Apcotex Industries Limited

Q4 and FY ’21 Earnings Conference Call

May 7, 2021

Moderator: Ladies and Gentlemen, Good Day and Welcome to Q4 and FY ’21 Earnings Conference Call of Apcotex Industries Limited. As a reminder, all participants’ 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 ‘*’ and 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, Mr. Sonpal

Anuj Sonpal: Good Afternoon everyone and a very warm Welcome to you all, I hope everybody is safe and well. My name is Anuj Sonpal from Valorem Advisors. We represent the investor 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 Q4 FY ’21 and the Financial Year ended ’20-21. Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today’s earnings conference call may be forward-looking in nature, such forward looking statements are subject to risks and uncertainties which could cause the actual results to differ from those anticipated. Such statements are based on Management’s 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 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 call. We have with us Mr. Abhiraj Choksey, Managing Director; and Mr. Anand Kumashi, Company Secretary. Without any 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 fourth quarter and for the financial year ended March 31, 2021, 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 review the financial statements and earning presentation, which have been circulated and uploaded on the website and on the stock exchanges. To brief you on the financial performance of the fourth quarter of the financial year ended ’21, I am happy to report that this quarter the company has achieved its highest ever quarterly revenue, EBITDA, and PAT numbers, with export also achieving the highest ever numbers. The revenue from the operation grew by about 61.7% on a year-on-year basis to around 186.9 crores, the operating

EBITDA stood at 30 crores with EBITDA margins reported at 16.05% which is an increase of 922 basis points. The net profit stood at 22.6 crores and PAT margin stood at 12.09%, which is an increase of 941 basis points. There was a strong demand across most industries. The company scaled up the production and sale of XNB latex, which is used for manufacturing of hand gloves from existing plant, with both plant running at near to full capacity. The customer and product mix has been optimized in the quarter with a better procurement of raw material and implementation of cost saving project over the last few months and during the year which assisted in bolstering the margin.

The company has filed a fresh petition for anti-dumping against Russia, Japan, France. The hearing has been completed and final recommendations from DGTR are expected during Q1 FY '22. On the CAPEX front, there has been a delay in commissioning of the construction of the new CAPEX for XNB latex for gloves due to delay in obtaining the statutory clearance from the environmental department. For the financial year ended FY '21, the revenue from the operation stood at 540.6 crores with operating EBITDA of 68.5 crores, EBITDA margin of 12.67%, which is an increase of 594 basis points. The net profit stood at 44.2 crores and PAT margin stood at 8.18% which is an increase of 483 basis points.

Also, the company declared a final dividend of Rs. 2 per equity share of Rs. 2 each for the Financial Year '20-21.

With this, I would like to open the call for question and answers. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ankit Kanodia from Smart Sync Service. Please go ahead.

Ankit Kanodia: Thank you for taking my question and congratulations on a good set of number. We have had the discussion over the last two-three quarters like on this metric of EBITDA per ton I think it would be fair to say that we were on one way up over the last year or 12 months as we, so on a broad range if it is possible for you how much percentage would you ascribe to these aspects like better product mix, raw material price movements, and customer profile in terms of your EBITDA per ton moving up over the last one year?

Abhiraj Choksey: Thanks Ankit, so it is very hard to actually because there were few reasons why this quarter was good, so it is very hard to attribute percentage to each reasons, so as we mentioned in our opening remarks, there was strong demand, there was scale up of new product line, we were able to get to a 100% capacity utilization, better optimize customer and product mix as well and there were certainly tailwinds with good raw material buying and of course on top of that savings from some of the projects that we had undertaken over the last couple of years have all come to fruition and obviously we are maximizing it as we increase capacity, so honestly very hard for us to attribute to all these four or five points, but we could help you is what I can is besides the fact that look raw material prices are volatile and we had good buying. The rest of them the team is pretty confident that this is sustainable now going forward, there might be EBITDA margins may vary from sort of industry to industry because as you know we cater to seven or eight different industries and they are fairly well diversified portfolio that we have now, that may vary from quarter-on-quarter little bit, but by and large besides the tailwinds of very strong demand and good raw material buying, the rest of it is fairly sustainable going forward.

Ankit Kanodia: Thanks, that helps and regarding this EBITDA per ton, would it be fair to assume that we are probably near the peak EBITDA per ton or are we confident that we still have a lot of room to improve going forward?

