Apcotex Industries Limited
Q1 FY-21 Earnings Conference Call
July 31, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY21 Earnings Conference Call of Apcotex Industries Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "0" then "*" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to handover the conference over to Mr. Anuj Sonpal, CEO of Valorem Advisors. Thank you and over to you sir.

Anuj Sonpal: Thank you. Good afternoon everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors we represent the investor relations of Apcotex Industries Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings conference call for Q1 FY21. Before we begin, I would like to mention a short cautionary statement.

Some of the statements made in today's earnings conference call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by information currently available to management. Audiences are cautioned not to place undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now, I would like to introduce you to the management participating with us in today's earnings call. We have with us Mr. Abhiraj Choksey - Managing Director and Mr. Anand Kumashi - Company Secretary. Without much delay, I request Mr. Anand Kumashi to give his opening remarks. Thank you and over to you, sir.

Anand Kumashi: Thank you Anuj. Good evening and welcome everyone to this earning conference call for Q1 FY21 under review. Along with me in today's earnings call I have our Managing Director Mr. Abhiraj Choksey. I hope you had an opportunity to look at the company's performance for Q1 21 as well as the earning presentation, which has been circulated and uploaded on the website of the company as well as on the stock exchanges. To brief you on the financial performance for the first quarter of the financial year ended 2021, the total revenue stood at 60 crore with operating EBITDA loss of about 4 core for the quarter and net loss of about 7 crore. From the numbers we can make that this quarter, eared the worst brunt of COVID-19 pandemic. As you know both plants are closed from the last week of March 2020 as per the lockdown orders, but we obtained the necessary permission from the concerned local authorities to restart the production at the end of the April. Unitsstarted ramping up slowly from the end of April and in the month of June 2020, we were at 80, 85% of the pre COVID monthly volume levels.

Our sales for the quarter were lower by about 59% but our volume sales were lower by only 45%. However, lower volume sales coupled with a high cost of inventory, which has resulted into loss of about 7 crore before tax. As demand for few industries was slow, we modified a few assets to manufacture more of XNBRLatex forgloves where the demand is robust. The marginal investment to make these assets more flexible, will be completed in Q2 FY2021. On antidumping petition part, the dumping enter into India continues since the last financial year. The sunset review has been initiated by the designated authority in Q4 FY20, against South Korea, which accounts for 50% of the NBR imports into India. Fresh antidumping petition has been filed in Q4 FY20 against Russia, China, Japan and European Union. Thecase was initiated by the designated authorities in Q1 FY21.Several cost cutting measures and innovative ideas being implemented and considered in order for the company to successfully withstand the impact of COVID-19.

To update you on the CAPEX projects: the last three years CAPEX spent plan of around 100 crore FY18, 19 and 20, we've completed as planned by 30th June 2020. Although it got delayed by about three months on account of the COVID.The capacity enhancement in the Valia plant and reasonable savings expected in Q2.Our new project focused for FY21 XNBRLatex for gloves to diversify our product range, industries and geographies. Investment estimated around 100 crore. We are in the design phase now and hope to obtain the environmental content by October 20 and will start the construction Q3. Before opening the call for the question answers, I would like to hand over to Mr. Abhiraj Choksey, our Managing Director, over to you.

Abhiraj Choksey: Thank you Anand. Thank you Anuj. Good afternoon, everyone. I just wanted to, before we start with the question answer, I just wanted to spend a couple of minutes discussing or recapping on the last couple of years of the company. If you recall, after we made the acquisition in 2016. We turned around the company and we had pretty strong results for FY18 and FY19.We were upbeat about FY20,but suddenly towards the second quarter and onwards, quite a lot of dumping from a couple of countries for NBR especially started and that resulted in FY20 being more challenging than we had initially anticipated. However, we were coming out of that again in the Q4 for FY20. When of course COVID in the lockdown hit us towards the second half of March and then of course, the last quarter was really difficult for most companies including us and are no exceptions. So we, as Anand mentioned we were shocked for a month and then we slowly started ramping up. We are surprised with the pullback, pleasantly surprised with the pullback and we're seeing reasonably good demand across most industries that we're catering to. As again Anand had, so even in as early as June we were back to 80, 85% of pre COVID levels and at the momentum continues and July is even better. We are quite confident that with all the work that we've put in from the last two, three months and made a lot of changes use this adversity into opportunities and for example, creating the assets to become more flexible, making the assets more flexible, to make XNBRLatex, which is already in pretty good demand all across the world. And several cost cutting measures and innovative idea. I am sure that by the end of Q2 or early Q3, we should be back to pre COVID levels. And as a company we are quite confident, our team is quite confident of doing that. So, I just wanted to leave you guys with these thoughts with you, beforewe start the question answer session. I'll be happy to answer any other questions that you have.

