Ester Industries (ESTIND)  ₹ 45

Management downgrades future guidance...

Ester Industries (Ester) reported a healthy Q4FY18 performance. Net sales for the quarter were at ₹ 220 crore, up 11.7% YoY. EBITDA in Q4FY18 was at ₹ 22.7 crore with corresponding EBITDA margin of 10.3%. Consequent PAT in Q4FY18 was at ₹ 5.6 crore. Q4FY18 marks a turnaround quarter resurfacing double digit EBITDA margins, best in the last 10 quarters. PAT of ₹ 6 crore is also the highest in the last 12 quarters. However, the management has revised its downward its guidance in the quite essential speciality polymer segment, which was the key driver of growth for Ester and basis of our investment thesis on the company. Revising downward our estimates, we do not find value in the stock and drop coverage on the same. We recommend that investors exit at the current market price.

Speciality polymer division; outlook revised downward

In January 2018, Ester had won an order from a leading carpet player (globally) for its patented product MB03 i.e. a stain resistant master batch. The order size was initially pegged at ~1700-2000 tonne/annum resulting in incremental revenue of ~₹ 60 crore annually with contribution margin in excess of 50%. It had the potential to scale up to ~4000 tonne in two to three years. In the Q4FY18 results conference call, the management revised downward its sales volume guidance in this segment to ~700-800 tonne/annum primarily factoring in slower than anticipated demand. Since it is a high margin product, it substantially reduces our forward estimates resulting in a meaningful change in stance.

Delay in order pick up dents growth trajectory & returns ratios matrix

A downward revision in numbers also dents the forward return ratios matrix and consequent target valuation multiple. Going forward, over FY18-20E, we expect sales to grow at a CAGR of 9.1% to ~₹ 960 crore in FY20E. On the PAT front, we expect Ester to clock PAT of ₹ 33 crore and ₹ 38 crore over FY19E and FY20E, respectively. This is against our initial estimates of ₹ 45 crore and ₹ 58 crore in FY19E & FY20E, respectively. Consequently, the return ratios matrix is expected to be lower than our initial estimates and does not lie within our comfort thereby eroding our margin of safety on the stock. We recommend exit at the CMP. Currently, Ester is trading at ~10 P/E, ~6x EV/EBITDA on FY20E numbers with RoE & RoCE less than 15% vs. earlier envisaged level of 15%+.

<table>
<thead>
<tr>
<th>Exhibit 1: Financial Summary</th>
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<tr>
<td>(Year-end March)</td>
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<tr>
<td>FY16</td>
</tr>
<tr>
<td>Revenues (₹ crore)</td>
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<tr>
<td>EBITDA (₹ crore)</td>
</tr>
<tr>
<td>Net Profit (₹ crore)</td>
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<tr>
<td>Balance Sheet</td>
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<td>Equity (₹ crore)</td>
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<td>Earnings per share (₹)</td>
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<td>Dividend per share (₹)</td>
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<tr>
<td>EV/EBITDA (x)</td>
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<td>P/E (x)</td>
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Source: Company, ICICI Direct Research
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