Abhiraj Choksey: Look I think obviously it has been a very good quarter for us, there is obviously room to improve as we go along, as we mentioned in our opening remarks that we are almost at 100% capacity utilization, we are in the course of the next three to six months also, there will be some amount of debottlenecking that will happen which will allow us to further improve volumes, and therefore, EBITDA per ton will also improve because the fixed cost will not increase at that level, so we are hoping we can at least for the following year, we can make do with these debottlenecking exercises that we have taken up and investments that we have taken up, but really after that we would need significant more capacity in at least a couple of our products and which is what we are working on now both our plants, one plant in Valia we have already announced this project for XNB latex for gloves which unfortunately we have not been able to start the construction and now it looks like it will only happen post the monsoons because we are very close to the monsoon so that project is definitely delayed. In Taloja as well we are at almost 100% capacity utilization and so we are going to invest some more to increase the capacity in Taloja. Again, I will be announcing that perhaps in the next quarter, we are working out the details of that project. Again, both these projects are now likely to be commissioned only early next financial year.

Ankit Kanodia: Regarding all the projects which we are taken into right now, we are probably number one, two, or three in almost all the segments which we are catering to, but we also have a decent market share as well, but the overall market size as of now currently appears to be little small, so how do we see that in growing, I am talking about domestic market as of now and how do you see export playing a role as we grow over the next say two-three years, five years?

Abhiraj Choksey: Again, it is very difficult to pinpoint exactly because different industries have different growth rates, so paper and paperboard packaging is growing quite well, you know growing at higher than GDP growth rate, similarly tyres is growing at higher than GDP growth rate. We have had some tailwinds on the tyre business as well because the Government announced some anti-dumping on tyres, so there was no manufacturing of tyres now happening in India versus being imported from China that has resulted in demand for our product, our VP latex one of polymers that goes into tyres going up, so we expect that at least the industries we are in construction, paper, tyre, carpet, auto, we think that all these will grow over the next couple of years, two to three years, however we are also focused on the export market and I am happy to report that in Q4 in fact we have had a highest export sales and even in terms of percentages that around 20% of our sales is now exports, so we do want to diversify in terms of risk while India for a while will remain our strategic market and the focus will be here, but we do not want to export and diversify four reasons like what is happening now. COVID is raging in India much more than elsewhere and the uncertainty of what will happen in India over the next two-three months is much more than some of the exports markets, so it gives us a good flexibility to divert sales in case India slows down or we see some issues with demand in the short term.

Ankit Kanodia: Right, last question in terms of the anti-dumping duty which we were discussing over a long time now, so how confident we are that as we have mentioned that in our presentation that this will be done in the Quarter-1?

Abhiraj Choksey: You know actually we had two anti-dumping cases, one was against Korea and that was actually the DGTR recommended an anti-dumping duty. Unfortunately, the Finance Ministry has not notified it for whatever reason and we are representing there and figuring out how to do that. In the meanwhile, we have also had in the last year we had also filed against these three or four other countries and we are quite confident that the case is quite strong, however, as a company we do not want to rely on duties whether it is custom's duty or anti-dumping duty and at this stage, do not forget this is only for the NBR business which is only about 30% of our total sales, so while it is significant, these numbers are without any anti-dumping duty. In fact the anti-dumping duty is last in December and Jan, Feb, March we were able to do without any of that, that is not to say the dumping is not happening, it is happening today, but obviously we have been able to diversify and make our asset more flexible and then focus on some other product as and when the margins are difficult and there are some countries that are still dumping even till today still dumping at quite high margin, so we expect that some anti-dumping duty will be levied by the DGTR which falls under the Commerce Ministry, but Finance Ministry is a different thing, I am not sure.

Moderator: Thank you. The next question is from the line of Parthiv Jain from NVS Brokerage. Please go ahead.

Parthiv Jain: Sir, I will just take the gentlemen's question forward on the anti-dumping duty, just wanted to understand once what do you expect once the anti-dumping duty is in place and everything, what kind of a boost it would give you to the top line?

Abhiraj Choksey: Top line not really, frankly we are still selling, we are selling, we have to compete and we will sell but certainly bottom line we will see a reasonable increase, again driven where we are in the company and the way we have adapted it may not be a significant loss or a significant boost either way, I am trying to understand, maybe in terms of percentage points maybe a 1 or 2 percentage points more.

Parthiv Jain: Just wanted to understand once all the CAPEX whatever you are planning internally are being streamlined over next and debottlenecking is streamlined over say next one or two years whatever it takes, what kind of a growth in the top line you expect to witness from say FY '23 and onwards?

Abhiraj Choksey: Of course, the big fill up will be the new XNB Latex plant that we put up and from as we grow the total top line should go up by about another 350 to 500 crores, of course it will not be overnight, but 250 to 500 crores over one or two years.

Parthiv Jain: Just wanted to understand Sir what is the overall, like you explained the previous gentlemen also but just wanted to understand what is the overall future demand, what you perceive domestic and even in international market and what kind of a growth opportunity what you can see?