Moderator: Thank you very much. We will now begin the question and answer session. First question comes from the line of Farooq from Avista Management. Your line is unmated.

Farooq Pandole: Just had a couple of questions. Firstly, in the introduction you all mentioned that the new gloves capacity would be a 100 crore to be spent over the next year. So, keeping that in mind, could you just sort of again reiterate what is the sort of CAPEX estimate for this year, for this fiscal year and what would be the CAPEX estimate for next fiscal year. And if I remember correct from previous calls, the money that was to be allocated to the gloves project involvedand a figure in excess of 200 crore. So, is that my misunderstanding or where is the variance coming through. Andsecondly, you mentioned that there has been a repurposing towards gloves capacity from existing NBR facility. So, is there any way in the current time that we could maybe accelerate this process of repurposing all of our capacity towards the glove, which is a more attractive, which is a more obviously attractive market and certainly at this point in time?

Abhiraj Choksey: Thanks for the questions. I'll take your first question. There is some misunderstanding so last / previous concall, we were talking about two separate projects, one was XNBLatex for glove and the second was for NBR, expansion of the NBR capacity. Now, the XNBLatex for gloves at that point we had mentioned somewhere around 65 to 70 crore and the NBR line two was supposed to be about 180 to 200 crore. So, you may have misunderstood the two. So, the XNB Latex capacity that we had said 65 to 70 crore, the budget has gone up to 100 crore and we went more into the detail, but we're also looking at adding more capacity as well as making provision for future additions in the future. So, for example, a construction will be a little bigger than what is actually required for the first phase of about 40, 45,000 tonnes that we're looking at. But we will be able to then in the future add more reactors and other assets without having to, without any civil construction. So, as a result the cost has gone up a little. In terms of technology also we have, we are looking at a little bit more automation so that we can scale in the future. So, I hope that answers the first question Farooq.

Farooq Pandole: So that's a 100 crore which will mainly be spent in this fiscal year for the?

Management: No, so it will be over the next two fiscal year, this and next one.

Farooq Pandole: Okay. And what about the 180 to 200 crore CAPEX, is that going to be on a sort of we will see it as it comes kind of thing?

Management: Yes, as of now we are given the dumping that started last year of NBR, we just want to make sure and we should know in the next one quarter on the final outcome of both those petitions. Based on that we will take a call on that business or on that expansion. So hopefully, by if not the end of Q2, definitely in Q3 we should have a decision on that project as well. Also, the other thing is with COVID hitting us and this uncertainty that is been created by COVID. We also just wanted to wait and watch for three to four months before we embarked on that project. So, while that is still on the horizon as of now we have got to know enough. And as far as your question on, how much of the 100 crore will be spent this year and next year, I don't have an exact number but if I were to venture a guess it would be close to 50:50, maybe 40:60 but more of it would perhaps come in the next year, because a large chunk of the payments and would come in the next year, that's it for you.

Farooq Pandole: Okay. And on the repurposing?

Management: Yes, we are already doing that. Just to give you an idea. Our first intention was to only supply a few 100 tonnes. I actually don't want to give an exact number because it's propriety but a certain quantity for the next one year from our Taloja plant while we build this capacity in the Valia plant, but with COVID hitting and with the demand uncertainty for some of our other segments we decided to repurpose some of our reactors in both locations. You mentioned only Valia for NBR, but in most locations we've done it, in Taloja and in Valia. So today, we're manufacturing and NBR, NB Latex forgloves from both locations. And we are manufacturing almost more than twice of what we were manufacturing in March for example of this product. And by Q3, we would be manufacturing maybe four times the amount that we were manufacturing pre COVID. So just for you, to your point we are accelerating it and trying to convert as much as possible, as you can imagine that the plant is not designed for XNBLatex, so it's not the most ideal way to manufacture it. However, if demand in other segments is not strong over the next couple of quarters, then we are able to now make XNBLatex for gloves and we expect that at least for the next one year, the demand will be quite robust and there is no problem with demand there.

Moderator: Thank you. Next we have Mr. Atman Shah, he is an Individual Investor. Your line is unmated.

