

Apcotex Industries Limited
Earnings Conference Call
October 29, 2020

Moderator: Ladies and gentlemen, Good Day and welcome to the Q2 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 the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal – CEO of Valorem Advisors. Thank you and over to you sir.

Anuj Sonpal: Thank you. Good evening everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investors’ relations for 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 the second quarter of financial year 2021. Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today’s earnings conference call maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual result to defer from those anticipated. Such statements are based on management belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any 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. I would now like to introduce you to the management of Apcotex Industries Limited 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: Thanks Anuj. Good evening and welcome everyone to this earnings conference call for H1 Q2 FY21 under review. Along with me in today’s earning call I have our Managing Director Mr. Abhiraj Choksey. I hope you had an opportunity to look at the company performance for Q2 FY21 as well as earnings presentation which has been circulated and uploaded on the website as well as on the website of the stock exchanges. First of all we are happy to report that all business operations were back to normal in this quarter which were affected due to COVID-19 and subsequent lockdown. To brief you on the financial performance for the second

quarter of the FY 21 the total revenue stood at 129 crores with EBITDA of 18.5 crores for the quarter. The EBITDA margin stood at 14.31% with the growth of 883 basis point. The net profit stood at 11.6 crores PAT margins stood at 8.97% which is a growth of 607 basis points.

For half ended FY21 the total revenue stood at around 189 crores with operating EBITDA of 14.2 crores for the quarter. The EBITDA margin stood at 7.51% which is a de-growth of 168 basis points. The net profit stood at 5 crores and profit margin stood at 2.64 crores which is the de-growth of 219 basis points. This is of course only due to the business being significantly impacted due to COVID-19 lockdown during Q1. In the quarter the Apcotex have achieved highest ever quarterly sales volume in domestic as well as export side. We have managed cash flow very well during this pandemic and lockdown situation without significantly increasing the working capital limits. The company has made investment to make the assets more flexible to make multiple products which helped to ramp up the production of XNBRlatex for a gloves manufacturing where the demand is very strong. We also completed all the project in phase 1 with a total CAPEX of 100 crores from FY18 to FY20.

The benefit of cost reduction and enhanced capacity has also now started accordingly. To update you on the future CAPEX plan, we are going to spend approximately about 130 crores to 140 crores starting from October first 2020 till 31st December 2021 which will be used for XNBRLatex for hand gloves at Valia and other debottlenecking and improvement of the efficiency and DHS products across both the plants. With this, I would like to open the call for question and answer. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Karan Bhatelia from AMSEC. Please go ahead.

Karan Bhatelia: Sir, any update on the anti-dumping duties on the NBR portfolio that we have been talking since quite some time now, so what is the progress?

Abhiraj Choksey: The progress is that we have filed two petitions one was a sunset review petition against Korea which was initiated in January of 2020 and subsequently in Q1 or before that we filed the petition against four other countries and that petition also initiated in Q1 of this financial year, I think in around April sometime and so I think it will take some time, so hopefully in the next few months we should hear back, process is ongoing.

Karan Bhatelia: In the presentation we have mentioned that all the user industries have shown good growth so which are the predominant ones who shown like they have an expected growth which user industry have seen this?

Abhiraj Choksey: Frankly you know compared to Q1 all the industries we are catering to have shown pretty strong rebound of course within that there are some industries that have done better and some not so well like for example construction is not still be rebounded as well as we would

have liked. Similarly, paper and paper board there are sections of the industry which we are catering to essential products they have done well. The sections some companies that are catering to non-essential products those are still to rebound as much as last year. Other than that, all other industries are doing reasonably well at least in the two, three months.

Karan Bhatelia: And sir if you can break down the volume growth and realization growth that will be helpful?

Abhiraj Choksey: I also should mention that one of the other reasons for growth is XNB latex. When the lockdown happen our initial thinking was that we would have a limited quantity of XNB latex from a current reactors or current plant setup that we have, but since the demand was very strong for XNB latex since it is for medical gloves we decided to make our reactors and we invested, in fact in the last few months invested some money to make some of our reactors in both locations flexible, to make XNB latex if we can and we have been able to do that so that also helped the growth. Overall, I would say volume growth of Q2 has been 18% of Q2 last year approximately 18% in value term it is much less because of raw material prices of course we subdued in last quarter compared to Q2 of last year.

Karan Bhatelia: The last question so the margin expansion could be because of some change in product mix or savings with respect to the recent capital power plant that we have installed so any comments on that?

