Apcotex Industries Limited
Earnings Conference Call
January 29, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q3 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 Lizan. Good afternoon everyone and 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 the third quarter and 9 months ended of financial year 2021.

Before we begin, I would like to mention a short cautionary statement as always. Some of the statements made in today's earnings conference call maybe in forward looking in nature. Such forward statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management belief as well as assumption 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 decision. 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 participating with us in today's earnings concall. We have with us Mr. Abhiraj Choksey – Managing Director, 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 the third quarter and 9 months ended for the financial year 2021 under review. Along with me in today's earning call I have our Managing Director -- Mr. Abhiraj Choksey. I hope that given an opportunity to review the financial statement in the earning presentation which have been circulated and uploaded on the website and the stock exchanges.

To brief you on the financial performance for the third quarter of the financial year ended 2021 we have a strong growth on all financial parameters both on year-on-year basis as well as on quarter-on-quarter basis. The revenue from the operations grew by about 50% on year-on-year basis to around INR **164.6** crores. The operating EBITDA stood at 24.3 crores with EBITDA margin reported at 14.76%. The net profit stood at INR 16.6 crores and PAT margins stood at 10.09%. For 9 months for the financial year ended 21 the revenue from the operations stood at around INR 353.7 crores with operating EBITDA of INR 38.6 crores and EBITDA margin of 10.91%.

Net profit stood at INR 21.6 crores and PAT margin stood at 6.11%. I am happy to inform you that the company had declared an interim dividend at the rate of Rs. 1.50 per equity share of Rs. 2 each for the financial year 2021. From the numbers you can make out that during the quarter we are able to achieve the highest ever quarterly number across all the financial parameters. In terms of the volume too we have achieved the highest ever quarterly sales volume including the exports. On capex plan of INR 130 to 140 crores, which was started from 1st October 2020 would be completed by 31st December 2021.

The XNBR project for manufacturer latex for the hand gloves is about INR 100 crores project, the detailed designing has been completed and currently working on the implementation of the plant which, which is subject to permission and necessary approvals. We except the plant to commission by Q3 FY22. The debottlenecking subject at Taloja which is approximately INR 15 crores project will help to increase the latex manufacturing facility by about 15% to 20%. On the anti-dumping side speaking about the Korean Sunset Review the Directorate General of Trade Remedy that is DGTR has recommended the extension of duty for another five years on 24th November 2020. We are awaiting for the final notification from the Department of Revenue, Ministry of Finance, but previous anti-dumping duty from Korean material has **lapsed** on December 2020.

On the other hand, Apcotex has filed a fresh petition against other countries like Russia, China, Japan and European Union. The public hearing has been completed and we are awaiting the final finding from DGTR. With this, I would like to open the call for question and answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Kranti Patel from Investment Advisors. Please go ahead.

Kranti Patel: Sir, I just wanted to know what is the return on capital employed will be as on 31st March 21 and 31st March 22 and what will be the return on equity on both these dates and second question is where we stand in the market share of our products?

Abhiraj Choksey: Just to mention that generally as a policy do not give any forward-looking statements. So, we do not predict or give guidance for numbers like these even whether it is sales or return on capital or any of those numbers looking forward. In general, I can say the company we have always aimed for at least 20% to 25% ROCE and there is a constant endeavor even going forward. As far as market share is concerned as you know I assume you have been on previous call we have different industries that we cater to, but generally we are fairly high market share across all of them we are either a strong number two or a number one across all the industries in India. For Indian markets happens about 80% to 85% of our sales is within India currently 16% is export. I am talking about the Indian market share we are anywhere from 40% to 70%, 75% in some industries.

Kranti Patel: We are within first three numbers in respect of all the items in India?

Abhiraj Choksey: We are the first two I would say.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri, an Individual Investor. Please go ahead.

Darshil Jhaveri: I just wanted to ask what is the outlook for FY2022 or whether the growth numbers are sustainable or what are the margins under review expected?

Abhiraj Choksey: So, as I mentioned we do not specifically give any forward-looking guidance in the policy. However, look last year has been absolutely unprecedented and we assume that the next year of course assuming that nothing like COVID or second wave or nothing like that happened. We obviously have had an excellent quarter in fact we had a 50% plus growth in this quarter compared to Q3 of last year that is unlikely to be there for the whole year. There were multiple reasons for that. One of them is that Q3 of FY20 was a very challenging quarter for us and in fact one of our most challenging quarter and Q3 of FY21 has been our best quarter ever. So obviously there is a difference that obviously this kind of growth rate will not continue into FY22. However, we do expect a healthy growth rate into FY22 especially given the FY21 on the whole year for the first four, five months were extremely challenging. So FY22 should be certainly much better than FY21 we will have to wait and see what exact growth rate will come there is lot of uncertainty still, but as the companies are confident and we are ready to face the next challenge.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: How much could be the volume and realization growth in this quarter?