Atman Shah: I have two questions. One for going through the annual report. I have noticed we have very active equity market operations like we have bought some 40 companies and sold some 40 companies, small equity investments, now looking at the size of our company and the volatile times that we are in. Isn't it better to just place whatever Treasury money we have in a fixed deposit or in a simple investment. So, you can concentrate your time and energy more on strategic investments and growth core business?

Management: Thanks. So first of all, our time and energy as far as the management team is concerned is 100% of the core business I completely agree with you. Tilllast year we were managing this Treasury through two or three different advisors. Now what we have done is brought the entire Treasury under one advisor and that the reason why you saw a lot of churn in the last few months is because of this move to one advisor, we've also considerably reduced our equity exposure. Our main intention is to maximize the returns for our shareholders for the Treasury that we are holding, of course the Treasury would be used for future projects and for future potential acquisitions that are the intention at the same time we want to maximize the return so of course investing is the easiest thing to do. However, in the past we have seen that, we've been investing through advisor for the last 14 years and we have seen that on average we have made much better returns in our portfolio that's every portfolio over the last 14 years, and we've used this money for our acquisition as well. So we feel quite strongly that yes, we should not be managing this money because that's not our expertise. And so we have brought insome good advisor, advisors in the past and now the entire Treasury is under oneadvisor.

Atman Shah: Yes, but the times are volatile and maybe from our core operations, we are facing tough time and we might get another jolt in the investments also, so just a word of?

Management: So, the equity investments on as a percentage of the whole portfolio currently are much lower than they used to be. We also manage the risk in the sense that, they would be under 35, 40% currently of the total portfolio. So, even if there is a little bit of a**,** look we are long term investors, we are not looking to trade every day make short term profit. So, we believe in the long term we should have an exposure to a couple of different assets and equity being one of them.

Atman Shah: Yes. And, I have one more question, the 100 crore investment which we are planning for the Latex material for thegloves. Now, let's assume thatthe demand for these materials for COVID comes down, that capacity because 100 crore if we are investing for some other materials. Canwe use for some other material also the 100 crore investment?

Management: There are couples of things. First of all, the capacity that we are putting up is not even, is less than 3% of the total demand for these products as on today. This market is growing by about 13 to 14% per year per COVID. After COVID, of course now that COVID is with us at least for the next year or two, we expect the growth to be much higher because people are not only using more gloves, but they're using more Nitrile gloves. As a result of which the Nitrile Latex demandis even higher than natural Latex demand, because these are the two different types of gloves i.e. natural Latex and Nitrile Latex. So even though we're putting 100 crore, it's 3% of the global consumption and therefore we, unlike other products where we already have the high market share in India, this product will be more for the export market. There are only a handful of companies that manufacture this product, and we don't expect that we would need to make any other product from these reactors. However, your point is very well taken and that's definitely part of the reason the cost has also gone up from 65 to 100 crore because we also want to make the plants more flexible or at least have the provision, that in the future if it does happen then we will make the plant more flexible to make other products and that's something that we're going to make some decisions on in the next two to three months as we finalize the final design for this plant.

Moderator: Thank you, Mr. Shah. Next question comes from the line of Saurabh Shroff from QRC Investment. Line is unmated.

Saurabh Shroff: Just a quick question on the quarter gone by, if you could maybe give us some sense on what the sales mix was between NBR and the other products. And secondly, you mentioned that you would quadruple your XNBR Latex production by the end of December or in the third quarter. So, again that if we could get some sense on volumes and this 100 crore CAPEX that you're putting up, how much is that in terms of tonnage, the 3% of global capacity that you mentioned?

Management: So, in terms of tonnage this would be 40,000 that would be less than, just about 45,000 tonne

Saurabh Shroff: The 100 crore the new CAPEX, what is the potential revenue

Management: yes, which would beabout 300 crore of, 300 to 320 crore of revenue as per current prices.

Saurabh Shroff: Okay. So even in this particular product, the economics in terms of the pass through of raw material volatility, etcetera with the 15 days to one month lag, all of that still remains true even hear or is it, because it's a bit more of a consumable, do you get slightly better terms or worse terms or whatever?

Management: No, it's quite similar. You can just pass through with a lag.

Management: And about your question on NBR, the first quarter look, obviously when we started off the essential products started off first, which was paper and packaging, because we supply to a lot of companies . So, we started off with packaging. I don't have the, I should have the exact numbers but if you just give me a second. So, I would say that a larger chunk would be the Latex manufacturing industry and the less would be NBR because NBR sales really didn't start till the end of May whereas Latex started from the end of April. I don't have an exact percentage breakup but, I would venture a guess and say about 65 to 70% were Latex and 30% was NBR in terms of value.

