons with 13,048 metric tons on a stand-alone basis and 6,954 metric tons from our subsidiary. While we estimate demand-supply gap to bridge gradually due to continuous growth in demand, we estimate the pressure on pricing and margin will persist in the short term. Accordingly, we are taking steps to improve product mix besides continuing our thrust on improving operational efficiencies and cost rationalization to cut losses of the business. On a stand-alone level, we have seen our share of value-added products at 28% during the quarter.

In conclusion, we believe we are well positioned to create value for our shareholders as fundamentals of both the businesses remain firmly intact. The JV with Loop is a game-changing development, which will charter a part of profitable growth for the company for years to come.

That concludes my opening remarks. I will now hand over the floor to Pradeep to walk you through our financial performance. Thank you.

Pradeep Kumar Rustagi: Thank you and good day, everyone. Thank you for joining us on our Q4 FY '24 Earnings Call. Let me quickly walk you through our financial performance, post which we can commence the Q&A session.

Revenues on a stand-alone basis, stood at INR216 crore as against INR252 crore in the corresponding quarter last year, lower by 14%. The primary reason for the degrowth is the pressure on pricing and margin that is being witnessed in the Film business. You may have noticed that performance of all the players in the BOPET film space has largely been lower due to higher competitive intensity, which has resulted in severe pricing pressure.

Specialty Polymer business on the other hand did witness good pick up on a sequential basis. EBITDA for the quarter stood at INR9 crore as against INR19 crore generated in Q4 FY '23, lower by 53%. Margin for the quarter stood at 4% as against 7.4% during the corresponding quarter last year. The business incurred a loss of INR9 crore during the quarter as against profit of INR3 crore generated during Q4 FY '23. Lower profitability and margins during the quarter are largely owing to the subdued performance of our film business.

Moving on to the performance of Ester Filmtech, our wholly owned subsidiary, revenue for the films stood at INR76 crore for the quarter. In terms of volume, FY '24 generated sales of 6,954 metric tons. With time, we are confident that Ester Filmtech will contribute positively to the overall growth of the business due to its low operating cost. As mentioned previously, the plant is expected to generate revenue worth INR500 crore to INR550 crore upon achieving optimal utilization and sales at reasonable price with margins.

In summary, as mentioned by Arvind ji earlier, we are all excited about the JV with Loop Industries. We believe it will transform the entire profitability profile of the business. It is really an exciting opportunity for us and we are making concerted and focused efforts towards ensuring that it progresses as per plan. With regard to our existing Film and Specialty Polymer business, while Film business may see some pressure in the short term, we expect Specialty Polymer business and Film business to perform much better in FY '25. That concludes our opening remarks.

We can now commence the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Krushna Parekh from Dolat Capital.

Krushna Parekh: I have a couple of questions, first is on how is the environment for the BOPET film business? And when do you see stabilization in demand and supply situation over there?

Arvind Singhania: The situation is far better than earlier because the growth in demand for polyester film has been very, very good. In fact, it is actually more than 15%, although we mentioned 13% in our speech. But it is, in fact, more than 15%. so it is getting better day by day. And very soon, we will see that this overhang will be over maybe in the next couple of quarters. And because of the plastic waste management rules implementation by 2025 -- April 2025, the demand for polyester will increase further because other substrates will not be able to offer a recycled content in their film.

Krushna Parekh: Okay. Sir, my second question is what is the size of the specialty polymer business over the next 3 years?

Arvind Singhania: So last year, we did...

Pradeep Kumar Rustagi: INR100 crore.

Arvind Singhania: About INR100 crore turnover. And this year, the target is to almost double that number. and I think over the next 3 to 4 years, we can look at a turnover of about INR350 crore to INR400 crore.

Moderator: Thank you. The next question comes from the line of Jainam Ghelani from Svan Investments.

Jainam Ghelani: Hi Sir. Thank you for the opportunity. Sir, could you please help us understand the current demand-supply dynamics in BOPET? And how do we see the movements in the spread going forward?

Arvind Singhania: Okay. so the demand-supply gap has reduced substantially and I would now imagine that the overhang is about 15% to 20%. That's about it. And I think we will start seeing improvement in spread over the next couple of quarters.

Jainam Ghelani: Okay. Sir, we were planning to have our FY '25 mix for value-added products to around 30%. So what could be your incremental margins as compared to the normal film business?