Abhiraj Choksey: Look I think it is a combination of reason the margin expansion has been one yes certainly some of the investments that we have made have certainly started accruing some of the savings and we expect more going forward. Raw materials prices have been quite subdued which has of course helped us as well and while they have been increasing though. So there has been some good buying of raw material that happened. There is also some amount of what we think could be pent up demand in the market Q1 lot of things, lot of industries were shut, lot of demand shops were shut all the demand for products was down. So combination of the new product that we have launched, the combination of three, four factors has really played in our favor and therefore the margin expansion.

Karan Bhatelia: Are we like back to those 50-50% kind of revenue mix for latex in there or still we are kind of 60-40 or 70-30?

Abhiraj Choksey: No we are not frankly not calculated exactly, but currently we remain at about 50-50.

Moderator: Thank you. The next question is from the line of Rohit Sinha from Emkay Global. Please go ahead.

Rohit Sinha: So, as you mentioned that there has been a volume growth of 18%, but still value growth is not there, but what we are seeing right now for last one or two month is that RM prices are moving up, so can we assume that from the next quarter there would be some benefit of

price realization as well and maybe there would be some volume growth or from your new ex-India part as well?

Abhiraj Choksey: The volume growth we expect to at least carry on Q3 difficult to say beyond that because there is so much uncertainty still in the world, in India, but overall we expect the volume growth to continue what was your second question rather your first question.

Rohit Sinha: On the realization part I mean prices are as you mentioned that value growth was not there in this quarter as such, but since prices are moving up, so can we assume next quarter there would be some better realization as well?

Abhiraj Choksey: I think that is probably true since raw material prices have gone up that will probably happen yes realization will go up.

Rohit Sinha: And sir on this CAPEX part just wanted to know I mean how much it would be attributed to the latex glove segment and what capacity of gloves would be there and where overall just 100 plus CAPEX what we are waiting for next year how much of that would be attributed to?

Abhiraj Choksey: We are planning about a 100 crore CAPEX for this new project for XNB latex for gloves. We expect about 300 to 325 crores of revenue from that project to start with and of course we are also making provision in these 100 crores we are also making provisions for future growth. So the future CAPEX will you know for future growth when we want to go above 40,000 tons or so will be of course much lower so investment per ton would be much lower in the future.

Rohit Sinha: What about the capacity what we are building in?

Abhiraj Choksey: I said about 40,000 tons.

Moderator: Thank you. The next question is from the line of Amit Mehta from Sunidhi Securities. Please go ahead.

Amit Mehta: You know on anti-dumping duty you said that the petition has been filed and also the things have initiated in the Q1 and it will take few more months to process on it, so in past whether on NBR there was anti-dumping duty in the past if yes then what percentage. My second question is what the international price is and how the domestic price and international price are varying, so how the company will be benefitted if the anti-dumping duty is imposed?

Abhiraj Choksey: It is difficult to say exactly the percentage because so far so to answer your question first question is yes there is anti-dumping duty only on the country of Korea. The anti-dumping duty is quite small compared to the average price which we see of NBR in the market varies gone to as low as \$1000 and as high as \$2000, \$2,400 in the last two years. In average I would say so it is a fixed amount is not a percentage amount the duty, but I would say on average

accounts only about 2%, 3% which is quite miniscule hardly impacts us and frankly it is quite competitive till 2018, 2019, but for some reason this dumping again started in 1920 and therefore if you see our results in Q2 and Q3 last year especially was muted because of the dumping that started in Korea and then first from Korea and then followed by other countries as well and that what our petition works for look we feel confident about competing it is not that our cost structures we are not inefficient, but if this does happen in bigger competitive state advantage of India then we must at least bring into the notice of the authorities within in the Indian government and which is what we have done. So we want the level playing field for them to be fair and hopefully we think we have an excellent case and hopefully it should go through. I find two cases one is extension and enhancement of the duty from Korea which already exist today.

Amit Mehta: What is the current rate \$1,000?

Abhiraj Choksey: No, it is much less it is like under \$100. So it is very small and for the other countries there is no duty that is what we want to.

Amit Mehta: So currently in the absence of anti-dumping duty what is the landed cost of NBI and what is the Indian selling price what is the difference?

Abhiraj Choksey: Look all these are it contractual every month it changes these are available in the market so I am sure you can find this out in the market anytime.

Moderator: Thank you. The next question is from the line of Farokh Pandole from Avestha Fund. Please go ahead.