Abhiraj Choksey: Again, I just said we do not give forward looking statements.

Karan Bhatelia: I am talking about the current quarter?

Abhiraj Choksey: Let me put it this way the overall growth was about 50% in terms of revenues and most of it has come from volume growth I would say about a large chunk of it has come from the volume growth and part of its net realization and product mix.

Karan Bhatelia: Are we like back to those 50-50 in your revenue mix from latex and synthetic rubber?

Abhiraj Choksey: Approximately latex is a little bit more now because we have introduced the new latex product last year and we have been able to increase the sales that we were not expecting to do because immediately, but because of COVID we made our assets a little bit more flexible. So, we are making more latex currently about 55% of latex and 45% of synthetic rubber.

Karan Bhatelia: Can you throw some light on our NBR performance and how has been the usage from Korea are we like back to the historic margins over there, so if you can you throw some light there?

Abhiraj Choksey: Look I think as we mentioned in the opening statement the dumping was there for a long time and it continues to be there. The fortunate path has been in this quarter at least that we have been able to buy raw material at a much lower price we had that advantage at the beginning of the quarter. There were some good buying and the margins were good however the concern for dumping is still there absolutely.

Karan Bhatelia: So still we are not back to the historic margins as far as the NBR portfolio is concerned?

Abhiraj Choksey: As I said it is definitely a better quarter, but we are still concerned and we are waiting for the ministry of finance to notify, hopefully they will soon, but as of now there is no anti-dumping duty on NBR.

Karan Bhatelia: Last question if you allow me to so what is the current quantum of anti-dumping duty from Korea and at what levels are, we comfortable at because I believe there was like 3% to 5% realization was the anti-dumping duty, we are eying for a higher percentage of that?

Abhiraj Choksey: So, what happened was at the anti-dumping duty there are two producers in Korea for one of them it remains by and large the same. In fact, reduced just a little bit, but by and large around 3% and for the other producer it was substantial increase to closer to 25%, 30%, but as I said as of today there is no anti-dumping duty because the ministry of finance has not yet notified it.

Karan Bhatelia: And what percentage are we looking at to compete with them?

Abhiraj Choksey: In the long run we think we will be able to compete in any case we just wanted some time from the government because we want to double our capacity taking off from the Aatmanirbhar scheme that the Prime Minister had set out. We just wanted time to ensure that NBR is also completely indigenously made and Apcotex we wanted to be the number one supplier for NBR in the country and therefore we wanted sometime, but we will be able to complete in any case there is no problem in the long run we will be able to compete we will find ways to compete, but yes around 10% to 15% would have been nice, would have been good to have that kind of production for the next five years and we are seeing it well deserved because they do not want us to grow they are seeing now market share grows over the last FY we have seen our markets volumes to almost twice and therefore the importers are little worried that losing the Indian market and therefore the dumping that started in 2019.

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

Nikhil Choudhary: Sir, I just had one question like any indicative timeline when can we expect any response from the DGTR?

Abhiraj Choksey: So, the process of anti-dumping is that the DGTR goes to the process of talking to the importers, talking to the indigenous manufacturers and after thoroughly studying all the data they have given the recommendation. Now the finance ministry has so officially notified. Unfortunately for whatever reason the finance ministry is out of bounce for the last month or so because of the budget which is on Monday. So, we are hoping that after Monday or after next week we will get some more information, but yeah, we do not have a clear indication.

Nikhil Choudhary: Sir could you just share sense on like how the user industry are performing we are seeing pretty resilient numbers from some of the industries that we cater to added update from your side would be useful?

Abhiraj Choksey: Absolutely I think across the board I would say all our industries that we have supplied to are doing much better and have bounce back much quicker than I think what most people anticipated. Auto as well which was a question mark has bounce back quite well, but within auto also there is commercial two wheelers, three wheelers, four wheelers and so on. There are some segments of the auto industry that are still a little not have bounce back even from two years numbers. I think passenger cars and two wheelers are doing reasonably well from my understanding.

Nikhil Choudhary: And sir construction like anything?

Abhiraj Choksey: Very well. In fact, construction is back and I think there is a lot of pent-up demand as well that has been there because people could not do anything before the last monsoon. So, I think construction is doing extremely well.