Abhiraj Choksey: We think India and our company both are poised, we had an inflection point, so assuming this COVID issue and we assume that three to six months ago maybe there was a wrong assumption, but frankly we when I say we I meant country as a whole we thought it was over, but luckily as a company we decided to sort of build our assets to be more flexible over the last six months and we continue to do that and invest for the next three to six months, so we see great growth opportunities in most of the industries we are in, in India even though we have high market share, all these industries are growing at a reasonable pace now. In '19-20 we saw it was a difficult year for a few months, but at least in the last six months we have seen really good growth rates in India and as you know because of the specialized nature of our products where there are only one or no companies manufacturing similar products in India, we think we will continue to grow at the rate of these industries which is paper, construction, when I say paper it is largely packaging, so packaging, construction, tyres, all these are growing quite well, auto. Auto is one thing that has been up and down, but by and large the Indian market is growing well and in exports we are really not, we had a very low market share so the opportunities are very large, it is up to us to take advantages of those opportunities and really work out some of the issues that is logistics, convincing customers which takes longer sometimes in exports, so we are quite bullish about it for the next two to five years.

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

Farokh Pandole: Hi Abhiraj and Anand, congratulations on the stellar numbers and I think it is a good validation of all of your efforts over the last couple of years.

Abhiraj Choksey: Thanks, Farokh.

Farokh Pandole: I just had a couple of questions, firstly on the margins I think the last time we had these margins was in March of 2018, so it has been a gap of sometime before we saw this level of margin and at that time, if you look at the gross margin, the gross margin today is significantly higher I think about 350-400 basis points higher than what it was at that point in time, yet that increase in gross margin has not translated into the EBITDA margin and I am talking about 2018 March and today because the EBITDA margin is up, maybe 100 basis points or a little more than 100 basis points, relative to the much sharper increase in the gross margin, so if you could just explain that difference and while explaining it if you could give a sense of and I think you alluded to it in the previous participant question also of the cyclicality of this margins if we can sort of hope to deal with going forward?

Abhiraj Choksey: I assume you are talking about Q4, you are talking about quarter-on-quarter numbers, right?

Farokh Pandole: Yeah, quarter-on-quarter, Q4 of 2018 was that one set of high margin numbers that we saw and then again in this quarter we have done well and we have got reasonably high margins again.

Abhiraj Choksey: So a couple of things, one is that at least compared to FY ’18 versus FY ’21 Q4 in terms of overall quality of the EBITDA margins, I think the team is quite confident of carrying on with the quality of these margins in the sense what I mean by that is that we feel confident at that point maybe there was and of course there were tailwinds in Q4 of this year as well and there were at that time as well in raw material buying etc., but we still feel confident of doing about 14%-15% even quarter-on-quarter, now there may be as I have told you in our business sometimes it does drop to even lower than that, but as long as through the year we are 14%-15% margins and we feel that it is going forward that is going to be we feel reasonably comfortable to be able to do that given where we are with our current business. Now, I will have to look at the numbers and frankly I have not compared Q4 of FY ’18 with Q4 of FY ’20 and will come back to you if you say that the gross margins were much higher this time around versus Q4 of last year and yet EBITDA were not as high as they should be. One of the things I can think of is we have had some fixed cost, some repair works a lot of things in the last three-four months that we had to do which we could not do from March to November just because of COVID, so lot of higher fixed cost have come in to Q4 and maybe continue into Q1 as well, that may have been the reason for EBITDA margins not going up as much as the gross margins, but as I said this is something I am venturing a guess but I will have to look at the detail numbers.

Farokh Pandole: Great, also you mentioned the delay in XNBR and also I think in the presentation you have a slide which shows 3X to 5X of asset turns, so on incremental investments, am I to understand that on incremental investment we should look at that range of 3X to 5X of asset turn and specifically with regard to the XNBR project now that we are talking about the first quarter of the next financial year, is that again a time that we are sort of feel good that we will be able to deliver by that point in time and on the NBR expansion if indeed we do see the anti-dumping come through then again is that a sort of focus area and will we be looking again at that the larger size of project that we have spoken of in the past.

Abhiraj Choksey: The first question is 3X to 5X turnover is for this new XNB latex plant also we would be targeting that, in fact with current prices we are looking at about 4X plus/minus a little bit more. The second question was on the timeline of the project look we are ready to go, unfortunate that it is taking very long and I mentioned that I think you had asked that question last time and you asked me what the risk was if I recall correctly and I said one of the risks of in this business or what we are trying to do in expansion is really the only risk that I can see foresee is just this environmental clearance is not coming on time and unfortunately because of COVID, now we are not even able to visit these offices personally, so that is causing a delay but other than that we are ready to go, we finished detailed designing of the project, we feel very confident that as soon as we have it, we will start construction in October and we can deliver it in six to eight months, so we are waiting Q1 of next year now and as I said we are also not only in Gujarat but we are also looking at smaller expansion in Taloja for current set of products because they are running a 100% capacity utilization and for that also we have applied to the Maharashtra Pollution Control Board for permission. As I said, I will talk about that only in the next quarter once we have a little bit of details on those numbers, but both these we want to complete in the first quarter of next year ideally, we feel very, very confident that we can do it given this both these permissions that we need from each State. Your third question on NBR, certainly we are also, it is on the card in fact, it is part of this permission that we would need so anti-dumping is one aspect of it and it is certainly on the cards as I said we have sort of kept it on hold because there is a lot of opportunity right now elsewhere as well, so we are looking to sort of conservatively grow and we will take that call in the next few months on doubling our NBR capacity.