Saurabh Shroff: Fine. June you said was at 80, 85% utilization, July is even better. So, is that is that demand essentially coming from across all of your industry verticals be it autos or packaging or paper, etcetera. Is it across the board or is it sort of concentrated a bit more here or a bit less there's?

Management: No look every, this is on average cost. There are a few that have come back to almost 100% for example the packaging that was into paper board has almost come back to pre COVID level. As far as, for example construction, because there were one or two months, we supplied to the waterproofing industry in construction. So because there were a couple of months where everything was shut, there was a lot of pent up demand for waterproofing during this monsoon season. So that's done very well. All the export related products have done reasonably well. Certainly, there's some product that have not done as well and within NBR also we supply to the auto industry and the non-auto industry, the non-auto industry like rice roll manufacturing and some other industrial applications has done quite well. And obviously the auto has not. So, I would say on average besides auto and maybe one other indices, one or two other, most of the others have bounced back reasonably well I would say.

Saurabh Shroff: Okay and we have some exports to Pakistan as well in the past. Is there any change there or is that sort of business loss?

Management: Yes, that was a hit which I mentioned in my previous concall that we were last year in August because of political reason that we are not able to export to Pakistan anymore, but we have made up that business through other by developing other markets and we are confident that this year our exports will be similar to last year in terms of volumes. Even though we lost one month.

Saurabh Shroff: The time being gone, that's not coming back and it doesn't matter, you replace it with something else.

Management: That's right.

Saurabh Shroff: Okay, fair enough. And finally, with the power plant and the restructuring, debottlenecking done at Valia. Would you try to have some sort of a margin number for us just so that we can understand even if it is on a per tonne basis or whatever just so we can understand the trajectory of how the rest of the year is going to look?

Management: Look obviously we expect an improvement in the margin, but however I don't want to give any number right now because there is this uncertainty around COVID is there. But given the projects that we've undertaken and most of them have been now, all of them have been implemented, the big one being the power plant, we do expect a couple of percentage points higher than what it would have been without those projects.

Saurabh Shroff: Okay, so if we take this 7 whatever, 6.8% or 7% of FY20as base and not even talk about the 11 or 12% that we've done in the past, at least we could be close to a double digit margin at least there's no reason to think that the 7% number should be anywhere in the vicinity of reality. But assuming things normalized, barring COVID impact which is in no one's control, I'm saying just from.

Management: Exactly there are a lot of uncertainties around COVID as you saw in Q1. But, I don't want to venture a number but obviously it will be a couple of percentage better than what it was before.

Saurabh Shroff: Okay, fine. And sorry, just one final question from my side.It was two quarters ago this whole, the inversion of one of the raw materials where Europe was starting to dump towards us and the whole reverse chain. Has that sort of normalized?

Management: Yes, that is absolutely normalized from February onwards. You're talking about but adiene being much cheaper in Europe?

Saurabh Shroff: Yes.

Management: Yes, butadiene being much cheaper in Europe than in Asia, that currently Butadiene in Asia and Europe is pretties much the same.

Saurabh Shroff: So at least that sort of shock was a one off, which you had mentioned and that's not happened again for…..

Management: That's right. That's right.

Moderator: Thank you Mr. Shroff. Next question comes from the line of Dhaval Shah from ICICI Securities. Your line is unmated; you may ask your question.

Dhaval Shah: Sir you mentioned something about the high costs inventory which resulted into some, the operation losses for this quarter. But, if I remember correctly from the beginning of this calendar year, the prices of all our key raw materials were coming down. So, I'm just missing on that part and our inventory days are also between 30 to 40 days. So how have we lost because of high cost inventory?

Management: So what happened was towards the March was actually going quite strong and our production was also very strong in both factories in the month of March. When the lockdown was announced, we had obviously we were like many other companies we were stuck with inventory at our factories that was going to be shipped out till the end of March and early April. What kick us is that, all our raw materials are linked to oil and oil between March and June fell quite drastically, as a result of which petrochemical prices fell drastically, as a result of which our finished goods prices fell drastically so, what the finished goods that we have, for example the finished goods that we had in stock with through our subsidy sold at the March price, we were forced to sell it in May and June at a much lower price because our customers would not accept the prices that were there in March any longer. And if we wanted to do volumes, we had to cut our losses and reduce prices by as much as 30 to 35% in some of our products, a large chunk again of that loss was in NBR and the Latex product, but it was across. Similarly we were also stuck with high costs raw materials, obviously a 30 to 35% reduction in costs, or reduction in pricing when you're stuck with high cost raw material, affected the company fairly significant.