Farokh Pandole: My first question was on the CAPEX number which you mentioned in your presentation I seem to recall from a few quarters back that we were talking about a 250 crore number for this expansion, so is it that we have further broken this into phases and maybe following phase beyond we can look at incremental capacity given that you had mentioned that you have made provision for incremental capacity or have been downsized the level of capacity that we were initially looking at?

Abhiraj Choksey: Just to clarify there were two projects we were looking at one is XNB latex for gloves which at that point we thought would be about 60, 70 crores and we would do about 30,000 tons, but we have increased that to about 100 crores and we do about 40,000 tons with a provision to expand further almost double it if we want at a marginal further cost. The other project was about 150 to 180 crores for expansion of NBR the solid NBR which is still on the card, but we were just talking about the next 15 months we will probably look at that once we have some clarity on those anti-dumping duty as well that will be about 150 to 180 crores addition. The remaining what Anand mentioned in his opening remarks about 130 crores is of other project there is also a maintenance CAPEX of 10, 15 crores every year so that is included in that plus

there are some other projects that we are looking at improvement projects of another 10, 15 crores so that is why the total number of 130 crores in the next 15 months. I hope that clarifies your question.

Farokh Pandole: Related to the first question if broadly you could from the experience of the last couple of years where the metro has really been very difficult and we have had a few projects which we have been looking at including the CPP which is now has been commissioned in his operation, what sort of learning of project execution do you take away from the last couple of years as you embark on the next 15 months and beyond so that was sort of related to the first question and the second question is just on the margins which obviously were very strong this quarter, how much of these margins do you believe are sustainable or is this a new level of margins going forward that we are talking about on a sustainable basis?

Abhiraj Choksey: Many learning from our previous three-year projects that we have implemented and few of them are sort of not for the public domain, but needless to say that we have learned a lot. One of the things that we have learned to do is internally as well on project manager making sure things are done on time. The second thing is of course and that still remains a challenge today especially in COVID times is certain environment consent that we need from the government considering these are chemical plants handling as it is raw material that is something that is taking time and that one big uncertainty that we see other than that going forward I feel it is pretty confident that from now on borrowing any issue related to COVID or government approval which is fairly confident of implementing the projects on time. As far as margin expansion look as I have mentioned earlier we feel confident that margins will be better now than they were overall for the company. NBR was still a challenge I would say in Q2 as well given the dumping, but the steps we have taken will certainly help there is certain amount of tens of demand as well as lower raw material prices which may have helped in Q2 and it is difficult to say how long that will last, but at least in the foreseeable future in Q3 we see it continuing Q4 I am not sure as I said there is lot of uncertainty in the world right now so difficult to predict what will happen in the next three to six months.

Moderator: Thank you. The next question is from the line of Nikhil Choudhary from Crest Portfolio. Please go ahead.

Nikhil Choudhary: Sir, first of all I wanted to thank the management for being as transparent as possible in all the concall and educating us in respect of the business, sir I just wanted to understand the competitive intensity of the products that we operate in like I understand we are fairly quick player like there are some 25% to 27% market share in the NBR portfolio that we operate in and balance of the demand is met through imports, so just wanted to understand the number of players that we are competing in the domestic market pricing power like I certainly understand we are able to passed raw material prices within that, but just in terms of how big are we and what your aspirations going forward?

Abhiraj Choksey: You only touched upon NBR, but as a company NBR is only 30%, 35% of our overall sales currently a solid NBR. So, overall I would say the competitive intensity depends on different products I think we have four or five different categories of product one is Styrene Acrylic Latex for which there is a whole different set of competition we have competition in India as well, as well as few imports. For XNB latex which is a new product which we have launched and are doing reasonably well right now again there we are the only manufacturer of that particular latex in India and globally there is only a handful of manufacturers maybe six or seven manufacturers of this particular product. Mostly all of them are in Asia. As far as the solid rubber is concerned in NBR and associated products that we have with NBR like Poly blends and powder and such doing well. We are the only manufacturer in India, but the competitive intensity varies high because there is lot of imports much easier to transport solid NBR when it is liquid like latex which is generally about 50% water and rubber we have about is high styrene rubber which is about 10% to 15% of our sale where again the competition intensity in India is low, but there are few manufacturer globally.

Nikhil Choudhary: Last thing like how in terms of the long term contracts that we engage in weaker customers, how sticky are the customers like is the price only the criteria that they would want to switch to the other competitor or is it something unique that we need bring to the table that they stay with us for a fairly long period of time?