Pradeep Kumar Rustagi: You want to know the because of the value-added products what would be the value addition per kg of film?

Jainam Ghelani: Yes.

Pradeep Kumar Rustagi: Yes, incremental. So I'll just give you the numbers. So suppose we are getting INR15 in the domestic market as on the commodity film. The blended in the export market for the same would be about INR65 to INR70 because of the value-added films. The metallized the print film in the domestic market because the component of value-added product that is getting sold in India is not much, the incremental value addition is about INR6 against INR15 we will be getting INR21 on an overall basis.

Jainam Ghelani: Okay. And sir for our JV as you have mentioned since you already have debt how are we going to fund the investment?

Arvind Singhania: I already mentioned in my speech that we'll be approaching the market for raising capital.

Jainam Ghelani: That’s it from my side. Thank you.

Moderator: Thank you. We have the next question from the line of Deepak Malhotra from Capgrow Capital Advisors.

Deepak Malhotra: Arvind ji, few questions on the industry outlook actually. If you see over the last 30 years, 40 years since 1980s, when everybody set up the plants and when you did a convertible 10 million bond issue in 1997, I don't know if you can even recall that. Okay. So I've been following your company for very long, over the 30 years. Now what I see that in between we have obviously it's a cyclical industry, so you have crests and troughs.

The last one, what we had major one was in around 2012. And even in 2016, '17 also we had issues. But now this time the down cycle has I think, has a very kind of been prolonging I would say scenario which we haven't seen in the past. I mean the spreads have come down for everybody in the industry. The EBITDA margins are kind of bottom and things don't seem to be improving off late. While I'm sure there is a commentary from your side which is basically kind of posting a positive scenario going forward, but are you actually seeing any green shoots on the ground, sir?

Arvind Singhania: Yes, we are starting to see some green shoots on the ground and that is why I'm confident that over the next 2 quarters to 3 quarters you'll start seeing the improvement. The demand-supply gap has come down.

Deepak Malhotra: Because what we hear is that when we compare PET film versus BOPP, then the situation in BOPP is much better is what the industry experts are talking about but...

Arvind Singhania: You are absolutely right. Right now, the demand-supply gap in BOPP is far more favourable. But I think a lot of new capacities are expected in BOPP over the next 12 months to 18 months. So, both the industries would have to run parallel to exactly what's happening. So, we went through a phase of very high capacity growth over the last 2 years, 3 years and now this will be experienced by BOPP in the coming year or so.

Deepak Malhotra: So when you talk of the value-added products, I think you referred, I mean what micron film are we talking, 10-inch, 12-inch?

Arvind Singhania: It's on various microns. It's not one microns. The value-added products are on various microns.

Deepak Malhotra: So, I mean you mentioned about if I got it correctly you mentioned about a spread of INR21 per kg for the speciality one or the metallized one you referred to?

Pradeep Kumar Rustagi: No, I mentioned the plain commodity film 12-micron gives about INR15 over raw material cost. The blended -- for the plain film in the domestic market the value-added and the commodity put together would be about INR21, INR20. Over and above INR15 will becomes INR21. We get INR6 extra, but in export, since the majority of the volume of vas film -- value-added specialty film is getting sold in the overseas market, there the incremental is about INR40 to INR50 a kg.

So, in export we are getting, let's say, close to INR20, INR21. In the value-added film we'll be getting INR65 to INR70 blended.

Deepak Malhotra: So now I mean while this is definitely a good attempt to increase the value add as you mentioned earlier also, but are you seeing any further capacity expansion by other players? I mean, if we say any domestic players or internationally because 60% is any ways production is by China and India. So that kind of creates a lot of impact?

Arvind Singhania: Yes. So domestic, there is no more capacity coming up for the next 2 years to 3 years.

Deepak Malhotra: Okay. And internationally does it have an effect?

Arvind Singhania: By the time the next client comes up there will be a shortage. So that new capacity will be required.

Deepak Malhotra: Okay. And in terms of the margins if we see, I mean, we are at the rock bottom EBITDA margins or the EBIT margin the way you're reporting. So in the past I think we have obviously seen double-digit margins. So I mean what kind of trajectory you see we're going to follow now going forward? I mean, is it going to be next 6 months, 18 months, 24 months? I know it's difficult to take a call but what's your feel, sir?