Dhaval Shah: So, how is the pricing now?

Management: Of course now the pricing is low obviously, but luckily now we are out of, we have finished almost all our high cost inventory. So, now buying raw materials at the lower price also right from June onwards. So, one thing I want to mention is that which is a kind of related point is that even though our sales are lower by 69% a value that you are seeing 260 crore but our volume is only by about 46 crore in my case. Q1 of this year compared to Q1 of last year.

Dhaval Shah: Right. And our R&D expenses somewhere suppose around 2% something of sales but, we are not seeing any new product development, this XNBR Latex is, the stocks are going on since last two year, but from that point of time, we haven't seen any development in terms of the product, new product development. Can you share your thoughts on that?

Management: Sure. So, to clarify, there are two types of new product development, one is new product development where we are going into a completely new industry like this XNBR Latex for gloves that we are have a marked on, but within the current grades that we do have, current industry is also that we cater to whether it's paper or construction or carpet or textile. There are constant developments and new grades or new customers. For example, export markets, what we supply to Southeast Asia for construction may be very different from what we supply to the Middle East or what we supply to Europe. So that kind of development works which is incremental product upgrade is what we call in terms of grades, or a specific application that's constantly happening. The other thing that's been happening in R&D is the third type of thing that happens in R&D is, for example NBR, NBR is one product that, but again there are four or five different grades. One of the things that happened is we, since we took this over as business four years agothere are still some customers that we need to ensure that our grade works with those customers, so there's a lot of application development along with the customer, which is also part of my R&D. I hope that answers your question. And therefore, the R&D team that we have, handling all types.

Dhaval Shah: So, the chemistry in which you are present. So, what kind of new product development can be the if we take three years provision, is there any new product going to come, maybe this fiscal or the next fiscal, are you developing something on that? Or right now, the base business is only in the focus, XNBR and NBR?

Management: So it's XSB Latex, NBR, SB Latex and Styrene Acrylic Latex. For these four, as I said, we will keep having new grades that will come out, over the next one or two years. There are obviously other things in the works as well. But it's too early to talk about and as in when we are ready to commercialize them, we will announce them.

Dhaval Shah: Right. And the CAPEX what you spend this 100 odd crore. So, can you please share the break up once again, the power plant is there, then the debottlenecking is also there. So, debottleneckingcost was somewhere around 30 odd crore, the power plant and other cost was also around 30 odd crore. But can you please share breaking up again, out this 100 odd crore?

Management: Look, we don't give project-by-project breakup. But the broad breakup is correct we spend about 40 odd crore in the power plant, we spent about 30, 35 crore on a lot of debottlenecking, not only debottlenecking projects, but there were also cost projects that, obviously we can't reveal. So, that added up to 75 crore other than that look, there are regular CAPEX cost that do come about like adding new storage vessels and so on. So, those are sort of what I would call maintenance CAPEX of about 25 crore that would have happened over the last few years.

Dhaval Shah: Okay, and the new CAPEX what you are envisaging this 100 odd crore, so what kind of ROCE are you looking at?

Management: What kind of what?

Dhaval Shah: ROCE are you look at?

Management: Well, obviously it's a fairly attractive ROCE. We have not sort of, we don't want to get into those numbers right now but, I can assure you it's in the high double digits.

Dhaval Shah: Okay and we earlier mentioned somewhere in the NBR demand it is not there. So we were earlier planning to convert that NBR into the NBR Latex. So when can we see into numbers, can we see those 45000 tonnes into the actual numbers post this H1 during this fiscal or not?

Management: It's already started in Q2, but it will improve further in Q3. But as I said it depends then we have the choice to make XNB Latex or NBR depending on productivity margins, look at the right.

Dhaval Shah: So right now out of the 20,000 tonne capacity, how much NBR Latex can we make?

Management: I don't want to give, I don't give breakup, and we cannot give numbers like that. I'm sorry, for proprietary reasons.

Moderator: Thank you Mr. Shah. Next we have Mr. Karan from Asian Markets Securities. Your line is unmated.

Karan: InQ4 you mentioned that because of the supply side disruption we lost 15 to 17 crore of sales. So, is it fair to assume that, that is reflected in the Q1 numbers or yet it is to be achieved?