Abhiraj Choksey: We do think that of course especially in the latex products much less commoditized they are specialty products which are quite sticky with the customers. As far as the rubber products are concerned they are commoditized to some extent, but we do have certain attributes in our products where we do give advantages to our customer, but it is only beyond a point like what has been happening in the last year about dumping. If there is significant dumping where material is coming at 15%, 20%, 30% cheaper than what it should then of course customers are going to be attracted towards those prices and manage their processes even without the best product. So it is not only a price of course, but price is also one of the important factors.

Moderator: Thank you. The next question is from the line of Saurabh Shroff from QRC Investment Advisors LLP. Please go ahead.

Saurabh Shroff: One question on CAPEX so we had mentioned last time that we were looking to add about 20% capacity to latex by the end of this financial year is that on track and sort of how is that project progressing I am sorry if you answered this, but I got into the call a bit late.

Abhiraj Choksey: I am not quite clear what you are referring to one was debottlenecking of a current plant NBR plant which we wanted to take from about which was 15,000 to 16,000 tons to about 21,000, 22,000 tons so that has been completed.

Saurabh Shroff: So this was the Valia one?

Abhiraj Choksey: Yeah Valia, is that what you are referring to?

Saurabh Shroff: No, I thought that last quarter or one before that I cannot recall you had said that we wanted to take the 55,000 tons latex capacity.

Abhiraj Choksey: Sorry go ahead 55,000 on latex capacity what you were you saying?

Saurabh Shroff: Yeah I thought that we were going to debottleneck that as well or we were adding some capacity there too?

Abhiraj Choksey: Yes, so that plan is still ongoing I would say that right now because we are at little under 100% capacity utilization we are debottlenecking that, we have also been able to manufacture XNB latex for gloves there from one of the reactor as I mentioned that retrofit that reactor. So we have gone slow on that project, but it is part of this 130 crores I mentioned it is part of the debottlenecking and eventually I think why end of that financial year we will probably be at 70,000 tons or so for latex capacity in terms of that.

Saurabh Shroff: So 55 will go to 70 in another 18 months?

Abhiraj Choksey: Yeah that is our endeavor, but as I said it will depend on how quickly the products move or we will keep a watch on what is happening in the economy and that is the progress which is not really time mark or the reactor we already have enough capacity for the debottlenecking equipment required around it is not more than five, six months. We will do that in phases as well.

Saurabh Shroff: And second question on margin and I know you get these questions every quarter from a lot of people but I guess I am just trying to get a better handle on how things should move from here so bear with me, so obviously there has been a big margin jump this quarter some of it has been debottlenecking benefit and I guess the power plant coming on stream finally, could you maybe help us understand if there has been anything in terms of the sales mix or product mix that has helped and how sustainable is it because these sort of things is 13%, 14% margin I think back in 2016 and then it has been a bit up and down and then now finally we are back up to this pace, so just want to I am not looking for a specific answer, but if I could just get some sort of a range that is the new range let us say 11 to 15 or 9 to 12 whatever maybe the case and however you can help us understand in a brief?

Abhiraj Choksey: Certainly it is little early to say even what happens with COVID and what is sustainable and what is not moving we expect this half year certainly better than the first half as well into the last year that is something that with your expectation because on the certain project that we had already taken up CPP being one of them. The product mix of adding XNB latex has also helped certainly of course even now it is only about 10% of our sales, but of course that has helped because the margins there are fairly strong. We also think the other big factor is

dumping of NBR that we witnessed in the recent past and that is one uncertainty that is still there, but overall I would say that things in our mind should definitely be better than last year and the first six months whether 14% to 15% I know some of you try to pin me on those numbers. It is really frankly hard for me too also exactly pinpoint that number, but just an endeavor is to be at 15% to have sustainable good growth. So I am hoping we would try and achieve that in the next few quarters.

Saurabh Shroff: I guess then this sustainable number that you are talking about I guess that will be because of the commodity volatility so it based on the factors that are in our control whether it is the CPP or the product mix etcetera?

Abhiraj Choksey: That is a big factor as well as I mentioned previous concall one is percentage margin the other is also absolute margin. Now when oil is at 40 versus oil is at 100 our absolute margin maybe even higher at 100 compared to today, but our percentage margin may show and then does happen when we were dealing with a commodity like oil which is highly volatile.

Saurabh Shroff: So Abhiraj that was going to be my next question what may help and I do not know about the competition per se, but if there was a way for you to maybe share some either utilization or volume data with us and maybe we have a better handle on sort of done on a per kg margin and then this percentage margin exchange get kind of gets thrown out because it is actually not relevant like you said because it is entirely based on where crude and its derivatives are if it is something that you could this was maybe not as individual segment or as a broad level if there is something that do you think is feasible I think that will go a long way to help us understand where margins are?