Arvind Singhania: I think as far as the EBITDA margins are concerned, you will see a substantial improvement in FY '25. And I think we should be reaching a state of near balance in FY '26, halfway to FY '26.

Deepak Malhotra: And do you also see the capacity utilization improving for yourself because in the Telangana plant, I think it's still -- last time you mentioned between 50% to 60% and now also I'm sure the situation continues the same. So how is it going to look forward?

Arvind Singhania: I think going forward we'll start seeing improvement and reach about 75% capacity utilization in Telangana and in Khatima.

Pradeep Kumar Rustagi: On a consolidated basis, the capacity utilization was close to 70%, if we club Telangana and Khatima.

Arvind Singhania: Which will now improve to 75% to 80% over the next couple of quarters.

Deepak Malhotra: And your outlook in terms of the industry situation improving by FY '26 or by the end of FY '25, is it based on this 10% plastic rule which you referred to earlier also? And how seriously will it be implemented, sir?

Arvind Singhania: How seriously it will be implemented is a question for the Government. This is not a question for me. But I think the Government is very serious about implementing and that's our understanding. And yes, the growth in demand is in both, one, the organic growth in demand, which is coming naturally, which is, in my opinion, more than 15% per annum and plus, of course, it will be supplemented by this PWM, plastic waste management rules, which will -- well, I think other substrates will -- cannot offer any recycled content will be favourable for PET.

Deepak Malhotra: I have not understood even in the earlier calls, you have mentioned that it's not possible for BOPP to offer this 10% recycled element. Why is that so?

Arvind Singhania: Why is that so? I have no question because it's not available, in my opinion. In our opinion it's not available. The technology for that -- for a viable, you see there may be some small volume available but what -- our understanding is that so ridiculously priced, that it cannot be viably -- it will not be commercially viable and even the volumes that are available are not enough. So it is our understanding that other substrates cannot offer recycled content, while polyesters definitely can.

Deepak Malhotra: Okay. Because you spoke of a switchover from BOPP to polyester film over the last few calls when we talked about the issue. So I was a bit surprised that why will people shift because otherwise, I mean these are 2 quite competitive products, which are well established for quite long. And they have their own...

Arvind Singhania: If the Government mandates 10% recycled content. how will the consumer or the brand owners fulfil that mandate? Please tell me. If there's a need for a 10% recycled content and BOPP cannot offer it, then how will the brand owner fulfil their commitment? They have no choice but to come to polyester.

Deepak Malhotra: Okay. Now my other question is on the INR100 crore issue, which you did the preference on. So is that already been completed and has all the funds come in?

Arvind Singhania: Yes, the money came in before end of March.

Pradeep Kumar Rustagi: We received the final approval from the stock exchange. The shares have already been allotted and listed.

Arvind Singhania: And the money is in the bank. It came end of March, the money.

Pradeep Kumar Rustagi: 28th March. That's right.

Deepak Malhotra: Okay. One more question. What is really the final, I mean, plan you have? Because now you have 2, 3 very strong investors investing in the company and so what is really the future outlook in terms of -- I mean, how do you foresee basically the business going forward? I mean, why are they really invested in the company? Or what is the outlook -- business outlook?

Arvind Singhania: Well, first of all, like I said, that the polyester film business is likely to turn around in the next cycle -- it will definitely improve substantially in this year and it turn turnaround next year. Specialty Polymer business is poised for very good growth. And the game changer, of course, is going to be our joint venture with Loop for the chemical recycling business. That's going to be a complete game changer for the Group.

Deepak Malhotra: But this Loop technology, has it been employed by anywhere else in the world, I mean, in that sense?

Arvind Singhania: Not at commercial scale but at a small commercial scale, Loop has a plant in Quebec, Canada, which they've been operating for the past many years. And we have been working with Loop for the past -- that's a 5,000-ton capacity plant and they've been operating this plant for the last 4 years and continuously producing recycled DMT and MEG. A lot of that DMT, MEG has come to our plant in Ester, where we have converted into various grades of polyester polymer for bottles, for fabric, fiber, garments. And these products have been tested at brand owner places. And from many places, we have already got approval for quality.

Deepak Malhotra: Okay. Great. One final question. In terms of your debt -- I think in the past, you have indicated that the number is about 750 gross and the net is still about 600. Is there any change in those numbers?