Management: I did not understand the question, we lost the sales because of lockdown and in Q1, the lockdown continued so we lost sales there as well. So, as I understand your, can you repeat your question?

Karan: In Q4, we had mentioned that because of the supply side issues. We had the order on hand but we could not supply to our customers orders?

Management: Because of the lockdown.

Karan: Yes, because of the lockdown. So, is it now reflected in the Q1 numbers or still we have something pending to be supplied to in Q2?

Management: No, those orders some of them were canceled frankly. Because, for example we were supposed to supply some to our export customers because we could not supply obviously, they bought the materials from other countries. In cases of India, a lot of our customers were shut for two months. So those orders, some of the orders were cancelled and some of them got postponed and they were supplied to in the month of May and June. So we don't have any pending orders from Q4 if that's your question.

Karan: Yes, okay got it. And of the exports we've seen strict lockdown in domestic market, but the exports were not that strict enough. So is it right to understand that exports grew for us in the current quarter?

Management: Exports as a percentage was higher in the current quarter. Because the opportunities were there, India as you know were shut a lot of our customers opened even as later inJune or end of May. So as a percentage last year we did about 13, 14% and in Q1 our export numbers were close to 18, 19% as a percentage.

Karan: Correct and 18, 19% compared to what percentage on a similar quarter last year, if you have?

Management: On a last year average was about 14%, 13 to 14%.

Karan: Okay. And sir on the CAPEX front apart from the XNBRLatex CAPEX of 40 crore odd in this current year, what other CAPEX because I remember earlier we were also in going to increase capacities of Latex by 20% at the existing location, that plan is still on?

Management: That plan is still on. And we will take a final call in the next two to three months. Again, they're also we are waiting for environmental concern, but project will be much smaller. It will be.

Karan: 12 to 15 crore kind of?

Management: Under 10 crore yes, currently it looks like it will be under 10 crore. So, that's a decision we'll take in the next couple of months.

Karan: So do we have enough visibility for our user industry that we are going for 20% kind of capacity expansion in the current year?

Management: You are right, there is uncertainty. There is uncertainty, but we are looking at it more of the long term rather than the current year. So it's not a question of if it's a question of will, so we may postpone it by three months, six months, but right now we have enough capacity for Taloja Latex plant but the question is when. And don't forget, right now we are also making XNB Latex from our Taloja plant, but when the big project comes up in Valia, big meaning the 45,000 tonne 100 crore project comes up in Valia sometime next year, next fiscal year. At that time, there will be some capacity that will be freed up for other segments as well. So we are looking at all angles and we will take an appropriate action of course, COVID as about six months ago if you are asking there was low prices we were going to go at it because we were running at almost full capacity. But given the current situation, we would like to wait for two to three months more and just see the uncertainty around COVID.

Karan: Correct.

Management: And how that plays out. But we are planning for everything we have already applied for the consent from all environmental clearances that we need. And we have also started the design phase for that project.

Moderator: Thank you. Next, we have Mr. P J Shah, he is an Individual Investor. Line is unmated.

PJ Shah: First of all I wanted to know why the Debt equity ratio is increased that means you are borrowing short term and putting additional capacity from the short term fund.

Management: That equity ratio has increased. I don't think it's increased drastically it may be, because we may have borrowed a little bit at the end of March.

PJ Shah: Your finance cost has also increased sir?

Management: Finance cost has increased yes, because we had borrowed 30 crore last year for this Co-Gen power plant project and our working capital in the last few months have gone up because of this COVID issue. So our working capital utilization has gone up.

PJ Shah: So, that is what the concern is anyway.

Management: No, but there is no concern at all, so I am just little surprise because we are net debt free company. Today we have more cash in the books, then the debt we hold, and this includes the working capital utilization. So as far as we're concerned and we believe that.

PJ Shah: No, your asset turnover ratio has also come down; your debt equity ratio has gone up. That means?

Management: Gone up compared to when?

BJ Shah: FY19 to FY20.

Management: Yes, because as I said we borrowed some money last year. In FY19 we had no long term borrowing, in FY20 we took a small loan of 30 crore for the Co-Gen power plant project which has just been commissioned, we expect that we will be paying that back once this, from September onwards and you will see that in a debt equity ratio again coming down then we may take a loan again for our new project. So as far as debt equity ratio is concerned that is the up and down but we still feel it's a very healthy ratio and we are completely net debt free. So we have enough cash in the books, so that's not a concern at all as far as we are concerned. So, you can't just look at debt equity ratio as a standalone ratio. And asset turnover has decreased because yes, FY19 we had very strong numbers, but please remember that our kind of business. The finished goods prices vary dramatically with the price of oil. So FY19 when the price of oil was on average 80, $85. Obviously, our per kg cost for our products were higher. Now in FY20, while the volumes were not very different the per kg cost of our product feel, so therefore the turnover is small, but the assets will remain the same. So that's also, just as asingle number is not fair to look it at that way, you have to understand the context of the business.