Moderator: Thank you. We will move on to the next question that is from the line of Saurabh Shroff from QRC Investment Advisors. Please go ahead.

Saurabh Shroff: My first question is on margins if you could may be help us understand so these are obviously one of the best margins that you have limited in a long time, how much of this is because of the power plant coming on board and other may be cost initiative that we may or may not have taken and how much of it is just to do with the fact that we have got some of these aberrations that we have last year are now normalized?

Abhiraj Choksey: Look there is a couple of things there is certainly a couple of things in this quarter that are unique. One is the pent-up demand post COVID as I just mentioned for example the construction industry a lot of people could not construct, could not do their water proofing before the monsoon last year, but there is that factor that will certainly help the demand and the other is the low raw material cost. At the beginning of the quarter the raw material cost and overheads fairly low levels I would not say all time low, but at fairly low levels across most of our petrochemicals that we buy and so the quarter they have gone up and we have taken advantage of the increase in slightly by a good raw material buy. These two factors are not going to remain, but there is smaller work that we have done as well like we have better product mix a lot of cost cutting measures of course implementation and commissioning of the power plant in Valia, higher volumes a lot of new customers were added in the last quarter. We introduced a new product for gloves, and we made our asset more flexible and so all these will also help in the long run. So, this is what I would say that certainly there is part of the margin that could be linked to lower raw material cost, but it is very hard to pinpoint exactly how much, but I would not say everything just one or two percentage points may be at the most.

Saurabh Shroff: At what sort of capacity utilization are we running at across products I am just trying to get a sense for how much is that operating leverage benefit that has flown through in these numbers because last two quarters I mean September quarter also obviously it is a very good margin but again similar, finally the raw material normalizing and we would actually see a further improvement in margins even though that is now business points, but it is still an improvement nonetheless, so I am just trying to sort of get a sense for how much of this has come from better utilization, so any color on that will be helpful?

Abhiraj Choksey: Absolutely compared to Q2, Q3 utilization was much better Q3 we are almost that I mean 90%, 95% capacity utilization across the board we are pretty close.

Saurabh Shroff: Abhiraj is it safe to say that borrowing any sort of raw material spikes or rather very quick movement in raw material which is difficult to manage, can one now safety say that you can do these at least low teen kind of margins sustainably because I think that was the talk maybe 18 months or 25 months ago when we set out to do this power plant, but you should get away from this 9% and 10% margin to at least grow double digit consistently?

Abhiraj Choksey: Short answer is yes. The long answer is that look there are few uncertainties as you said raw material is one of them and we have seen in the past that there could be crash of raw material and when that does happen in our kind of business, we are sometime left with higher cost raw material for one or two months. So, there could be some quarter where the margins could be lower. So, on a quarter-on-quarter basis there could be variations, but on a year-to-year basis I think that evens out. So, if you look at annual basis, I certainly feel that is definitely sustainable going forward a 10% for sure and in fact our target is 15% you know 14% to 15% is our target we can get too consistently and the other is of course dumping matter which was not there 18 months ago. As I said that is something that is a little bit up in the air, but that only for 30% of our product range. So that is not a large chunk of our overall company performance.

Saurabh Shroff: And this debottlenecking at Taloja when does that become available for production?

Abhiraj Choksey: By May, June.

Saurabh Shroff: The reason why I ask is we are already at 95% it is the middle of the year then by December hopefully….

Abhiraj Choksey: Exactly.

Saurabh Shroff: And anything on the sort of even at the planning phase as a further phase of the CAPEX or this is how long before we think of the next project?

Abhiraj Choksey: We have always the next project lined up. The next project lined up was to double NBR capacity and we were ready to go ahead and do that, but unfortunately the whole dumping started so we just decided to take a little bit of a pause on it and we are still waiting for one final permission for to start our XNB projects. So, all these things are lined up, but so far, we have just announced the next sort of 12 months CAPEX plan which is about 130 to 140 crores starting from October 1st to December 31st obviously there was no CAPEX possible in the first half of the year because of COVID and even after that we have found by the time the contractors and we could get even from the safety on the plant people we did not want to start construction or any kind of activities from outside for some time. So, there was a little bit of a CAPEX null for few months and what we have announced in the last quarter was between October 1st 2020 and December 31st 21 we are looking at about a 130 to 140 crores which includes debottlenecking projects the new expansion project plus a few costs cutting and other miscellaneous projects.