Abhiraj Choksey: You know it is always a dichotomy in this debate internally that we want to be transparent with our analyst and investor. At the same time, we also have to protect our own interest vis-à-vis competitor. So, unfortunately at least so far decided not to give out any of those numbers for those reasons.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: Taking the further on last discussion in the last concall are you still seeing on EBITDA per ton basis we are doing better than last year or on comparable basis somewhere around the same place?

Abhiraj Choksey: Both EBITDA per ton and both EBITDA percentage both of course is better in this last quarter than it was in the quarter of the previous year in corresponding quarter of the previous year that is your question.

Ankit Kanodia: We are seeing that the inventory has reduced significantly in H1 compared to what it was in Q4 FY20, so how do we see the inventory as in just direction wise in terms of cost of inventory and how it will plan out in H2?

Abhiraj Choksey: There are two reasons for the inventory one is that you recall in March end in the hit of the lockdown so all the production that was supposed to be dispatched between March 20th and 31st was totally held up, our plant shutdown from the 24th and so did lot of our customers. In fact, buying from March 15th itself as we started getting dealers from the government that something like that could happen that was the reason for high inventory and as a company we always try and operate in our low investing as possible unless it is for strategic reason that we feel it is a good time to buy extra and keep on the raw material side or the finished good side if we want to keep, but March 31st was an aberration I would say because of the lockdown timing.

Ankit Kanodia: So as in for H2 we would say we are much better place compared to what we are in case of Q4?

Abhiraj Choksey: Absolutely.

Ankit Kanodia: We have had enough discussion NBR thing the another risk which we can discuss about is on the raw material front I mean how do we try to combine the dependency issue on the raw material because most of our raw materials we are depended upon goods, so do we have any long term plans for that or what is our view in that?

Abhiraj Choksey: Two of our raw materials we are completely dependent on imports because there are no Indian manufacturers. However, we find the risk be quite low in the sense that there are enough suppliers for those raw materials and we can develop that strategies and we are supplying from multiple sources we also have multiple location that we are drawing these materials from in case of your situation in Maharashtra we can always get it from Gujarat and vice-versa. Having two plants have also helped us in diversifying our risks as far as raw materials procurement import is concerned.

Ankit Kanodia: In terms of geography we are importing these materials from how much dependent or diversified we are in that sense?

Abhiraj Choksey: Everywhere not dependent on any one country nothing like that.

Ankit Kanodia: So, no concentration in any one particular department?

Abhiraj Choksey: No, not at all.

Ankit Kanodia: One last point is if I can just squeeze in so this is the fourth concall I am requesting about apcobuild details and I will keep asking until and unless I get that?

Abhiraj Choksey: You mentioned last time about and we said that we would include in the next annual report which we could not do or we did not do last time around due to some escalation, but we will definitely do it in the next annual report.

Ankit Kanodia: Specific question is just to know we still see there is a very small number to our revenue, or we see that improving in the current year?

Abhiraj Choksey: We will continue to grow the business of course it is going through a tough time currently because of the overall construction industry in the last six months has been more affected than most others, but having said that at least up to 19-20 we grew quite well to see us prior to that especially as I said we do not give up exact numbers and profit entity has also grown considerably well and we expect at least I know this year is going to be challenging, but from 21-22 onwards the focus still remains it is synergistic to a current business we are focusing on some of those products we manufacture and then we are also outsourcing some products to complete the market of product and we build the Apcotex brand it is still a very small percentage of the company revenue, but we will continue to do it and give more details in the annual report.

Moderator: Thank you. The next question is from the line of Nikhil Porwal from Perpetual Wealth Management. Please go ahead.

Nikhil Porwal: I just wanted to get your sense on this question that Reliance Industries and IFR producing SBR and at least RIL is completely backward-integrated for monomers, so why have not anywhere in India ventured in the manufacturing of NBR and does it make sense from an ROCE point of view to backward integrate for monomers?

Abhiraj Choksey: First of all, they are backward integrated for one of the monomers, the other monomer styrene industrial importing number one. Number two NBR is a specialty rubber compared to SBR which is more of a commoditized rubber where the plant size is required a much larger and you would have to ask them why they have not done the NBR business obviously it is a little too small for them and where the market is very small the entire Indian market may not be interesting for companies of their size.