Farokh Pandole: Right and related to that, what is our cash position as of, are we sort of net cash or what is our net debt position on the cash position as of?

Abhiraj Choksey: I think the balance sheet has been published, so I think from that you will see that our, we only have about 7-8 crores of long-term debt and we are barely utilizing our working capital limits, so I would say we have close to zero debt and we do have cash in the books of about 80-90 crores at the current market value, so I think we are of course net cash right now and we are waiting to deploy it, quite a healthy balance sheet.

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

Nikhil Chowdhary: Yeah Sir thank you for the opportunity and congrats on a great set of numbers, I had just one question probably last time same time during the year, we saw COVID first wave and now we are seeing wave two, just wanted to understand the demand from industries how was it last year vis-à-vis how we are seeing it this year, like is industry more prepared or are we despite having a very severe year, just wanted to get a sense on that perspective so as to assess the demand going forward?

Abhiraj Choksey: Look last year was very different from this year wave in the sense last year I would say COVID was barely in India at this time, it was just a lockdown that caused all the disruptions. This time around at least as far as manufacturing is concerned there is no Government mandated lockdown, but yes, the COVID wave is a lot more intense. The demand of certain industries is certainly going to be impacted, difficult to say how much I think anyone can give you numbers, no one really knows what will happen. Certainly, auto is something that could be affected we feel, but some of the other like tyres which is largely linked to commercial vehicles, commercial vehicle movement has not really reduced much. Similarly packaging is doing well, the glove industry that is the newer product that we have is in fact doing much better because of COVID in India and worldwide, so difficult to say what is going to happen to the demand but it is a very different type of wave this time then it was let us say or different type of situation then it was a one year ago, so at least from a supply point of view, we feel confident that it will not be a issue at our end, we will be able to continue to running our plants as we have been for the last few months, even through this COVID second wave we continue to run it, but I am not sure about the demand and what will happen in the future.

Nikhil Chowdhary: Sir last thing on my side is just wanted to understand with this entering of gloves division and all probably we are making our revenue more stable going forward, is my understanding correct because probably the demand from the auto, the building material segment tend to be volatile and goes along with the cycle, so probably going forward as and when we do the glove CAPEX on-stream, can we expect certain stability in the revenue going forward?

Abhiraj Choksey: To some extent yeah because every time we introduce a new pillar, we call it pillars we have now different pillar, we have paper, paperboard, construction, carpet, lot of specialty products that go into various applications in the latex side. We have auto, we have non-auto for our synthetic NBR, we focus too much on auto but that is only one-third of the Indian market frankly for NBR, there is a rice roll, there is industrial applications and we have added this glove product for the medical gloves industry and obviously that will give us another pillar and as I said we have tried to make our assets more flexible. Having said that there will always be some amount of variability quarter-on-quarter or month-on-month, but we feel pretty confident of doing reasonable set of numbers going forward and the company is more well positioned in terms of where we are and qualitatively in a much healthier position than it was a year or two.

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

Ankit Kanodia: Thank you for the follow-up, it was regarding the anti-dumping duty, Sir please let me understand my understanding is not very clear, so what I wanted to understand is over the long-term frame, is it right to assume that we should be willing to work with this dumping thing because we cannot always think of helping, getting the help from anti-dumping duty because that is something which is out of our control?

Abhiraj Choksey: Absolutely I agree, so our contention has been and this is what we have been telling DGTR or the commerce ministry as well is that today you know we are the manufacturers of NBR in India and we just wanted some time, but from a scale perspective we are much smaller than some of our global competitors or a couple of our global competitors. In India if we want to be self-sufficient and I think you would all agree that in India we would want to be self-sufficient, we just wanted some time to be able to invest more money and double our capacity, so that we reach somewhat at least by doubling our capacity will be at somewhat global scale, still not very huge global scale, but still somewhat global scale, right now 75% of NBR is being imported into India and the remaining Apcotex is catering to into, so we wanted to double our capacity and be able to cater to about 50% to 60% of the current market which is growing anyway and so that was the idea, but you are absolutely right and as we grow a our cost per ton will come down, our EBITDA margin would improve and it will just give us a little bit of time, but you are absolutely right in any business you do want to be cost competitive without any duty, why only anti-dumping even without customs duty, so we are very clear on that it is quite competitive as far as cost is concerned, but to be as competitive as some of our global peers, we need to double our capacity and we need some time and some breathing space and that is what we are asking for anti-dumping duty for another five years.