Saurabh Shroff: And finally, is there any segment of the end user market that you think that you are not catering to the target product because we might have the capacity which we could start catering to like a casing point will this gloves things that we started 12 months ago or better than that and suddenly that become like a big opportunity, so I am just trying to think are there any used cases that we are exploring?

Abhiraj Choksey: For the products and the grades that we have already developed we are catering to all the customers in the industry in India of course exports there is a big market. So, we are constantly getting newer and newer approval. As far as this XNB latex for glove is concerned it was not just a capacity it was also a product development if you write the completely new product adjacently and it took us two year to develop the product, took us another year to get approval more than a year to get approval and then the last one year because in a way COVID has been a blessing in disguise because we were able to fill the other segments like construction and carpet was not doing well at all in the first six months of the year. We are able to convert some of our current reactors and used the time to actually be able to make any XNB latex and now we are currently about 8% to 10% of our revenue is coming from XNB latex for gloves. So that we will continue to do we have other products lined up that we want to develop and from which we will have to invest some more money they are all adjacent products, but that will take some time and we have not announced those yet as we progressed other projects and we will look into this.

Saurabh Shroff: My final question just 100 crore XNB project what kind of sales can we expect from there and margins from that my guess should be better than general company level margin is that a fair statement to make or not really?

Abhiraj Choksey: The current context yes for sure because you know obviously, we expect and for most projections show that the glove industry is going to do extremely well in the next three to four years because even as COVID vaccination comes, COVID is not going anywhere for a while. The protocols that have been put into place, forget medical institutions, but even airports and trains and patients everywhere the awareness of wearing gloves in countries like India and China gone up a lot more. So, we expect the next five years to be quite strong for the glove market and therefore the margins and we also expected to be good because there is a shortage of Nitrile Latex and certainly better than the current coming quarter, we expect turnover of about 300 to 350 crores.

Saurabh Shroff: At full utilization?

Abhiraj Choksey: At full utilization for phase one yes for these 100 crores.

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

Rohit Sinha: So just wanted to know with this equity angles that how we are thinking about the expansion for NBR capacity going forward?

Abhiraj Choksey: Look as I said this COVID is still here it has not gone anywhere. So, we are focusing on one expansion at a time. It is a Brownfield project in our running plat, so we do not want too many contracts where there are too many people on site doing multiple things at the same time plus we need further environmental clearances for the NBR, but it is definitely on the card the board has approved it, but right now we put it on hold because of this COVID issue. So, we will focus on the latex project first and then we will look in the rubber project. We will also see how the next two, three months plan out because the anti-dumping duty for Korea is one, but the fresh petition is also under investigation and so that should be clearer in the next two, three months. So, once we have clarity on that hopefully by Q4 or Q1 of next year, we will take a final call.

Rohit Sinha: In the last quarter also there has been some, I should say pent up demand kind of situation and in this quarter also there is something, so going forward I mean what kind of normalization level in the quarterly basis we should be seeing and obviously margin would be something different to talk about, so what kind of revenue hike you would be targeting here, what the latex business the revenue would be overall contributing going forward in maximally one or two years?

Abhiraj Choksey: Right now, it is about as I said 8% to 10% is coming from gloves. We are running at almost 90% to 95% capacity utilizations. I think we expect that to continue now. As informed earlier, we have made asset more flexible. So earlier the problem was that it is one of the industries is suddenly went through a null or was not doing well or the competition pressure was there. We were not able to do anything because our reactors and our assets were not flexible to make multiple products. I am not saying today it is a 100% flexible, but we have done a lot of work over the last 8, 9 months till April, May since COVID to make our assets more flexible we really focused on that. So, we expect this kind of capacity utilization to continue and therefore at least the performance should be that much more consistent.

Moderator: Thank you. The next question is from the line of Dhiral Shah from PhillipCapital. Please go ahead.

Dhiral Shah: Sir if you can segregate how much revenue contributes from each end user segment like auto may be paper may be footwear?

Abhiraj Choksey: I can give you a broad percentage number. As I said in the current quarter, we are at about 55% latex and 45% synthetic rubber. Out of the rubber around 30%, 35% is coming from NBR and about 10% is coming from high styrene rubber. So, when I say NBR in the latex product that we have and out of that NBR may be half of that is coming from auto the other half is all other applications and there like rice roll dehusking and there is a whole host of rubber industrial rubber products. Out of the latex I would say out of 55% about 20% is paper and paper board, 10% is construction, 10% is tyres and now about 10% is Nitrile Latex and about 7%, 8% is carpet and textile.

Dhiral Shah: So, this 50% growth which we have seen majority is from the volume growth, so which segment they deliver this kind of a strong growth?