Nikhil Porwal: I had a similar thought I just wanted your sense on this and can you give me a sense on this that as part of your operating expenses how its percentage of it is fixed and just trying to understand how can operating leverage help us to improve the profitability?

Abhiraj Choksey: Again these are numbers we do not give out frankly varies quite a lot year-on-year and just give you an example between 18-19 and 19-20 we had actually almost similar volumes or little higher volume in 19-20 if I have not mistaken and yet our total revenue was down by about 20% mainly because raw material prices were muted on the back of oil in 19-20. So as a percentage fixed overhead you would see much higher in '19-20 than in '18-19 I hope we are

not going too fast on this. So it is a difficult one to give out and this is again a number that we do not typically talk about and maybe relevant frankly the absolute number is relevant not the percentage.

Nikhil Porwal: Can I just squeeze in one more question on NBR that your plans for expansion on NBR maybe on hold currently, but if we divide the marketing maybe auto and non-auto part what is your sense on which market do you see growing faster because I am sure that it should be non-auto but I am just asking?

Abhiraj Choksey: Difficult to say frankly yes let me put it this way I think non-auto is more predictable because that industrial, agricultural is predictable. Auto for the last two years has been quite unpredictable, there has been quarter it has been really better than expected both in quarters where it has been unexpectedly low growth or degrowth as we have seen in the past as well.

Nikhil Porwal: I think that may be on capacity utilization currently may be running at good capacity in NBR I know you do not get enough capacity utilization numbers, but still any sense on that?

Abhiraj Choksey: Look over the years over the last four and half years since we took over we have focused a lot on our quality of the product we have actually reduced the number of the range since we took over. We are focused on customer approval we have got a lot more approval this year than we had last year and improvement in quality has certainly helped in improving capacity utilization and obviously in Q2 they are satisfied with the volumes because we are going to protect our market share they are not satisfied with the margin anti-dumping that was continuing.

Nikhil Porwal: I hope you get the anti-dumping duty in your favor. Any progress on any new grades I am sure they are putting in grade with NBR so as you are working on that I know you would not get that out, but any broad idea on the R&D side of the business?

Abhiraj Choksey: Absolutely we are working on new grades all the time new grades for our company has but new grade which will help us increase our margin and the market share. Great we did not have before, customers they were not before intention to do that having said that within NBR we are not giving something significantly different in terms of we could add to a portfolio, but this required lot of investment then it is almost like a different grade of NBR similar to that what we are doing for latex like we already had SBR latex as well still sold in liquid form, it is a completely different chemistry and completely different set of equipment that are required manufacturing. So right now, our focus for the next concall it is going to be SB Latex which is where see opportunity where we think our capital and management bandwidth should be focused on.

Nikhil Porwal: That should come at FY22?

Abhiraj Choksey: Yes, by the end of FY22.

Moderator: Thank you. The next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi: Most of my questions are answered, but I have one question or rather two questions you mentioned in your opening comments that both the domestic and export market have done well for us and so one is how much is the export contribution in this particular quarter or maybe in H1 that is one. Second in terms of export now since we are seeing rising COVID cases again in the European region, do we see any threat of a business slowdown coming in from there if so have we started getting any kind of intimation from our customers or anything of that sort if you can just help us understand it would be really helpful?

Abhiraj Choksey: So exports are about 16%, 17% for the first half of the year and I think similar for Q2 as well Q1, Q2 overall about 16%, 17%. As far as the export market is concerned absolutely we are concerned, but again surprisingly all our customers are still even as a way quite optimistic about the next few months maybe fortunately the some of the export that is picked up one is of course gloves because of COVID that demand is likely to be strong for quite a few quarter more. The other is for example carpet we still find the carpet demand to be quite strong maybe I was talking to some friends of mine anything that used in home is actually demand is going up because people are spending more time at home. So it is a little counter-intuitive, but it depends on the product. So we are quite optimistic at least for Q3 and as I mentioned earlier to one of the other people who asked the same question there is uncertainty and we do not know because lockdown in France was announced today. So we do not know what kind of impact government intervention we will have on overall economy and therefore business demand. It is something that we are keeping a watch for. Surprisingly as of now it is quite optimistic.

Moderator: Thank you. The next question is from the line of Anant Jain an Individual Investor. Please go ahead.

Anant Jain: First question which I have is on the XNB latex expansion that we are doing, from what I have heard is that there is a significant demand of XNB latex as it is quite evident from the result as well, but do you think the demand could be short-lived because the demand is driven by very large tender coming out of USA and that could be like short term thing so that is the first question that I have the second question is maybe if you could answer this because second one is related to NBR?