Ankit Kanodia: Just to speak about a scenario wherein even if this anti-dumping duty does not come in our favor, whatever changes which we have done in our business like we have focused a lot more on the gloves latex part, so can we believe that in the next two years we will be able to slowly buildup our capacity in the NBR and we will be much better in position even if this anti-dumping duty never comes then also, we will be able to?

Abhiraj Choksey: As I said the decision on whether to double or not has not been taken, if the anti-dumping comes then for sure the comfort factor that the Board and the Management has will be much more that we have five years to invest and recoup some of our investments. The other thing will come about is, do we spend the same amount of fund on this product or do we spend those funds on other products and maybe those are better opportunities and better return, so it will come down to that but obviously we feel there is a great opportunity where we only have 25% to 30% of the market share in India and we do want to and we feel that we are well positioned to be the number one supplier in India for NBR and it is a good opportunity as well.

Ankit Kanodia: So, our CAPEX will be determined by this anti-dumping duty if I got it correct, our further CAPEX on NBR?

Abhiraj Choksey: Yes, let me put it this way, if the anti-dumping comes it will definitely give us the confidence to go ahead with it right away, if it does not come then we would reconsider, we may still go ahead with it, we do not know.

Moderator: Thank you. The next question is from the line of Harsh Bhatia from Emkay Global Financial Service. Please go ahead.

Harsh Bhatia: Thank you for the opportunity and congrats on a great set of numbers, just to highlight what would be the projected budget for CAPEX in FY ’22 given that we have shifted the XNBR latex project to I think FY ’23 if I am not wrong?

Abhiraj Choksey: No, we hope to start that project as soon as the monsoon is over and we hope the next three to four months will get these environmental permissions that we need, so it is a good question. We are looking at significant amount of CAPEX happening in the current financial year assuming that does come through obviously a large chunk of the CAPEX that project is likely to give us 100 to 110 crores now, it would be over FY ’22 and early FY ’23. In addition to that there is a maintenance CAPEX every year that we are seeing is about 10 to 15 crores maybe, this year we may invest more and looking at a new project in Taloja to enhance capacity there and as I said that is something that we will announce shortly, but we are looking at anywhere between in my estimate somewhere between 100 to 150 crores in FY ’22 if all goes well.

Harsh Bhatia: Just to address it from another point of view, if you are earlier seeing some sort of revenue potential from this project that you were suppose to put up, how much will you think has been deferred into FY ’23, I am talking specifically from the gloves project?

Abhiraj Choksey: Well, the entire thing would be deferred right, we are not going to be ready with the project by FY ’22.

Harsh Bhatia: I mean quantifiable if that is possible?

Abhiraj Choksey: So, we expect about around 350 to 400 crores revenues, once the plant starts and of course it is not going to be overnight right, once the plant starts, it takes time to buildup the sales but at full capacity it is about 350 to 400 crores.

Harsh Bhatia: Just one last question from my end, did we face any supply chain issues both on the procurement as well as sales side?

Abhiraj Choksey: Yeah, fantastic question, yeah absolutely, it has been a real challenge I would say. Fortunately, our company has managed it quite well, some of our competitors really had major problems on supply chain. We have also had some challenges, we had to airlift material because of Suez canal issue, we have had obviously recently one or two months COVID has hit some of our customers or customer’s customer in some cases where they have had to shut their plants, you might have heard some of the auto companies already announcing reasonably long plant shutdowns, how that is going to affect demand in the next two to three months remains an uncertainty and yes that is a risk and that is a uncertainty going forward because of the COVID situation in India, but on the raw material side things are improving compared to let us say three-four months ago, it is definitely improving because for the rest of the world where imports were coming from there the cases are well in control now and COVID is well in control, so we do not expect major issue in raw materials going forward.

Harsh Bhatia: Any commentary on Apco Build?

Abhiraj Choksey: It is going well actually, as I said it is a small part of our business, I have always said so and we will write some thing, we will have a note on it in our annual report this year but is going well, it is still a very small part of our business that is why do not really focus on it and it is a profitable part of our business with a small brand that we have started a few years ago and we have actively grown it and it is a good profitable brand, but it is still a small part, it is regional, it is in the western region, we are focused on that and we are growing it slowly.

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

Saurabh Shroff: Congratulations Abhiraj and team, couple of question from my side, so I think in the last call you had mentioned that you had undertaken a small debottlenecking of about 10%-15% which may come on stream in May or June of this year at the current time, has that come through and if that has, what is that due in terms of the capacity that we now have, given that we are running at a 100% utilization, I am just trying to understand the volume growth potential?