Pradeep Kumar Rustagi: So on 31st March exact number is INR780 crore, the gross debt. And if you consider the cash and FD, etcetera, the net debt, net of liquid investment is about INR610 crore, including working capital.

Moderator: We have the next question from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: Rustagiji if you could give me the details of the current work in progress -- capital work in progress, which we have the closing balance?

Pradeep Kumar Rustagi: The capital work in progress as on 31st March '24?

Saket Kapoor: Yes, it is pertaining to which segment? And when it will get capital -- INR83 crore is the closing balance?

Pradeep Kumar Rustagi: There are major maintenance capex in Khatima. So I'll give you the amount, just looking at the numbers. In the meantime, we can discuss other questions.

Saket Kapoor: Okay, sir. And sir, the colour on the raw material mix also, how about the raw material prices currently...?

Pradeep Kumar Rustagi: Both PTA and MEG has been very, very stable since last many months. It is -- the per kg of chips, the PTA and MEG cost has been in the range of INR80 to INR82. So quite stable.

Saket Kapoor: Okay. And the breakup, Sir PTA price trend, MEG price trend?

Pradeep Kumar Rustagi: The PTA prices are about lets say between INR75 and INR80. MEG is about 51 and INR49 range.

Saket Kapoor: Correct, sir. And sir, you mentioned the net debt number at INR610 crore.

Pradeep Kumar Rustagi: INR610 crore, including working capital, both funded and nonfunded.

Saket Kapoor: Okay. What is our cost of funds, sir, currently?

Pradeep Kumar Rustagi: About 9.5% to 10%. And this is for Ester Industries. The cost of debt is lower in Ester Filmtech because we have foreign currency debt there sitting in the balance sheet.

Saket Kapoor: Okay. And then sir, there is any foreign earned money – the conversion cost also, MTM that we have booked last year?

Pradeep Kumar Rustagi: So yes, during the year, there was MTM but it was a gain.

Saket Kapoor: Okay. Can you quantify it, sir, absolute number?

Pradeep Kumar Rustagi: Yes, I'll just share the number.

Saket Kapoor: And also, sir, what is the current maturity, sir, total?

Pradeep Kumar Rustagi: INR30 lakhs. So December quarter, there was a negative. In March quarter, there was a big positive. Overall for the year, it is only marginal about INR30 lakhs, positive.

Saket Kapoor: Okay. And what are our current year maturities, sir?

Pradeep Kumar Rustagi: So in Ester, it is about INR60 crore -- INR64 crore. And out of that, we have already paid till 22nd May about INR27 crore. In Ester Filmtech, it is including the foreign currency debt and the rupee term loan, only the term portion is about INR366 crore. And repayment is about INR53 crore, in Ester Filmtech the wholly-owned subsidiary.

Saket Kapoor: And for Filmtech, how are we going to fund the maturity?

Pradeep Kumar Rustagi: So we have the support from the parent company because it's a wholly-owned subsidiary, so Ester will be providing adequate and timely support so that there is no delay or default in servicing the debt.

Saket Kapoor: Okay. And the fundraising, which we have done, sir, what was the total fund, I think INR100 crore, was it raised?

Pradeep Kumar Rustagi: INR100 crore.

Arvind Singhania: INR100 crore.

Saket Kapoor: And how are we going to utilize these -- we have paid from those funds only for -- till May of the first quarter?

Pradeep Kumar Rustagi: There is -- so when the issue was done, there was an amount given in the INR50 crore is for repayment of term loan, INR30 crore for investment in subsidiary and INR20 crore to be used by Ester Industries for its operations.

Saket Kapoor: Okay and this -- all the funds have been deployed to the use as such.

Pradeep Kumar Rustagi: Yes, we have received and we are using those funds now for repayment and for operations in Ester Industries and for investment in subsidiaries.

Saket Kapoor: Right sir. Singhaniaji, when you spoke about specialty polymers revenue, correct me here, doubling to INR200 crore levels for FY'25, what gives you the confidence of doubling of top line? Where is they positive?

Arvind Singhania: Because we have already started seeing improvement from the last quarter of FY'24. And going by the current run rate, we feel that it's not going to be INR200 crore but at least INR180 crore to INR200 crore we will definitely do this year against INR99 crore or INR98 crore last year.

Saket Kapoor: Okay. And these are specific to those MB03 products only, wherein we'll see more traction?

