

Ester Industries Limited

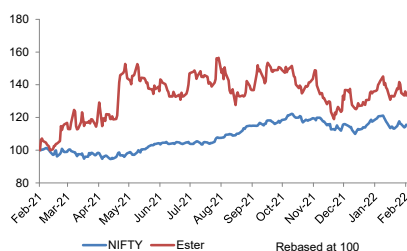
14 February 2022

Solid demand outlook is supported by capacity expansion

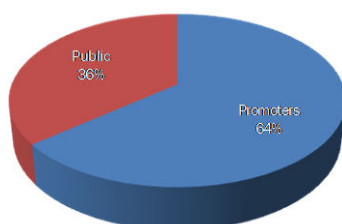
BUY

Sector	: Plastics
Target Price	: Rs 203
Current Market Price	: Rs 131
Market Cap	: Rs 1,095 crore
52-week High/Low	: Rs 165/99
Daily Avg Vol (12M)	: 3,68,488
Face Value	: Rs 5
Beta	: 0.88
Pledged Shares	: 6.0%
Year End	: March
BSE Scrip Code	: 500136
NSE Scrip Code	: ESTER
Bloomberg Code	: ESTR IN
Reuters Code	: ESTR.NS
Nifty	: 17,375
BSE Sensex	: 58,153
Analyst	: Research Team

Price Performance



Shareholding Pattern



3Q FY22 Update

Result Highlights

- Ester delivered robust growth during 3Q FY22 and 9M FY22, driven by strong performances across segments. Operating revenues increased by 43.0% y-o-y and 46.5% y-o-y in 3Q FY22 and 9M FY22, respectively.
- EBITDA growth of 13.1% y-o-y and 2.2% y-o-y in 3Q FY22 and 9M FY22, respectively was lower than the topline growth as margins declined with a fall in Films margin more than offsetting the higher margins in Speciality Polymers (SP) and Engineering Plastics (EP) segments. While the company is largely able to pass through higher raw material prices to the customer, higher input costs led to a decline in operating margins in percentage terms.
- PAT growth was broadly in line with the operating performance as PAT margin saw a decline.

Outlook & Valuation

The SP vertical continues to witness strong growth momentum on a sequential basis with revenues increasing at a healthy rate both on a y-o-y and q-o-q basis. Films turned in a solid performance as EP delivered robust growth in spite of a slowdown in the auto sector owing to the ongoing semiconductor shortage. Going forward, we expect strong export-driven growth in SP, healthy demand for EP, and steady growth in Films revenues. The new film facility in Telengana, comprising 48,000 MTPA of BOPET film capacity and 8,333 MTPA of metallised BOPET film capacity, which is expected to come on-stream in October 2022, will boost 2H FY23 revenues with its full impact expected to be seen from FY24 onwards. Changing revenue mix in favour of a higher share of SP and value-added films, the relocation of the EP plant to Halol near Vadodara, and operating leverage will lead to margin accretion going forward. The Ester stock has appreciated 77% since we initiated coverage on the company on 30 September 2020. Based on a target multiple of 7.0x FY24E EPS, we arrive at a price target of Rs 203, informing a BUY rating with an upside of 54%.

Key Financial Metrics (Consolidated)

₹ crore	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Operating revenue	1,028.1	1,038.7	991.8	1,393.1	1,622.8	1,978.8
Growth		1.0%	-4.5%	40.5%	16.5%	21.9%
EBITDA	108.0	189.4	231.2	252.2	335.7	426.3
EBITDA margin	10.5%	18.2%	23.3%	18.1%	19.5%	20.5%
PAT	31.1	99.5	137.5	143.5	183.7	241.4
PAT margin	3.0%	9.6%	13.9%	10.3%	11.3%	12.2%
Diluted EPS (₹)	3.73	11.93	16.49	17.21	22.03	28.95

Source: Company data, Khambatta Research

Ester Industries Limited**14 February 2022****Financial Performance (Consolidated)**

₹ crore	3Q FY21	2Q FY22	3Q FY22	Y-o-Y	Q-o-Q	9M FY21	9M FY22	Y-o-Y
Operating revenue	255.7	333.0	365.6	43.0%	9.8%	694.7	1,017.5	46.5%
EBITDA	53.9	55.1	60.9	13.1%	10.5%	173.9	177.8	2.2%
EBITDA margin	21.1%	16.6%	16.7%	-441 bps	10 bps	25.0%	17.5%	-756 bps
PAT	31.5	32.3	34.5	9.5%	6.7%	105.1	103.8	-1.2%
PAT margin	12.3%	9.7%	9.4%	-289 bps	-27 bps	15.1%	10.2%	-493 bps
Diluted EPS (₹)	3.78	3.88	4.14	9.5%	6.8%	12.60	12.45	-1.2%

Source: Company data, Khambatta Research

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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