Abhiraj Choksey: You are right absolutely, so this will be done in Q4, it will be completed in Q1 and that is exactly what you said we will have around 5% to 10% more from the debottlenecking. Of course the kind of demand that we saw in the last four-five months caught us by surprise and we are happy we were pleasantly surprised and for the year of course if you will look at FY ’22 versus FY ’21 numbers, of course there will be much better because the first three to four months of the Financial Year ’21 was very tough because of lockdown, so obviously things will be much better, but in the quarter wise we have very little headroom right now and it will come through the debottlenecking exercises. After that it will be through these two projects, one is this latex project that we are looking at in Valia, XNB latex plus we are looking at latex project in Taloja as well which will help us to some extent increase capacity in Taloja as well. In addition to that NBR line two which is the big project to double our NBR capacity which decision we have not taken, but hopefully we will take it in the next three to six months.

Saurabh Shroff: Abhiraj in fact my next question was that what is the viable size, what is the minimum size that you think you need to put whether the duty comes or not, because you said that for us to be sort of globally competitive, you think that we need to double our size but let us say that…

Abhiraj Choksey: No, just to correct you, not double our size but double our NBR production.

Saurabh Shroff: NBR from 21 to 40 let us say, is that the sort of the minimum plant size or addition that you think line size that you need to do to make it sort of as competitive rather than doing it to the size?

Abhiraj Choksey: Exactly.

Saurabh Shroff: That is helpful and secondly just sort of looking at the full year numbers, we have sort of other expenses line and because we do not have the breakup yet, the annual report is not out, in other expenses sort of go up from 75-76 crores which was the case in FY ’19 or FY ’20 to about 90 crores this year, is there any sort of one-off in this like you mentioned that maybe you took some sort of repairs or maintenance work which was to expire in October-November or even some of it in this quarter, I am just wondering if that some of it is not going to get repeated because that is sort of one line which seems to have hurt the EBITDA jump this year, I think Farokh asked that question and maybe that is part of the answer I am just trying to understand if you could quantify that, if indeed there is a one-off?

Abhiraj Choksey: Well one and I am not sure of these numbers exactly again, I will have to look into details, but obviously our volumes have been higher in the last six months that is the last two quarters, and therefore, I do not know if the utility cost like power, fuel, water and all and so on, obviously if that is part of it t, but obviously that has gone up, but in addition to that, yes, we certainly had some one-off expenses that we could not take up between March and October, and therefore, they have come in the last three-four months I would say and even in Financial Year ’19-20 it was a difficult year for us in terms of margins falling, dumping was very high at that time for NBR, so we are held off on some expenses which then we approved in the last few months, so yes there are some one-off expenses for sure but I would have to go back and look at the details, frankly I do not know these numbers exactly what you are saying, so if you can send us a small email then we can clarify this.

Saurabh Shroff: One final thing from my side, so glove is sort of a relatively new pillar, as you said that we started just to get a sense over the last three to five years, anything other than has been a new sort of product either innovation or a launch for us or the geography like this one big change we are seeing is this 20% in the current quarter being exports, anything else that is sort of a relatively newer business for us which has the room to sort of ramp up other than gloves or rather latex for gloves?

Abhiraj Choksey: Current businesses as well, we have obviously introduced new products right, we do not talk about it because it is different grades in the same product line which has also allowed us to grow. We have added new customers both in India and abroad and of course this glove is a new industry that we are focused on but if you see the last five years, one is we have made this acquisition of the Omnova plant, the Valia plant. In addition to that, we added products in Valia, we have added products in Taloja, we have expanded our geography, and this new pillar of gloves, so we have done multiple things.

Saurabh Shroff: The main exports markets were for this quarter in particular?

Abhiraj Choksey: South East Asia and the Middle East remain our main export markets, we also export into Europe and as far as America and everywhere else, but a large chunk of the business comes from these two geographies, South East Asia, Middle East, North Africa.

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

Karan Bhatelia: Sir, thank you for the opportunity, Sir just wanted to understand the pricing differential between our NBR products and what is there on imports from Korea and what quantum of duty are we expecting this time?

Abhiraj Choksey: There is no pricing differential in that sense, because we have to compete with whatever they price and whatever they dump, whether it is Korea, Russia, China, wherever it is coming from, so we have to somewhat compete but obviously we think that the price and the DGTR for the Korean case, they recommended dumping duty, in terms of percentage, if I were to convert it into percentage of between 3% and 25% to Korea depending on the supplier, 3% to 4% was for one supplier and for another supplier was upwards of 20%, I think it is 22%-23%. According to us, a fair duty, again it would depend from country to country, some countries I think the fair duty would be 20%, some countries the fair duty would be 10% that is up to the DGTR to decide, but we think somewhere around 10%-20% depending on country is definitely a requirement.

