

Ester Industries Ltd



Recomm	Buy
BSE code	500136
NSE code	ESTER

Ester Industries Ltd., incorporated in the year 1985 manufactures Polyester Films, Specialty Polymers, and Engineering Plastic compounds. Polyester Films are used primarily in flexible packaging while Specialty Polymers are used in niche areas including rigid packaging, textiles, etc. The company also produce Engineering Plastics compounds for industries like Automotive, Electrical & Electronics, Appliances, and Telecom.

The company's plant is located at Khatima, Uttarakhand. The company has a global presence, supplying to a large customer base in 75 countries across Europe, Americas, Africa, the Indian sub-continent, Far East, Asia Pacific, and the Middle East.

Ester Industries' majority revenue comes from Polyester Films product at Rs 786.76 Crore which contributed 79.31 % of Total Sales and Engineering Plastics segment drive Rs 204.99 Crore to Sales Value which is 20.69 % of Total Sales.

Capex

The company is setting up a new BOPET Film Line of 48000 MTPA via a Subsidiary Ester Filmtech Limited in Telangana. The added capacity will result in a total of BOPET Film capacity to 108,000 MTPA from existing 60,000 MTPA. The CAPEX will cost the company about 500 Crore and is expected to start in June of 2022. This addition is in response to the growing demand for the film which is also seeing usage across several new categories. With this plant, the company will get a geographical advantage as its existing plant is in Uttarakhand. The company is currently estimating additional annual revenue of about 650 to 700 Crore from the new capacity and is looking at a top line of about Rs 2000+ Crore by 2023.

The company has grown at a CAGR of 12% in the 10 years from FY11 to FY22, driven by capacity expansions and productivity improvements.

Business vertical	Installed capacity (MTPA)
Polyester films	60,000
Metalized polyester films	13,200
Specialty Polymer	30,000
Engineering Plastics	13,500

Promoters increase holding in the company

The promoter and promoter group entities Fenton Investments, Wilemina Finance Corp and Movi have acquired 4.9 lakh (0.59%) 14.4 lakh (1.73%) and 21.6 lakh (2.59%) shares respectively on August 11, 2020 and September 1, 2020 via an off-market transaction. Post this transaction, the Promoter stake in the Company has increased by 4.91% to 64.04% from 59.13%.

Industry

The global BOPET film market has seen demand grow by 6.7% per annum over the last 5 years reaching just over 5 million tonnes in 2018, resulting in a \$12 billion industry. The main increases in volume have been seen in Asia where China and India continue to be the driving forces in the global BOPET film market. Asian countries account for approximately 77% of global demand for BOPET film

BOPET film market current capacity is around 6.9 million tonnes with the capacity utilization rate improving from a low of 71% in 2015 to a healthy 76% in 2018. Over the five years (i.e. the period 2019-23 inclusive) there will be an additional 1.1 million tonnes of announced capacity installed on the global market with a capacity utilization rate growing to an impressive 81%.

To meet the growing demand, we have seen significant capacity build-up in Asia, making Asia the largest producer of BOPET film. Chinese and Indian-owned producers now account for approximately 60% of global output and look set to continue to dominate as nearly half the announced capacity due to be installed in the market over the next 5 years.

The domestic demand for BOPET films in India is continuing to grow at a CAGR of about 10-12 percent per annum over the last 5 years. Low per capita consumption of BOPET films, innovation in packaging formats, rising disposable incomes continues to be the key factors behind this growth. We expect this growth momentum to continue. During the year India added about 80KT of additional capacity. This 80KT additional capacity has helped serve demand growth in India as well as for the export market. The total production capacity of Thin BOPET films in India at the end of 2019 was at about 750,000 metric tons per annum. The domestic demand in 2019 was more than 560,000 metric tons, representing a 14 percent increase from the previous year.

Financials

The Company earned a Net Profit after Tax (NPAT) of Rs. 142.08 crores for FY21, a significant improvement as compared to NPAT of Rs. 99.50 crores earned during FY 2019-20. Revenue from Operations for FY21 stood at Rs. 999.75 crores compared to Rs. 1047.60 crores during FY 2019-20, a marginal decrease of 4.57%. Main factors for significant enhancement in the profitability of the company are substantially improved

performance of Polyester Film and Specialty Polymers on account of higher volume as well as better margins.

For the year ended March 2021, the company has reported Net Sales at Rs 999.75 crore in March 2021 down 4.57% from Rs. 1,047.60 crore in March 2020. Yearly Net Profit at Rs. 142.08 crore in March 2021 up 42.79% from Rs. 99.50 crore in March 2020 due to higher realization. EBITDA stands Rs. 243.76 crores in March 2021 increased by 22.92% from Rs. 198.30 crore in March 2020. Ester Ind EPS increased to Rs. 17.04 in March 2021 from Rs. 11.93 in March 2020.

Profit and Loss Statement						
<i>Figures in Crores</i>						
Particulars	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
Sales	894.83	768.13	703.14	806.74	1,028.06	1,038.70
Expenses	822.96	696.10	660.25	740.39	918.95	847.56
Operating Profit	71.87	72.03	42.89	66.35	109.11	191.14
Other Income	2.21	3.18	6.30	4.94	4.56	7.16
Depreciation	32.11	32.36	31.76	31.02	32.42	35.28
Interest	37.10	36.01	33.36	32.78	34.21	24.46
Profit before tax	4.87	6.84	(15.93)	7.49	47.04	138.56
Tax	1.04	2.27	(5.24)	2.20	15.93	39.07
Net profit	3.84	4.56	(10.69)	5.29	31.11	99.50
EPS	0.61	0.55	(1.28)	0.63	3.73	11.93
Price to earning	26.74	95.93	(36.55)	104.92	9.37	2.02
Price	16.40	52.45	46.85	66.55	34.95	24.05

Balance Sheet Statement						
<i>Figures in Crores</i>						
Particulars	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Equity Share Capital	31.32	41.70	41.70	41.70	41.70	41.70
Reserves	236.39	251.53	235.21	241.56	272.72	366.44
Borrowings	375.63	316.24	310.43	303.36	243.28	151.20
Other Liabilities	71.65	79.66	93.61	117.43	107.69	131.73
Total	714.99	689.13	680.95	704.05	665.39	691.07
Net Block	399.33	384.99	416.23	398.54	386.61	363.69
Capital Work in Progress	12.09	23.48	1.74	1.27	3.26	22.69
Investments	0.02	0.41	0.21	0.27	0.17	0.23
Other Assets	303.55	280.25	262.77	303.97	275.35	304.46
Total	714.99	689.13	680.95	704.05	665.39	691.07
Working Capital	231.90	200.59	169.16	186.54	167.66	172.73
Debtors	117.92	112.20	116.10	148.19	122.80	121.25
Inventory	127.67	128.37	117.26	114.19	125.15	110.37
Debtor Days	48.10	53.32	60.27	67.05	43.60	42.61
Inventory Turnover	7.01	5.98	6.00	7.06	8.21	9.41
Return on Equity	1%	2%	-4%	2%	10%	24%
Return on Capital Emp	7%	7%	3%	7%	14%	29%

Stock Chart



Verdict

The company has grown at a CAGR of 12% in the 10 years from FY11 to FY21, driven by capacity expansions and productivity improvements and expected to maintain the same. To meet the rising demand the company is adding capacity. The company aims to double its top line in the next 3 years. Lower valuation and robust growth prospects make this a good buy. Investors can expect handsome returns in the next 5 - 6 years.

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