Abhiraj Choksey: No, across the board frankly and 50% is a value growth, volume growth is a little less than that as I mentioned in my previous question former somebody else asked the same question. So volume growth is a little bit lower than that, but it is still extremely healthy upwards of 40% and we actually saw the problem more certainly auto compared to 2019-2020 Q3 of 2019-2020 is much better now than it was earlier so that is help from volume growth, but I would say across the board plus the new products that we will introduce. S So, all that together has helped volume growth.

Dhiral Shah: This fresh petition which we have filed again Russia, China, Japan and EU, so what do you think percentage of imports coming from this region and this is particularly for which products?

Abhiraj Choksey: Only for NBR as I mentioned NBR is about 30%, 35% of our total business and that is where about I would say about 40% to 50% of the imports are coming from Korea and about 40% of the imports are coming from these three or four regions Japan, China, Russia and EU that pretty much covers 90%, 95% of the imports coming in.

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

Ankit Kanodia: Following upon one of the earlier questions you mentioned there were two Korean manufacturing they are having different anti-dumping duty, so can you just explain little bit why two different anti-dumping duty for something which is?

Abhiraj Choksey: Yes, I think from what I understand is one of them did not respond at all to the Ministry of Commerce, DGTR and well an importer does not respond at all they will provide the data so then the calculations workout not in that favor this is what I understand that is why one of them is much higher.

Ankit Kanodia: Government cannot do anything about as in why this disparity that is what is troubling.

Abhiraj Choksey: I agree it is troubling.

Ankit Kanodia: So, second question was as you mentioned regarding the pent-up demand in case of construction industry, so as we have been discussing about the last few con-calls where you were assuming that our product is still a very small proportion of the revenue, so can we expect that to speed up over the next one year or so?

Abhiraj Choksey: In fact, our percentage growth rate has been very good for, but as I said percentage of the total company it is still a small part in terms of revenues, but in terms of profitability improving quite dramatically, but yes building a brand and getting the distribution right for these kind of products in a fairly competitive market space. You need to make sure we have the right set of products, the right branding, the right set of distribution network and the right geographies.

So, we are listening only towards two, three states right now and they are growing slowly I mean slowly in the sense yes can we do it much faster yes if we invest a lot more then we could, but we want to grow profitably and we are able to do that.

Ankit Kanodia: Last time you mentioned that there are only two states Maharashtra and Gujarat which one is the other one?

Abhiraj Choksey: Goa.

Ankit Kanodia: One last question so as in if you just look at our asset turnover it has been all over the place mostly because pertaining to not only the raw material prices, but also the same product prices and also this anti-dumping duty, so in FY19 we were doing around on an asset base of 75 crore I mean we had an asset plan of 8 and then FY20 it is 4 and right now we have around 150 crore and if we take this 100, 140 crore of new CAPEX so just a broad range on a sustainable basis that is 300 crore of asset base, what kind of asset turns are we looking at a broad range somewhere?

Abhiraj Choksey: It is not fair to compare that way because two year ago there were no new investments. So, most of our plant was depreciated therefore the asset turn looked higher.

For example, we invested in the power plant and we spent 35, 40 crores on the power plant and that increase the asset base, but it did not create any extra turnover that was not for creating turnover that was more for a consistently a power which is in the area we are in the rural area that was the problem that was one of the reasons we invested in the power plant besides cost cutting. So, it is not really fair to or it is not necessary apples-to-apples comparison every year, but of course in general we look at an asset turn of at least between 3 and 5 turnover assets when they are new investments for expansion. So, for the current investment that we are doing of a 100 crore we are looking at a 3.5 times asset turnover, but do not forget that we have to leave some space. My investments are few more crores we can almost double our capacity so the next time around the asset turn will be much higher also this is normally 3.5 times may be 7 times. So, these are things that are contextual.

Ankit Kanodia: So, would it be fair to assume that asset turn in 2023 would be better than 2021 and 22, right?

Abhiraj Choksey: Absolutely.

Ankit Kanodia: One last question is would it be fair to assume that in terms of EBITDA per ton basis we are having probably one of the best or the best quarter?

Abhiraj Choksey: Yeah, I think so.

Ankit Kanodia: Can you share the numbers?

Abhiraj Choksey: No, we do not share the numbers. We do not get a per ton numbers, but as I said part of the reason has been good raw material buying, but part of it has been better product mix, new products, new customers all those things have helped in the last few months.

Moderator: Thank you. The next question is from the line of Sumit Kumar from Reliable Investment. Please go ahead.

