


INVESTMENT IDEA
Ester Industries Ltd.
<http://www.esterindustries.com>

Risk	LOW
Price (Rs.)	30.70
Market Cap (Rs.Crs.)	193
52 High / Low (Rs.)	31.40 /15.55
Sales/MCap	2.18
Book Value (Rs.)	27.70
BSE	500136
NSE	ESTERIND
Reuters	ESTR.BO
Bloomberg	ESTR.IN

Key Financials Consolidated

(Rs Crores)	FY09	FY10	% chg
Gross Sales	404.22	421.66	4.3
PBIDT	71.14	61.77	-13.2
Interest	9.64	6.28	-34.9
Depreciation	13.42	14.16	5.5
Tax	14.65	13.48	-8.0
Net Profit	33.43	27.85	-16.7
EPS (Rs)	6.02	4.43	-26.5
CEPS (Rs)	8.44	6.68	-20.9
F.V. (Rs)	5.00	5.00	0.0
Dividend (%)	10.00	20.00	100.0
Equity Capital	27.75	31.45	13.3
PE (x)	5.10	6.93	36.0

Shareholding Pattern

(%)	Dec-09	Mar-10	change
Foreign	5.86	6.15	0.29
Institutions	0.11	0.11	0.00
Corp. Holding	4.14	3.53	-0.61
Promoters	67.95	67.95	0.00
Public&Others	21.94	22.26	0.32

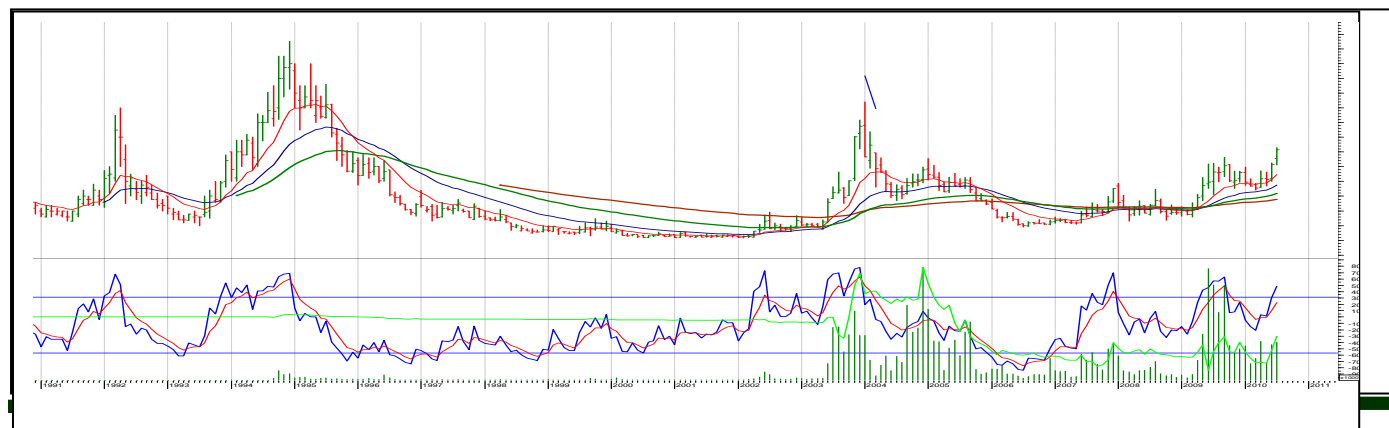
Investment Argument

Company produces **PET films & Engineering plastic**, wherein demand and realizations are moving northwards in recent past. Company's utilization levels are more than 100% for PET film and looking to **realization trend in last 6 months, this division will be a big money spinner** [see next page for realization trend as per industry sources] for now. The company is also **doubling the capacity of PET Films**, which may be commissioned by the end of calendar year 2010. **Engg Plastic division** which caters to Automobile, Engg & Electrical segments is also doing well. Over 80% revenues come from PET films, where **realizations are very strong since April'10**. Per Kg prices have moved up from around Rs.100 in March'10 to Rs 140 in June'10. Fortunately **PTA & MEG prices are more or less stable**, so whole incremental revenues will add to the profits. Thus **June Qtr will be much better than March'10; plus next i.e. Sept Qtr will be much much better**; for not only this company, but for the whole industry. Most of the sales are to the domestic markets [80%], **catering to flexible packaging segment which in turn depends upon FMCG sector** where demand is strong at 20-22% [and least affected by any slowdown], **rest is exported**.