Karan Bhatelia: Thanks for that and also on the margins if I have to remove the inventory gains what could be the sustainable margin maybe you can provide for Q4 or for the full year FY ’21?

Abhiraj Choksey: Look I have always said that if we implement our strategy well and we have done that quite well in the last one or two quarters, around 14%-15% margin on average is definitely doable, and of course better than that in Q4 and we expect that for the year as well there will be some ups and downs, some hits and misses but we hope to do in the mid-teens sustainably.

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

Dhiral: Good afternoon Sir and thanks for the opportunity, Sir as you earlier said that you are working at almost 100% capacity and maybe you are doing some kind of a debottlenecking, but do you feel that in FY ’22, we will be doing double digit kind of a volume growth?

Abhiraj Choksey: Of course FY ’22 compared to FY ’21, we will definitely do more than double digit because do not forget for the first three months of the year we were shut for the first two months and first quarter was really, we had lot of challenges, so you know our first quarter numbers, that is there, but of course if you compare Quarter-4, Quarter-4 we were working at almost 100% capacity managing so quarter-on-quarter compared to Quarter-4, we have a little headroom to grow, but compared to FY ’21 our numbers will definitely be much better.

Dhiral: Sir when you are talking about the CAPEX, so what kind of incremental ROE/ROCE you are looking after that?

Abhiraj Choksey: As a company we would not make any CAPEX investment if it were not 20% to 25% ROCE, but obviously we would want to do better than that.

Moderator: Thank you. The next question is from the line of Sameer Dalal from Natverlal & Sons Stockbrokers Private Limited. Please go ahead.

Sameer Dalal: Two questions, the first one is you mentioned that our growth rate will be based on certain industries growing at what percent, is there any sort of breakup you can share in what percentage of your sales of products go to which industry?

Abhiraj Choksey: I think we have mentioned that approximately yes, I can tell you now approximately 20% is paper and paperboard which is a large chunk of that is packaging, some of it is for paper applications as well, but a large chunk of it is for packaging, another 10% or so is the tyre industry, another 10% is construction, another 10%-15% is carpet and specialty products. Footwear is again about 12% now, then we have auto which is about maybe 15%, and range of other rubber applications which is another 15%-20%, I do not know that is approximately adds up to about 95%, so I hope that gives you a sense.

Sameer Dalal: That is more or less of what we want that is on certain growth rate?

Abhiraj Choksey: Exactly, it is a fairly equal distribution, I will not say equal but diversified distribution and we are not compared to let us say six-seven years ago when we were highly skewed to the paper and footwear industry that has definitely come down, the dependence on the industry.

Sameer Dalal: The second question has to go around this NBR plant that you are talking about where you wanting this anti-dumping duty, is it that plant right now is delivering significantly lower ROE/ROCEs than the rest of the business and putting a drag on the overall margins, is that fair to assume and if that is the case and you feel that the operational efficiencies that come through if you double up would help you get the higher ROEs/ROCEs then why not still go ahead with it unless the ROEs are really, really bad, I am just trying to understand what is happening on that?

Abhiraj Choksey: No you are right, number one what has happened with the NBR businesses, there have been years and quarters where the ROE has been very good and then there has been '19-20 where we saw that the ROEs were largely dragged down or the results of the company were largely dragged down due to NBR, as a result of which we have done a couple of things, one is we have worked on luckily we have had few cost saving projects that we have implemented which has definitely helped improved the NBR margins with or without dumping. Number two we have made our plant more flexible to actually make other products from the same plants, for example this XNB latex for gloves, we have been able to make it in the same reactors where we make the nitrile rubber, the first part of the nitrile rubber process, so we have made our plants more flexible and to your point it may still be and that is a decision we have not taken, it may still be with or without anti-dumping it may still be worth it to go ahead and do that expansion, the only question is do we use those funds for NBR or can we utilize those funds better for some other opportunity, so it will come down to that, it perhaps may not come down to whether the ROE of the NBR plant is viable or not, the answer maybe yes, it may be especially when you double and especially when you reduce your cost per ton by doubling and you get economies of scale, but it will be a question of where we want to spend our funds, where we want to invest our fund.

Sameer Dalal: What kind of cost would that NBR plant be?

Abhiraj Choksey: We have estimated around 180 crores right now, so it is a fairly large investment, so I hope you understand now why we have a little bit of concern.

Moderator: Thank you. The next question is from the line of Ankan Jain, a shareholder. Please go ahead.

Ankan Jain: Good evening, congratulations on good set of number, hope you and your staff all are safe and taking care.

Abhiraj Choksey: Well so far thank you, we have had a lot of COVID cases in the plant, thank you for asking but we have had quite a few COVID cases in the company but fortunately everyone has recovered without any serious disease; unfortunately, we have had a few family members of our employees who unfortunately we lost, but none of our employees so far.