Sumit Kumar: Profit growth the last 10 year was 7%, but for last 5 years this has come down to minus 6 which is last five years is not a short period I am not going to talk anything of the future last five years has not been something that we should be feeling very happy about it or rather they are alarming that is point number one. Point number two whenever we talk of growth if for capital investments and new products you never talk in terms of can we make our product mines cost competitive internationally, what are the bottleneck, how can we reduce, what are the other options because we are such a brilliant contacts because of the language and because of the qualification, but you can do wonder, but you have to evaluate the performance of the company it is good, but it is nothing great that can talk about Mr. Abhiraj Choksey?

Abhiraj Choksey: I do not know sometimes that you look at last five-year numbers, 10 years number and all that is I would say contextual again I beg to differ yes it certainly had a 12 month period which is an extremely challenging 12 month period started from July 2019 to July 2020. So, if you see 18-19 was our best as far. So, when you say five years has been negative growth I disagree. So, 18-19 till March 19 we had excellent growth both in top line and bottom line. In fact, 18-19 was our best year ever. 19-20 has definitely been challenging we have given reasons I am not going to justify it again whatever has happened has happened. 2021 again what happened it happened the company is across the world has bad result for the first 6 months and unfortunately, we were part of because of COVID that happened. So that is what I would say about that the numbers are there to seek however people want to interpret their numbers they can. My job is to be the best we can and we are as a team doing a fairly good job with what the products we have and the growth we have been creative in doing that and your second question was that can you remind me again one was on growth and second one was?

Sumit Kumar: Cost competitive?

Abhiraj Choksey: We would not be able to compete if we were not cost competitive. As far as our latex products are concerned this is the business, we have been in 13 years we are number one in India as far as all the latex are concerned in paper, carpet, construction across the board we are number one and the strong number two or joins number one I would say by and large along with one of the largest chemical companies in the world. So, we compete very effectively with them because latex is large chunk is water 50% these are regional product this cannot be shift to Europe and America it is not competitive to do that, but in the regional which is India, South East Asia, the middle east we have established ourselves as one of the top players in our regions. As far as the other products of synthetic rubber are concerned it is a company five years ago. We have grown it, we have doubled the business in five years not in fact in the coming years we are more than double the business in five year, but we went through some competition pressure. I guess we do not have a numerous scale plant like some other competitor, but we want to do that we want government support to do that. Hopefully the anti-dumping comes in our favor in the next couple of months and we by about four, five years I am sure we may be able to do that as well. I hope I have answered your questions.

Moderator: Thank you. We will move on to the next question that is from the line of Nikhil from Perpetual Investment Advisors. Please go ahead.

Nikhil: I had a broader question that what is the core competency of our company, so if you divide it in four segments let us say the people, the process, the plant and the products, what is the core competency according to you?

Abhiraj Choksey: There are multiple core competencies I would say the number one for corporate competency is that the range of products that we have today in the business are the most wild they we have ever had and we continue to widen that range. I see a lot of plants globally are not able to do that we had figured out our technology and our plant processes to be able to switch between products and we are constantly doing better and better job and that including this year where we introduced a new product about a year ago if you ask me, I did not think we could do that, but few innovative sum of people have been able to do that. Number two is the depth of knowledge that we have about our customers processes on a customer technology and able to make sure that our product is consistently evolving with their technology came in whether it is gloves or paper or paperboard, construction anything. Third is of course managing these kinds of raw materials, the raw material we managed are not easy to handle and as again a competency that comes over a long period of time and you would have seen a large multinational that cannot handle these kinds of chemicals that we do. Fourth is of course product itself a product quality and fifth is people. So, these are I would say five or six companies we have sure I am forgetting one or two, but these are the four, five that comes to the top of my head.

Nikhil: I see that you are building quite a good team on the R&D side, you have also hired someone from Avery Dennison, could I take that as a hint that going forward you will be moving into address or water proofing line and a majority part of the business may be in the next four to five year we will coming from this side of the business?

Abhiraj Choksey: We are already in waterproofing 10% of our sales comes from the segment which is largely in water proofing and that is growing quite well. In terms of percentage, it has grown in terms of volumes it has grown and going forward also if the construction industry in India does well, we expect to grow quite well.

Nikhil: Absolutely. Nothing on the adhesive side.

Abhiraj Choksey: As of now no, but there are products that we may look at in the future.

Nikhil: One last question is do you have any plan in place to see if the company is completely from the reliability in raw material prices, I think this will move most of the business towards the bank stream products would that be possible I am talking over a longer period.