Abhiraj Choksey: You know we have been talking to our customers who are obviously much more in touch with the market and what they tell us in this COVID is under controlled for the next one or two quarters and demand for gloves will not sort of subside immediately because of two reasons one is in medical in a hospital facility and other medical care people are changing their gloves

more often than PPE more often than they used to earlier. Number two people at home now consumers like you and I perhaps were not using gloves at all are using it more when we go out and that is likely to continue for a while because while COVID it can be brought under control it is not going to disappear even in the next two quarters it is not going to go to zero. So at least for the next few quarters which have been this growth will continue the second big issue is that there are two ways to make medical gloves one is through natural latex and the other the other is through nitrile latex. Unfortunately natural latex production is kept there are two rubber tree and rubber trees cannot be grow overnight it takes 7 years before you can grow rubber tree and then utilize it for the deriving the latex that supplier want to come immediately and so the rest of the supplier has to come from nitrile latex and so companies like ours and some of few others are working hard in enhancing capacity quickly to cater for this growth which we think is going to last for the few quarters and even pre COVID.

Anant Jain: Few quarters is understood, but maybe beyond that because we....

Abhiraj Choksey: I was just about to finish that even pre-COVID assessment of the growth of this industry was 12% to 15% or year for the next 10 years which I think is the very healthy growth. Therefore, people are moving from natural latex to nitrile latex gloves even COVID after COVID a lot of government 10% Indian government and US FDA has preferred nitrile gloves for medical purpose over natural latex. Now one because there is less and no chemical resistance.

Anant Jain: The second question that I have is that in NBR there is already a certain amount of anti-dumping duty from Korea and it is an extremely competitive commoditized product, my question to you is that generally what you want to do in these kind of commoditized products is not to expand capacities unless you have an operating leverage coming out of it which makes you competitive, but to go either downstream or upstream. Downstream because you want to specialize upstream because you want to integrate with the raw material, have you thought of these ideas instead of NBR capacity expansion?

Abhiraj Choksey: There will certainly the benefits of in terms of operation efficiencies as the volume grows as we double our capacity from the NBR plans are. Number two yes we already in a downstream product for the nitrile monomer which is one step below and we are always on the lookout for other opportunities as they make sense to the company strategic sense. There are some opportunities that were too small for me let it go for our management bandwidth and where we want to spend our time in CAPEX. Upstream is difficult for us because most of the people have to upstream our integrated into petrochemical complex. Since we are not a petrochemical complex, we would have one that is difficult for us to do.

Anant Jain: But acrylonitrile integrated into petchem complex.

Abhiraj Choksey: Yes, correct all our raw material nitrile, butadiene, acrylonitrile they are all integrated in petchem complex. We strongly believe that in the level playing field there is no **dou**n

our current capacity levels where anyone else NBR. We just find that we need a level playing field to be able to invest back and go and make sure that we are not dependent on import for the country 75% of imports of NBR is still imported on average that is 75% to 80% and that that is something that we feel we should be able to do as a country whether it is us or somebody else we shall be self-sufficient and that is our endeavor we want to be self-sufficient.

Moderator: Thank you. The next question is from the line of PJ Shahan Individual Investor. Please go ahead.

PJ Shah: Margin increase 14 plus, volume increase 18 plus, but majority of my questions have been answered, but one question in my mind is couple of month back is some last concall we have said the paper industries some client has been defaulted and therefore our margin and volume has been affected, so is that been corrected now?

Abhiraj Choksey: No I do not think there was a default, but yes there was concern one off to our customers and we will reduce our dependence on them, we did reduce the volume we supply to them, but we still continue to do business and it is the credit on that we console and that is of course got all volumes that customer and I think things are okay now normalize.

PJ Shah: The expansion in the gloves we are making additional so how long you look for the gloves capacity in next couple of years?

Abhiraj Choksey: I did not understand the question can you repeat the question.

PJ Shah: We are expanding again 130 crores in different capacities in one of our new products are gloves?

Abhiraj Choksey: It is nitrile latex for gloves not globes.

PJ Shah: We are looking a long-term demand for that product?

Abhiraj Choksey: I mentioned that there is good demand especially now post COVID times the medical.

Moderator: Thank you. The next question is from the line of Nikhil Choudhary from Crest Portfolio. Please go ahead.

Nikhil Choudhary: Sir what do we exactly want from the government to be competitive apart from the ADD because since we cannot rely on ADD forever to be competitive, so just wanted to understand do we lack do we need faster environment clearances, easier land acquisition norms if you could throw some light on that would be more helpful?