PJ Shah: I understand, but what happened that last three years, somehow or other our results are not as before.

Management: I am sorry, I'm reacting because,and I think there is anunderstanding issue. If you see FY19 we finished FY19 with the strongest result we've had in the history of the company. FY20, so when you say last three years that's not true.

BJ Shah: Sorry, last three quarters the results are not in-line with what it was previously.

Management: Yes, and we have explained the reasons why. Because main reason being that there was a lot of dumping of NBR that happened and is continuing to happen as a result of which that has been a challenge to the business and the business has taken certain actions so that we can use the NBR assets to manufacture other products to see if we need to. For example, XNBLatex, but you're absolutely right last three quarters have been more difficult and now COVID, COVID has hit us.

PJ Shah: COVID has added the situation. And therefore the things there, previously we have no volume of the shares, then you have announced split, bonus and split and now the volume are there but the rate has gone dramatically because of the results bad. That means, investor interest has come down?

Management: Well look, every business goes through cycles. I can't deny that the last three quarters have been difficult cycles. I've explained the reasons why, we feel quite optimistic that we have understood the reason and we have taken appropriate action, the actions we have taken is as follows. Just to repeat, we have filed antidumping, we have invested in the last few quarters and the savings from those investments we will see in the following quarters. We have made our assets more flexible. We have introduced new products, we are taking several cost cutting measures, so as a regard to all this, we will have the company back on track fairly shortly. The uncertainty around COVID remains for at least for the next couple of quarters. But otherwise we are quite optimistic about the business.

PJ Shah: Say another three to four quarters from now, probably we will be back to 19?

Management: I hope so. But we don't, given the current it's actually difficult to predict but we don't give sort of any detailed numbers for future.

Moderator: Thank you. Next we have Ankit Kanodia from Smart Sync Services, line is unmated.

Ankit Kanodia: Thank you for taking my question. My first question was, again related to the ApcoBuild product which we have discussed over the last two concall. We mentioned that we will share more details in the annual report but I couldn't find any mention of the ApcoBuild product. So maybe in the next quarterly presentation, if you can share more details that would be great, that is one.

Management: Sorry, we may have missed that in the annual report. Anand if you can add something more about the ApcoBuild?

Management: In the next quarter presentation we will cover this.

Ankit Kanodia: Thank you. And next, regarding this antidumping, regarding this dumping issue of India. So this is a threat which will always be there. So are we thinking of anything else or how to combat that. So, what is our plan?

Management: Look, obviously we want to be competitive on our own, but there are we have seen that we have been competitive. We took over the NBR business in 2016. We turned it around in the year 16-17 and for the year 17-18 and 18-19 we did pretty well, I would say. However, last year dumping started again and we were forced to take certain action. We believe that as we grow and as we build we will be in the position to fight this. And, I feel as a company even today, even with this issue, we still finished FY20 at reasonable profit, not as much as what we wanted and what we had achieved in FY19 but it is not that the company went into a loss or anything like that. There was one quarter, one or two quarter, one quarter that we had was bad but, other than that as a company we're looking at an overall strategy of introducing new products, diversify product range as well as geography. And from time-to-time this may happen in any of our products, right. Iftodayit's NBR, tomorrow it could happen in another product. NBR unfortunately is a global commodityand, that's something we have to find and the company we were working on it, is overall comprehensive strategy to fight this, but this will happen from time-to-time.

Ankit Kanodia: Yes sir. And last question, thank you that helped. And last question is, as our revenues and all are cost includes a lot of raw materials, commodity cost in play and as you rightly mentioned earlier, that because of crude prices variation there have been a lot of losses which are occurring now. I just wanted to have an understanding as in terms of EBITDA per tonne are we on a similar range, what it was in FY19 or are we a little down?

Management: So obviously, in Q1 the stock losses that we had was in Q1, we don't expect that to continue into Q2 as far as EBITDA per tonne is concerned, going forward from Q2 we expect it to be as good as the FY19, if not better.