Abhiraj Choksey: Unfortunately, the business that we are in raw material is a large chuck of our cost 60% to 70%. So, unlike some other businesses like FMCG where there are many other costs the raw material is only 20%, 30% of the cost and therefore they are shielded to some extent from the volatility and as investors we may not see the impact of those numbers so significantly in their business. In the B2B business like ours, raw material is a very large chunk and therefore unless we completely change to a completely different model of business which is not in B2B not in petrochemical the volatility will stay. We would not have managed it as I mentioned since one of the earlier questions that look quarter-on-quarter there are still be large difference, but year-on-year generally it evens out.

Nikhil: So, can you get your sense on this I may be missing out something, but I think that the realizations have moved up significantly at least over the last quarters, the raw materials have also moved up, but not in the same proportion so I am missing something on whether the gross margin should have seen more expansion?

Abhiraj Choksey: Certainly, as I mentioned we had some benefit of my raw material that are lower price, prices start started moving up quicker. Second is also some amount of product mix changes that have resulted in overall net realizable value higher these are the two reasons.

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

Nikhil Choudhary: Sir just wanted to understand the competitive intensity in the gloves product that we are trying to build in, scale it up, just a broad sense like I understand it is big market and we might see growth in the years to come, but how the competitive intensity is there in this space it would be helpful?

Abhiraj Choksey: I am not sure if I have heard your question correctly because your voice was breaking up, but you are asking about competitive intensity in the glove in the latex for gloves market right.

Nikhil Choudhary: Yes.

Abhiraj Choksey: Of course, there is competition, but so far there are only I think a handful of company may be five or six companies mostly in East Asia that have this technology and we developed three, four years ago, long before COVID hit, three years ago and we started sort of getting approvals also way before COVID hit and now that COVID is hit and the glove demand has gone up e

Nitrile Latex demand has gone up. We are there at the right time I guess in that sense, but yeah, the competitiveness is there perhaps less than some of the other products we are in as of now.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: Sir how on exports shaping up because we keep hearing that lot of issues on availability of consignments?

Abhiraj Choksey: Recently there have been issues on shipping, but we have had long term contracts and as I said 15% to 20% of our sales are exports and logistics team has managed quite well., but yes, we have had to pay higher rates wherever in the last three months, but we had so far not lost sales because of want of containers for shipping.

Karan Bhatelia: And how is now the pricing delta between European prices in Asian market the prices?

Abhiraj Choksey: For raw material it has come down dramatically it was much higher in Q2 and early Q3 or even in Q3, but it has come down quite a lot.

Karan Bhatelia: And last question if I may chip in sir if I exclude the inventory gains for the current quarter then what could be this 14.7 look like?

Abhiraj Choksey: Frankly very different pinpoint as I had mentioned, but as I said we expect the margins to continue in the low teen that we do not may be 14% to 15%.

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

Aakash Jhaveri: If I look at the financial results and compare it on sequentially are other expenses has increased significantly like 35% on quarter-on-quarter so what would be the reason for this growth in other expenses?

Abhiraj Choksey: You know other expenses if I am not mistaken is this also production volumes have gone up other expenses includes power cost and other variable cost that will also give up as the volume will go up that would be my I suspect the major contributor other than that as our plant reopened after COVID there were many plants related special repairs and such that we could not do for the first six months, but that were required to be done immediately after. So, some of it is also because of some of those were taken up in Q3, but I would say large chunk of other expenses is to do with our power cost at both our plants power and other variables cost power steel and so on.

Aakash Jhaveri: Another question was if I look at a FY20 annual report so in other expenses we have something like a line item of miscellaneous expenses which is about 2% of our revenue which in a way putting on the miscellaneous if you try and see other line items like power and fuel like travelling all those things are already at separate line items which is we have to understand what will be the constituent of this miscellaneous expenses which is 2% of our revenue?

Abhiraj Choksey: I have to go back and check, but unfortunately, I am not with my team, but I think things like repairs then we also have lot of technical consultants who come from abroad and all those kinds of things, some technical consultants.

Aakash Jhaveri: Actually R&M is already a line item, is it a professional fee any such line times?

Abhiraj Choksey: Aakash may I request you to send us an email and we will respond to you on that and try to answer your question as much as possible.

Aakash Jhaveri: And just a last question if I could squeeze in so currently keeping in prices have there on the decline, so is it a fair assumption to take that we have higher realizations in the current quarter?

Abhiraj Choksey: I am sorry I did not understand your question you said the butadiene prices are on the decline, therefore.