Abhiraj Choksey: The latex is of course required to ease of doing business not just for any industry or any business that starts from India and wants to expand in India which is probably acquisition of land as well as environmental clearances is that certainly something that the government can improve on even then the government has done a reasonably good job is improving the ease of business over the last few years, but of course we can do better. As far as this specific issue is concerned let me put it this way as we seen 18-19 we did well, we have no change for anti-dumping duty frankly. So if dumping does start and that can start for anything, anywhere, anytime we have no choice, but to go to the government from time-to-time and we fortunately as a company we are listed enough, we have some balance sheet that we can withstand couple of years of this kind of dumping, but certainly we need help the government and the government must be encouraged industries in India they have to help us from time-to-time it is still happen again. Let us say today even if you are bigger than our competitors as abroad and we are more economy of scale. So whatever reason as a competitor aboard decides to dump into India just because of a strategic market and they want to gain market share and that is where the government has to help, has to support the industry to ensure there is employment in industry in India. We are not saying ban import, we are not saying do not do imports I think imports are healthy I think competition is healthy, but that is the keyword healthy competition and fair competition is what is required and from time-to-time industry and government has to work together to ensure that India long term needs are protected.

Nikhil Choudhary: In response to the earlier participant you were saying that the market place is small for like Reliance or something like would not be intersect just wanted to understand if you could quantify the market size for the products that you cater to like just trying to assess the longevity of the growth?

Abhiraj Choksey: I do not have the exact numbers right now, but it is difficult withstanding latex is more than 100,000 tons, high fine rubber and nitrile rubber it is probably about 55,000 tons. In tonnage I can give you broadly these are the numbers that I can think of the top of my head in the last year number of course this year just because of COVID the numbers are not at all predictable.

Moderator: Thank you. The next question is from the line of Anubhav Sahoo from NC Research. Please go ahead.

Anubhav Sahoo: I had one specific question wanted to understand how biggest the medical or healthcare end market for us now like how much time you will make this market and if nitrile gloves the only application which we cater to understand market or they are more predicted?

Abhiraj Choksey: So of course, it is a very big market from research shows upward of couple of million dollars I think. Of course we are looking only to add about currently 40,000 MT capacity and which will hardly be 3% exactly the single digit 3%, 4% on the world market it is anyway growing Pre COVID was growing at 10% to 15% as I mentioned the post COVID we expect the growth to be

much more at least for a year or two, but as I said we have made the decision way before COVID hit us, it is nothing new. It was an attractive market according to us where industry and of the requirement for this particular product even Pre-COVID. So we are excited about this new launch this is the only application of course there are different types of gloves there is medical gloves, industrial gloves, but large market is for industrial gloves the consumption in this product is for medical gloves and there are some specialty product that we are already developing in the market, but it is mainly of gloves.

Anubhav Sahoo: As per Q2 number per se just for instance it will be nitrile gloves now tangible pie of our sales now and can you just specify how much you do that?

Abhiraj Choksey: Can you explain again the question.

Anubhav Sahoo: In terms of percentage to sales how much nitrile gloves would be contributing I mean nitrile manufacturing?

Abhiraj Choksey: Right now, it is a small percentage of our sales frankly it is less in single digit. Our intention for the next year was only to star to supply of very small quantities of but just to get approval and straight to doing but given what happened in the last six months where demand for all of the product in Q1 and part of Q2 was very muted we did make our research flexible to make more nitrile latex I will make best way to make it but to be great quantity and the quality is good, but in terms of operations. So we will continue to do that and for the next one year we will remain a small percentage of our sale after that as I said it will become as 300 crore in revenue as per current price.

Anubhav Sahoo: Is there for the domestic demand is everything as per final product is concerned is everything imported into India or do we have domestic manufacture also we are now catering to or really the idea was to export but is there any domestic manufacture of our medical gloves this latex medical gloves?

Abhiraj Choksey: No latex is only the manufacture we supply to the glove industry the glove manufacture that there are few in India, but in terms of scale they are smaller, other are in Malaysia, Thailand and Sri Lanka and so on.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

Abhiraj Choksey: Thank you very much for your time. We had a challenging year like no other but we feel quite optimistic and confidence were coming out it and if everything goes okay we expect a pretty strong end to the second half of the year and with your support we look forward to working hard and making sure that we deliver value to our customers and shareholders and all our partners. Thank you very much for your time.

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.