Company is also having large metalizing facility which adds value to basic PET films. It is also developing and commercializing some other value added products of PET films. Company has innovated unique cost cutting measures like – using Biomass based fluid heaters, which can also generate some CERs for the Co.

Recommendation

With stable input prices and sustained strength in realizations, the margins are improving for biggest division PET Films. Even Engg plastic division is experiencing good demand and healthy margins. FY'11 EPS estimates are over Rs 10, while FY'12 EPS could spurt [due to commissioning of fresh 27,000 MTs PET Film capacity before end of 2010] to around Rs 20/-. **So we expect a 50% appreciation to Rs 45 in next 3-4 months and target for Rs 80/- in next 12-15 months time frame. BUY**





Ester Industries Ltd.

Projections

Key Financials

(Rs Crores)	FY10	FY11E	FY12E
Gross Sales	421.66	515.00	865.0
PBIDT	61.77	111.00	195.0
Interest	6.28	5.00	14.0
Depreciation	14.16	14.00	20.0
Tax	13.48	24.00	30.0
Net Profit	27.85	68.00	131.0
EPS (Rs)	4.43	10.81	20.83
CEPS (Rs)	6.68	13.04	24.01
F.V. (Rs)	5	5	5.0
Dividend (%)	20	25	30.0
Equity Capital	31.45	31.45	31.5
PE (x)	6.93	2.84	1.47

In FY '12 full impact of doubling of PET Film capacity will be available.....

Background

The company manufactures and sells **PET film** [Capacity - 30,000 MTs], also its value added variants and **Engineering plastics** [Cap. 11,000 MTs]. It also manufactures - **Polymer chips** [Cap. 36,000MTs] which are mostly used captively for making films. Utilization levels for PET films is over 100% and company is setting up one more line of 27,000 MTs of PET films thus expanding capacity from 30,000MTs to 57,000MTs.by the end of 2010.

The demand growth in the PET film has been triggered by steep **growth in Flexible Packaging of FMCG/Snack food products etc.** which continue to shift from loose/ bulk packs to smaller unit packs. A significant shift in use of packaged products and rapidly growing organized retailing, promises a sustained growth in PET film usage.

Realizations for PET films have improved consistently since Feb'10 following tight supplies and strong global demand. Further low cost Chinese supplies ceased to flood the markets due to removal of Chinese export subsidies. This situation may further improve if Chinese wage hike phenomenon escalates or Yuan appreciates. [Standard PET film prices risen MoM since Feb'10 as follows – 98/Kg in Feb'10 to 101;106;113;125;140;145 now in July'10] This suggests that average realization were 114/ Kg for June'10 Qtr against less than 100 in March Qtr. Further for Sept Qtr it should be around 140/kg, suggesting next Qtr will be extremely good for the industry. [This is so because inputs (MEG & PTA) prices were more or less stable since last six months due to abundant supplies in global markets].

The Engineering Plastics compounds and blends business continues to be a high growth segment. The major applications for Engineering Plastics compounds are in the - Electrical, Electronics and Automotive sectors.

Company is the first company to use rice husk for Thermic Fluid Heater which will save emission of 18000MTs of carbon di-oxide and once registered under CDM (Clean development Mechanism), the company will get equivalent CER's under Kyoto Protocol of United Nations. Company is also cutting cost by innovative measures like installation of Glycol ejectors. Not only is this company having large metalizing facility, which improves realizations. It is also developing newer kind of films for varied uses leading to more value addition.

Risks and Concerns

Any weakness in realizations or rise in input costs may have negative impact on margins.

Recommendation

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