Ankan Jain: It is nice to know that, I have two-three questions, one is on this CAPEX part where you have planned three different CAPEX, one is debottlenecking at Taloja plant, then second is the gloves project at Valia, and of course proposed it is still not approved for the NBR project again at Valia?

Abhiraj Choksey: The fourth one I have alluded to today is additional capacity in Taloja, but I will be giving details of that project only perhaps in the next quarter con call.

Ankan Jain: What I wanted to know was once we are done through all these projects; will we have sufficient space for future expansion at both the locations?

Abhiraj Choksey: You mean after these projects for more expansion, you know we may, I mean we will have to see how things work out once we have implemented it because one of the other things, we are cognizant of is also not just putting put up a plant, but the logistics required for moving material, both incoming raw material and outgoing finished goods. It is going to get more difficult after all these projects are implemented and yes from that point of view, we may think of a third location for our sort of long term four to five years down the road.

Ankan Jain: Okay fair enough, the second thing I want to know was some years back, we had made some products for the paint industry, but unfortunately at that time it was found out that the margins were not remunerative and there was severe competition or so, is it remained same even now?

Abhiraj Choksey: What we did is we are by the way still supplying to the paint industry, it comes under our specialty portfolio what we call it, so we are only supplying some specialty product to the paint industry where we have a certain edge and where we are getting the margins that we feel are healthy and sustainable to grow in that business, but yes as a strategy we tried it out, we felt the margin we have a range of products we had developed which we can still manufacture anytime, but I think there was a lot of competition in that industry, so we decided to sort of take it this slow and only focus on certain product.

Ankan Jain: Okay, so that means it has remained even now severe competition is there?

Abhiraj Choksey: Yeah.

Ankan Jain: Next about this carpet industry where we have developed exclusive products for the Gulf region, I believe I think it was more than eight to nine years back we had done and that time the potential given was around 800 crores, now if you see the export part you have said that around 20% we should also include gloves, so I do not have how much percentage of our revenue goes to the carpet industry, so even on a thumb rule if I take 10% also that works out to be less than 60 crores, so 60 crores out of 800 crore potential that time is still less than 10%, so is there any particular reason why we are not going aggressive there?

Abhiraj Choksey: No, actually we have done a very good job and we are one of the three suppliers and you are right it is a very big market, it may be even much more than 800 crores, now I will have to rework it now, but as I said look strategically India, so what is happening is there are only handful out there in single digit less than 10 big customers for the carpet industry and competitive pressure is there and the margins were much lower than some of the other customers, industries, geographies, so while we continue to do business there and anytime we want, we can increase the sale as well, it is a question of where the margins are more lucrative and especially in the timeline this one we are working at 100% capacity utilization, one other thing I mentioned was optimized product and customer mix, so we optimize that what is strategic and we focus on those customers, but we may not want to grow significantly in those customers. There are also payment issues and you know all those other things that we have to worry about, so given all that we have continued to focus on that, but we may not have aspirations to become number one in that geography for that industry.

Ankan Jain: My last question is you had mentioned about having implemented the flexibility in the production in both the plants at Valia and Taloja, does that include even for this HSR rubber where we have around 7000 metric ton of capacity?

Abhiraj Choksey: Yeah, that is correct.

Ankan Jain: So that also we make other latex or other products based on the demand?

Abhiraj Choksey: No, I meant HSR we are able to be make in both locations, but due to the nature of the reactors that we have, now we can only make HSR from those reactors. We are looking at replacing a couple and making it more flexible, so we may do that, but as of now we can make HSR in both our plants, but those specific plants are not that flexible as of now because we are trying to make more flexible.

Ankan Jain: If I could squeeze in last question, we supply this VP latex to the tyre industry?

Abhiraj Choksey: That is right.

Ankan Jain: So that can be used even for the radial tyre?

Abhiraj Choksey: No, that is mostly, it mostly goes into bias tyres as far as truck and bus is concerned, but for passenger cars, it goes into passenger and two wheelers we can use it in all tyre, that is used across the board.

Ankan Jain: For passenger you mean to say even the radial tyres also?

Abhiraj Choksey: Yes.

Ankan Jain: Other than that, do we have any local manufacture for this product?

Abhiraj Choksey: I am pretty sure you can do the research; Google will tell you all those answers.

Moderator: Thank you very much. Ladies and Gentlemen, due to time constraint, that will be the last question for today. I will now hand the conference over to the Management for closing comments.

Abhiraj Choksey: Thank you very much Nirav, thank you to everyone for participating and taking the time out to come to our Q4 con call. We look forward to seeing you all at the end of Q1, we all hope that it will be better year for all of us, I know it started off very difficult for India and we can hope and pray that we can come out of it and by the time we meet next time, hopefully the situation is much better. Thank you very much.

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