Arvind Singhania: Yes. of course, the two products are the main products, but after that there are many -- there's some volume in many other products as well.

Saket Kapoor: Sir, you outlined earlier that it was the U.S. recessionary trends, the interest rate scenario. As of now, the data points do not show any change in the commentary what was articulated earlier. So what has resulted in this optimism for...?

Arvind Singhania: There was a recessionary trend in the U.S., which everybody knows. And more than that, we learned later on that more than recessionary, it was also destocking because of the -- at the time of the COVID and later on, lot of inventory had built up. So there was a lot of destocking going on as well, which caused lower buying. And now everything seems to be normalized and the customer is telling me that demand is going up. So we have to take it on face value what the customer tells us.

Pradeep Kumar Rustagi: And this will get reflected in the June quarter results also.

Saket Kapoor: Right, sir, only to dwell lastly on this point, as I said, do we get an annual program from our customers in terms of what the deliverables are likely to be or are they done quarterly?

Arvind Singhania: Yes. So we get some sort of a forecast and we are basing our things on the forecast given by them.

Saket Kapoor: Correct, sir. And sir, then for the Ester Filmtech, our Telangana part of the story, there is, sir, I could not -- I missed your commentary on how the performance has been from the subsidiary and what would likely change there going ahead in terms of utilization levels and the profitability?

Arvind Singhania: See, the utilization levels last year were very low. We expect the utilization levels to go up this year because of the increase in demand. And in the next couple of quarters, we also expect to see an improvement in margins because of demand going up and the demand-supply gap coming down. So I can't quantify it exactly because it's very difficult to predict, but we definitely see improvement in this year.

Saket Kapoor: And lastly, sir, the finance cost and the depreciation line items are likely to be in this region of INR70 crore only for the current financial year?

Pradeep Kumar Rustagi: Yes, it is likely to be in the ballpark. With repayment, there will be some reduction in the interest costs but depreciation is, by and large, going to be same.

Saket Kapoor: Okay. And as the earlier participant asked about our investment from marquee investors like Modi Rubber and RJ Corp, if you could -- if it is proper for you and opportune time also, if you could allude to us, what has led to this investment? And that too, sir, the investment of INR25 crore or INR30 crore is not a big sum in terms of the space where they operate. So, if you could give us some understanding what led to conclude to make investment in Ester?

Arvind Singhania: Very simple. They saw great potential -- future potential. As simple as that. And if they wouldn't have seen the potential, why would they have invested?

Pradeep Kumar Rustagi: Everybody looks for good returns on the amount invested. So, they saw an opportunity to make -- get good returns and therefore they invested.

Saket Kapoor: Right, sir. And do they have any line of further investment or line of credit line for the company going ahead where they would like to infuse more fund or with the Loop transaction now into foray, does that give further understanding since you are being -- alluding to the fact that you will be raising capital…?

Arvind Singhania: I have no comment on that right now.

Pradeep Kumar Rustagi: In any case, this is unpublished information, cannot be disclosed at this stage.

Saket Kapoor: Correct, sir. Thank you, sir, for all the reply and we hope to hear from you going forward and all the best. Thank you.

Moderator: The next question comes from the line of Divy Agrawal, an individual investor.

Divy Agrawal: So I just wanted to know the reason why the finance costs have gone up despite the borrowings going down?

Pradeep Kumar Rustagi: So we -- there was some increase in the interest rate, that's one. The utilization of the working capital limits also increased during this year. And because of this, the interest cost also has gone up -- average utilization during the year has increased.

Divy Agrawal: Okay. But yes, during the year, we have also repaid the loan. Fine. My second question is related to the...

Pradeep Rustagi: One more factor is, there is, yes, few loans were raised and so in the later part of March '23, we raised certain loans. The full effect on the interest cost came in this year. So you cannot compare balance sheet to balance sheet because the balance sheet would also reflect something which was received in the month of March '23. So there'll be a interest cost is the reason that I have told you is the correct reason. Marginal increase in the interest cost is on account of the increase in the rate of interest.

Divy Agrawal: Okay. Got it, sir. And my second question is related to the specialty polymer. So now we have a capacity of 30,000 and now that we have a capacity utilization of around 8% to 10%. So do we have any plans to increase the capex and increase the capacity further in the Specialty Polymers?