Aakash Jhaveri: Butadiene the prices are on the decline so is there a fair assumption that in Q4 we would see our average realizations increasing?

Abhiraj Choksey: Not really it is again it depends quarter-on-quarter, but when sometimes what happens we are stuck with higher cost raw material or higher cost finished goods because we have to keep few days inventory for our customers. So, if you are stuck with material make some higher cost butadiene you are stuck with some butadiene higher cost, we realize that to that extent margins are in fact or net realizations are in fact lower and therefore margins are lower. I think it is very hard to say it is still early in the game for Q4 but that would not be accurate.

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

Farokh Pandole: I just had a couple of questions firstly the momentum that we have seen in this quarter from a short term standpoint do you see that continuing in the fourth quarter as well and from a longer term standpoint with all of the initiatives and the explanation you have given to I think couple of the earlier questions that were asked, is it fair to say that we are now heading into from a growth standpoint sort of zone which is may be more secular than the past and I know that we have had a lot of issues at a company level and at a macro country level etcetera over the last couple of years, but if you leave that aside just from a business standpoint and a growth standpoint would it be fair to say that we are now in the more secular sort of phase going forward?

Abhiraj Choksey: I think it would be fair to say that as a company has become resilient and therefore the growth as I mentioned one of the things about making the assets more flexible because we cater to seven or eight different varying industries in the past what we have seen in one industry do badly we cannot do much about it and we are not able to utilize of the assets somewhere else. Now a new product coming in and over the last 9, 10 months making our asset more flexible not just the 9, 10 months even few years before that but more so in the last 9, 10 months I think we are right we do expect that this growth will be more consistent and definitely the company will be more resilient for these kinds of shock. As far as Q4 is concerned as you know we do not really give out specific guidance on Q4, but as of today at least we see as far as volumes and demand is concerned, we see an uptake across most segments today what industry that we are in today. The one slip sizes there are raw material prices like butadiene all are settled down in the last few weeks, the impact from that I am not yet sure.

Farokh Pandole: And also, I had a second question on the 100 crore CAPEX which we are doing through December of this year, is the capacity going to be in phases or is it going to be step wise as in all the capacity comes on in December and also, I think I have eluded to this question in the last call as well what is the confidence that we have in terms of delivering this capacity by December of this year and what is the risk to that not happening?

Abhiraj Choksey: So frankly the capacity will all come on stream a time the problem not the problem I would say, but the issue is that because it is new reactor because it is a completely new setup there will be some amount of I would not say approval, but by the time customers will ask us slowly for initially from 10 tons into 30 tons into 50 tons. So, the step up it of course will take a few months to step up to sell the full capacity.

Farokh Pandole: So far it will be there by December, but it may take you a few months more to be sort of firing on all cylinders?

Abhiraj Choksey: Exactly and there the bottleneck in mostly customer approval as I said the product is already approved, but anytime if the new plant the customers especially for gloves and some of these they are quite tricky, and we will do it slowly.

Farokh Pandole: And last question just in terms of our cash position are we still net cash or have we now sorted of moved into minor debt situation?

Abhiraj Choksey: No. I will answer the second part of your question this project is environmentally clearances we need one to start construction and what we have seen in the last 6, 8 months is environmental clearances in India which were anyway slowly became even slower because of COVID earlier the offices were shut, even now they do not allow people to go into the offices my appointment and such. So do need environmental clearances at different stages and other than that our team is very confident that we can deliver in the Q3 of FY21-22 that was my second question you ask I just wanted to mention that as a risk which also as a company we have to know how to manage. I am informing all of you the risk that exist is the reality of doing business in India, manufacturing in India and also because these fall under the higher hazardous chemical category so it takes even longer. After consent was established you also did a consent to operate and such so all those are taking more time from what I understand from other friends of my friends. As far as cash is concerned, we are absolutely net cash positive. I think as of now we only have a I think one long term loan of I think about 20 crores or so other than that we had no other loan, and we have enough cash in the books there is absolutely no cash issue?

Farokh Pandole: So, our cash or liquid sort of investment would be an excess of the 20 crores then.

Abhiraj Choksey: Far in excess, I am sure those numbers you will get on March 31st, but I think some of those numbers as on September, but on March 31st we will be published balance sheet.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Abhiraj Choksey for his closing comments.

Abhiraj Choksey: Thank you once again for joining us on our third conference call this year. It has been quite a year end and we are happy we look forward to your support and look forward to see you in the next conference call. Thank you all for your time.

Moderator: Thank you. Ladies and Gentlemen on behalf of Apcotex Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.