Moderator: Thank you. Next we have Nikhil Porwal from Perpetual Wealth Management. Line is unmated.

Nikhil Porwal: So can you tell me whether, how do the manufacturer in developed nations are able to compete with the manufacturers in developing economies, do they have some kind of a superior technological capability or some advantage in raw materials?

Management: Are you talking about something specific or?

Nikhil Porwal: No, so it's just a general opinion. I've been tracking this phase globally and the margins for most of them are sort of the same. So despite us operating in a developed economy, I expect our fixed costs to be lower than then. So, I guess that they kind of have some advantage in some technology or maybe it's some raw material advantage?

Management: It's not technology, in some cases it is raw material, sometimes the raw materials, that's been one of the big problems in India is that most of the raw materials that we have today are imported into the country. So, if you see three out of a four major raw materials, Styrene, Acrylonitrile there is no manufacturer in India, Bytual acrylic and therefore not only the cost of logistics, but also the risk that someone takes like today what happened in for us in the month of March, we are forced to hold more inventory and when cost price crash we are left with higher inventory costs. So, certainly that is one advantage that some companies in some country have, where the entire petrochemical chain has been well thought through by the country. And, they have all the building block, for example China has, I don't know 30 or 40 Styrene plants and 15 or 20Butadiene plant. Today we have zero Styrene plants and four Butadiene plants. So, we're in a much smaller scale and in some cases we don't have the building blocks that are certain an advantage they have. The second advantage, they probably have in some cases is the scale. It's not always an advantage, butin some cases it could be that even though their fixed costs are high, because they manufacture larger quantities fixed cost per tonne is as competitive as our country. But, that's something India is improving on and quickly, including our companies achieving that scale. And in the next four or five years, you will see a lot of Indian company, especially with what's happening with China, a lot of Indian companies working on scale. I'm talking about small and mid-size and little companies like ours, and getting to competitive scale. Now, I just hope that we can have a government that tells and industry environment where chemicals petrochemicals are also thought through strategically.

Nikhil Porwal: I was just going to mention end of investments being announced in petrochemicals, may take maybe four to five years, we get someone who manufactures Styrene, Acrylonitrile and **– Butadiene** on a larger scale so that the company doesn't have to mention, maintain materials. So, this problem of having inventory at a higher cost won't be there going forward.

Management: It's absolutely required I agree with you in India.

Nikhil Porwal: Yes. And I had more two questions is, can I get your sense on whether the broader plan for the company over the next two to five years is going to a downstream to reduce the volatility in terms of pricing of products?

Management: As, I said there are obviously many ideas and many things are being done. But we don't announce them till there is, some solid plan that we have in place. So, as of now, we as I mentioned, we are focusing on this XNB Latex for gloves project, we are focusing on NBR expansion, because we only have a small percentage of the Indian market. Then we are the only manufacturer in India for NBR and we are looking at expansion in our SBLatex products as well because we feel that over the next four, five years they'll be good growth in industries like packaging, construction and there is a good export potential for some of these products as well. So we're focusing on these three growth plans as of now that we have announced. Other than that there are always other opportunities that are there both downstream as well as inorganic, which we evaluate from time-to-time and if something come to crucial we will announce that.

Nikhil Porwal: Okay. And just about this last question about the NBR CAPEX. So it will go live I'm assuming in Q2 FY22. And if you can guide about how do you see the evolution of the capacity utilization of the plant post commencement?

Management: So, yes we are looking at somewhere around Q2, Q3. This issue with COVID has really thrown at us because a lot of our suppliers and our engineering items for a project item are facing manpower issues. So while Q2 is definitely doable, it may be October early Q3 that we're looking October, November sorry, of 21. And what was the second question?

Nikhil Porwal: This NBR?

Management: Look it will take a few months to ramp up. As, I said we have a, it's a growing market it's growing in double digits. We think and we already have approvals in place with lot of large customers. So, wehit the ground running and we could see, our target would be to get up to full capacity utilization within six months.

Moderator: Thank you. Due to time constraint that was our last question. I now hand the conference over to management for closing comments over to you sir.

Management: Thank you all very much for joining us in our Q1FY21 conference call. Just to reiterate, it's been, a tough quarter. It's been an unprecedented quarter even though that word has been overused, it really has been unprecedented. Andwe thank you all for your support and your time. We remain cautiously optimistic and while the uncertainty around COVID may affect, short term performance and results, we feel very optimistic about the long term prospects. So thanks once again for joining in.

Moderator: Thank you. On behalf of Apcotex Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.