Arvind Singhania: We are not increasing capacity anymore right now until we already have enough capacity available. There is no need for any further capex at this stage.

Divy Agrawal: So in next 4, 5 years, we won't increase the capacity?

Arvind Singhania: See, we can't predict 5 years. So as of now, there is no -- suppose tomorrow, if there is a huge increase in demand and volume -- the capacity utilization goes up and if there is a need, we will invest.

Pradeep Rustagi: So if the investment is justified, we'll go for it. Otherwise, as of now, there is no plan.

Divy Agrawal: So okay. So once the Loop -- the JV kicks in, so the demand would go up, if I'm not wrong. So then also, we won't need additional capacity, the capacity that we have is sufficient?

Arvind Singhania: That is 2.5 years away. so we have to see how the demand grows for specialty polymer. If there is a need, we will invest. As of now, we don't need to invest. It's very difficult to predict 3 years in advance.

Divy Agrawal: Okay. So to double our revenue, we don't need to increase our capex, right?

Arvind Singhania So, don't need to put any capex to double our revenue.

Divy Agrawal: And my last question is on the BOPP and BOPET side. So now if we assume our BOPP and BOPET demand, the domestic demand is around INR7 lakhs in BOPP and INR7 lakhs in BOPET. So when we...

Arvind Singhania: We don't have any BOPP.

Moderator: Thank you. The next question comes from the line of Deepak Malhotra from CapGrow Capital Advisors.

Deepak Malhotra: First of all, let me apologize. My line was disconnected when I was asking the last question, I don't know if you subsequently answered that, so I missed that. That was on the debt. So you were mentioning that there is INR780 crore of debt. So how is -- how much is the net debt? And how is the debt repayment schedule looking, please, Rustagi ji?

Pradeep Rustagi: So we -- this question was raised by some other person also, in net debt, that is about INR610 crore. On the repayment obligation for the year '24-'25, in Ester Industries, it is INR64 crore and INR53 crore in Ester Filmtech. So all put together is INR117 crore. Out of that, we have already repaid in advance about INR27 crore to the terms lenders of Ester Industries.

Deepak Malhotra: Okay. Because if we look at -- I mean, the current expansion program, which you are taking -- the Loop JV project, there also, it's almost INR1,300 crore plus. so in terms of financing the project, I mean, how is it being tied up? And how is it going to look again in terms of debt repayment? And if there is going to be any pressure on the balance sheet on that front, please?

Arvind Singhania: The JV is a separate company. It's going to be a separate company. It's going to be owned 50-50 by Ester and Loop. We will invest about INR275 crore each into the equity of the company. The rest will be a debt taken on by the JV company. That debt is not going to be on Ester books.

Deepak Malhotra: Okay. Great. I think that answers my question and one more, if I can slip in. Since I think everybody is trying to understand about the expected recovery in the industry, what are the end sectors, which are actually exhibiting any kind of green shoots? Is it the FMCG sector in terms of packaging or somewhere else, you're looking the demand coming back?

Arvind Singhania: Our entire demand comes from the FMCG.

Deepak Malhotra: Okay. So you are seeing good traction there, sir?

Arvind Singhania: Yes, yes, we're seeing demand growth. We're seeing solid demand growth in polyester film.

Deepak Malhotra: Because my concern is that. We have not seen this kind of a down cycle going for so long. Normally, it has recovered much quicker. Correct me if I am wrong.

Arvind Singhania: Yes, please understand circumstances before were different. At that time, your total capacities were much less, the total expansions that were done were lower, this time as a percentage, the total capacity expansion has been very, very large.

Deepak Malhotra: Because in the past, you have indicated that this gap was almost 30%, 40% higher when we talk of at least domestic market, the overcapacity. So now we refer that it is going to be about 15%, 20%, right?

Arvind Singhania: As of now, we start at about 15% to 20% gap in terms of demand-supply.

Deepak Malhotra: And there is -- there are even more significant imports, correct?

Arvind Singhania: No.

Deepak Malhotra: Okay. So basically, what we are saying is -- to summarize is what you are saying that from FY '26, we'll definitely see the recovery while the green shoots...

Arvind Singhania: No. We'll see recovery from FY '25 and FY '26, I think should be a good year.

Moderator: Thank you. We have the next question from the line of Nishant Shah from Emkay Global.

