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Ester Industries Ltd

Result Update – QE Sep 03

We had recommended Ester Industries at Rs.15 last month. The stock is up 20% since then despite institutional investors selling 8.5% of the company's equity in the open market. The company has reported net profit of Rs.111mn for the September quarter as compared to Rs.70mn in QE Jun-03 and Rs.16mn in QE Sep-02.

Fair Value Rs.47

Price Rs.18

+161%

The stock currently **trades at mere 1.6 times** trailing four quarters' EPS (Rs.11.57). We expect its **earnings to grow at 38% this year and 20% next year** driven largely by cost reductions and efficiency gains. A business with Rs.2.8bn in sales and **post-tax RoCE of 20% plus** is going dirt-cheap. We estimate DCF fair value at Rs.47.

We expect the performance in QE Dec-03 to improve further as polyester film **realisations are up 5% in the month of Oct-03** as compared to that in the month of Sep-03 due to fire at Flex Industries' plant at Noida. Flex makes 3000-3200 MT of thin polyester films per month.

Gross sales increased 17.8% YoY to Rs.749mn for the quarter driven by continued strong demand for polyester films in the domestic market. **Domestic sales grew 43.6%** YoY to Rs.514mn for the quarter. Of this, volume growth contributed around 20% growth and the balance came from increase in realisations and change in product mix. Export sales for the quarter was down 15.5% to Rs.235mn, as the volume was diverted to more lucrative domestic market.

Polyester film **production increased 10%** sequentially to 6500 MT in the quarter from 5900 MT in QE Jun-03.

There was a marginal decline of Rs.5mn in inventory (finished goods and WIP) during the quarter. This follows an **inventory decline** of Rs.53mn in the previous quarter.

EBITDA for the quarter grew 41.5% YoY to Rs.199mn. **EBITDA margin improved 447 bps** to 26.6% driven largely by higher realisations and marginally by lower costs.

The company's ERP (SAP R3) implementation has got delayed by a couple of months. It was supposed to go live with ERP on Oct 1, 2003; but it will now be live towards the end of Nov-03. Needless to say, the **benefits of ERP implementation are yet to kick in**.

Depreciation, other income, and interest were at around the same level as in QE Jun-03. There were, however, down YoY. **Interest was down 62%** YoY to Rs.33mn. The interest coverage in the quarter was very comfortable at 4.8 (EBIT/Interest).

Tax rate (Tax/PBT) went up to 14.7% during the quarter from 6.7% in QE Jun-03, as there is net deferred tax also in this quarter besides MAT.

There was an extra-ordinary income of Rs.79mn in the QE Sep-02. Adjusted for this, PAT has gone up from Rs.16mn in QE Sep-02 to Rs.111mn in this quarter. PAT in the QE Jun-03 was Rs.70mn.

Promoters' shareholding remained at 49.5%. Institutional investors reduced their holding from 15.88% to 7.37% during the quarter.

Please refer our report of 08 Sep 03 for detailed analysis.



Financial Table: Ester Industries Ltd						
Rs.mn	Sep-03	Sep-02	Change	Sep-03	Sep-02	Change
No. of months	3	3	%	6	6	%
Domestic Sales	514	358	43.6%	919	845	8.8%
Export Sales	235	278	-15.5%	555	443	25.3%
Gross Sales	749	636	17.8%	1,474	1,288	14.4%
Increase/(Decrease) in stock	(5)	13		(58)	15	
Value of Production	744	649	14.6%	1,416	1,303	8.7%
Total Expenditure	544	508	7.1%	1,070	1,080	-1.0%
EBIDTA	199	141	41.5%	347	223	55.5%
Depreciation	40	45	-11.9%	80	83	-3.5%
EBIT	160	96	66.6%	266	140	90.7%
Other income	4	7	-46.5%	7	8	-15.9%
Interest	33	87	-62.0%	67	168	-60.0%
PBT	130	16	719.9%	206	(21)	
Extra ordinary Exp/(Inc)	-	(79)		-	(79)	
Tax	19	0		24	0	
PAT	111	95	17.0%	181	58	211.1%
Adjusted PAT	111	16	601.9%	181	(21)	
Equity Capital	408	408		408	408	
Annualised EPS (Rs)	10.90	1.55	601.9%	8.89	(1.03)	
EBITDA Margin (%)	26.6%	22.2%	4.47%	23.5%	17.3%	6.21%
EBIT Margin (%)	21.3%	15.1%	6.3%	18.1%	10.8%	7.2%
Adj PAT Margin (%)	15.0%	2.4%		12.8%	-1.6%	
Other Income/PBT (%)	2.9%	44.9%		3.3%	-38.5%	
Tax/PBT (%)	14.7%	0.4%		11.8%	-0.3%	
Export/Total sales %	31.4%	43.7%		37.6%	34.4%	
Material costs	375	340	10.5%	747	750	-0.4%
% of VoP	50.5%	52.3%	-1.9%	52.7%	57.5%	-4.8%
Excise	70	58	20.3%	128	138	-7.3%
% of (VoP-Exports)	13.7%	15.6%	-1.9%	14.9%	16.1%	-1.2%
Staff costs	29	29	-0.4%	57	54	5.0%
% of VoP	3.9%	4.5%	-0.6%	4.0%	4.2%	-0.1%
Selling and distn exp	37	42	-12.9%	79	72	9.1%
% of VoP	4.9%	6.6%	-1.7%	5.4%	5.6%	-0.3%
General Admin exp	26	29	-9.6%	54	54	-0.2%
% of VoP	3.5%	4.6%	-1.1%	3.7%	4.2%	-0.5%
Other costs	7	10	-29.6%	5	11	-57.3%
% of VoP	0.9%	1.5%	-0.6%	0.3%	0.9%	-0.5%



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