Nishant Shah: Sir, my basic question is, we have done a capex of around INR70 crore. So how much is the maintenance capex out of that?

Pradeep Kumar Rustagi: Maintenance capex is about INR20 crore.

Nishant Shah: Okay and this will be run rate going ahead also?

Pradeep Kumar Rustagi: Run rate for?

Nishant Shah: FY'25 and FY'26?

Pradeep Kumar Rustagi: Yes, run rate for maintenance would be in the range of INR15 crore to INR20 crore, yes.

Nishant Shah: And how much capex do you envisage for FY'25 and FY'26 capex?

Arvind Singhania: Right now, FY '26 capex is not yet finalized.

Pradeep Kumar Rustagi: We have not yet finalized our numbers because we are -- we would be monitoring the performance and the liquidity position, then we'll decide.

Nishant Shah: And sir, another basic question is, can you give me the breakup of CWIP? Someone even asked earlier also?

Pradeep Kumar Rustagi: So we invested certain amount till the -- in this continuous polymerisation plant, which needs to be revamped. There is amount invested in that. And offline coater for within value-added and specialty films, about INR20 crore has been invested in that. And then there's various other schemes available there.

Nishant Shah: So INR20 crore is for that and the rest is for the?

Pradeep Kumar Rustagi: There are various other small projects, which are under implementation. But the list is too long. We cannot disclose on phone. So the major 2 items are revamping of continuous polymerisation plant and offline coater machine.

Nishant Shah: And sir, the basic question is on the new recycling project that has been announced. So is there a sufficient availability of the waste plastic on a sustainable basis?

Pradeep Kumar Rustagi: Yes, the waste is available to -- our demand for waste would not be huge and that quantity would be available.

Nishant Shah: And also, can you give me the debt-equity split. And you also said that the funding will be from the market on the equity side that has not yet been...

Pradeep Kumar Rustagi: You're talking about debt equity for the JV project -- JV company?

Nishant Shah: Yes, for the new recycling project that has been announced?

Pradeep Kumar Rustagi: Yes. So debt-equity would be in the ratio of 60 to 40.

Nishant Shah: Okay. 60 to 40. Yes. Okay. That is on my side. Thanks a lot.

Moderator: Thank you. The next question comes from the line of Saket Kapoor from Kapoor Company.

Saket Kapoor: For this Loop investment, for the JV, when will be drawing fund for it? When will we be the first investment?

Arvind Singhania: I think in the next few months, we'll start -- the investment process will start.

Saket Kapoor: And since that you mentioned that it will be through a JV but since it will be all consolidated in Ester, so the finance and...

Arvind Singhania: It'll be -- no. It's a 50-50 joint venture. So only 50% line consolidation will happen with Ester and 50% line consolidation will happen with Loop.

Saket Kapoor: And Rustagi ji mentioned about that INR20 crore is for the maintenance capex and the balance INR50 crore, I missed the breakup. You mentioned about 2 line items, I think so?

Pradeep Kumar Rustagi: Yes. Continuous polymerisation plant, so major revamping in that and that -- the offline coater to make value-adding and specialty films.

Saket Kapoor: And this would lead to efficiency and higher percentage of value-added films?

Pradeep Kumar Rustagi: Yes. This will help us achieving higher percentage of value adding.

Saket Kapoor: This year, sir, what was our number for value-added films?

Pradeep Kumar Rustagi: 28% of the film in Ester Industries. In Ester Filmtech, there is not much quantity of value added. But in Ester Industries, it is 28% in '23-'24.

Saket Kapoor: And with this capex going underway, what should be the number we will be looking forward?

Pradeep Kumar Rustagi: We are targeting about 30% to 35%.

Saket Kapoor: So there is no capacity augmentation. It is only the efficiency and the value addition that will happen through this INR70 crore CWIP.

Pradeep Kumar Rustagi: No additional capacity per se. It's a downstream process on the film produced in the main line.

Saket Kapoor: And Singhania ji, just to sum up, you are seeing good green shoots that is translating into good volume traction in our core film business. This is what the sum and substance of the business environment is currently.

Arvind Singhania: We are seeing a good improvement in demand.

Saket Kapoor: Thank you once again, sir.

Moderator: Thank you. Ladies and gentlemen, we have no further questions at this time. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Arvind Singhania: Thank you very much for joining the earnings call today and look forward to seeing you again next time soon. Thank you.