

**Apcotex Industries Limited**  
**Q1 FY22 Earnings Conference Call**  
**29<sup>th</sup> July 2021**

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**Moderator:** Ladies and gentlemen, good day and welcome to the conference call of Apcotex Industries Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '\*' then '0' on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir.

**Anuj Sonpal:** Thank you. Good evening everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the 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 first quarter of financial year 2022.

Before we begin I would like to mention a short cautionary statement. Some of the statements made in today's earnings conference call maybe forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs 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 really to educate and bring awareness about the company's fundamental business and financial quarter under review.

Let me now introduce you to the management of Apcotex Industries Limited participating with us in today's earnings call. We have with us Mr. Abhiraj Choksey – Managing Director, Mr. Sachin Karwa – Chief Financial Officer and Mr. Anand Kumashi - Company Secretary.

Without much delay, I request Mr. Anand Kumashi to give his opening remarks. Thank you and over to you, sir.

**Anand Kumashi:** Thank you Anuj. Good evening and welcome everyone to this earnings conference call for the first quarter of FY22 under review. Along with me in today's earning call, I have our Managing Director Mr. Abhiraj Choksey and Mr. Sachin Karwa, the Chief Financial Officer. I hope you had an opportunity to review the financial statements and the earnings presentation which has been circulated and uploaded on the website and of the stock exchanges.

To brief you on the financial performance for the first quarter of FY22:

The revenue from the operations were around Rs. 185 crores, with operating EBITDA at Rs.29 crores with EBITDA margins at 15.83%. While the net profit was Rs. 22 crores with PAT margins at 11.83%.

As you can see, the results are flattish as compared to the previous quarter on account of slightly lower volume due to second wave of COVID-19 and partial maintenance shut-down at Taloja plant during the month of June 2021. On the CAPEX front, our debottlenecking projects will be completed in the Q2 of FY22 which will give an additional revenue of around Rs. 60-70 crores per annum once completed. We have obtained an initial Environmental approval in Q1 to start the construction for two new brownfield projects, one each at Valia and Taloja plant. The total CAPEX for these new projects are expected to be around Rs. 140 - Rs.150 crores which will be incurred over the next four quarters.

On the anti-dumping duty front on NBR for both the petitions after a thorough investigation, DGTR recommended an anti-dumping duty, but the Ministry of Finance has decided not to notify the duty. As of now, there is no anti-dumping duty exist for NBR imports into India. And lastly, the Taloja plant three years agreement with a unionized workmen was amicably signed in this quarter. With this I would like to open the call for question and answer. Thank you.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

**Ankit Kanodia:** So we have got an EBITDA margin of almost 16%. How confident are we that it can be sustained throughout the year? And why?

**Abhiraj Choksey:** As we have been mentioning in previous con-calls, and I think you have been part of also a few con-calls, we have consciously made an effort to increase our margins from the low teens in fact, 10-11% to almost the last now three to four quarters we have consistently been doing somewhere between 14-16%. So we feel fairly confident that at least this 14-15 number is doable. We are at a high capacity utilization; that is why helping, and therefore we have been able to also improve our product portfolio, product margins and manage our customer margins as well as product wide margins better. We feel fairly confident, Of course, there will be a couple of quarters where we may see some ups and downs; in our kind of business that does happen. But on average, I think that we are fairly confident of doing somewhere in the mid-teens now.

**Amit Kanodia:** Before I move on to the next question, thank you for sharing more details about Apco Build in the annual report. That really helped. The second question is about the anti-dumping duty. In the last call also we had a discussion where we said that if that anti-dumping duty does come,

then we are very confident that we will go ahead with the CAPEX plan. Now that the Minister of Finance has put that on hold so, is it on hold or they are not doing it at all?

**Abhiraj Choksey:**

As of now our information is that they have not notified it and for one of the petitions there is also a notification that they will not be implementing it. However, there are some legal processes that are available to us, which we are evaluating whether to do it or not. But for the last six months there have been no and in fact, since December 2020, there has been no anti-dumping duties in place in India for any import of NBR. As far as CAPEX is concerned, the CAPEX that is already been approved by the Board and which we are going ahead with both are largely latex projects, which is one is in Valia, Rs. 110 crores CAPEX, and another one in Taloja which should be somewhere between Rs. 30-Rs.35 crores, which I think we have mentioned in our earnings presentation as well. So that we are going ahead with.

As far as the NBR is concerned, anyway we are waiting for environmental clearance for that project so, we have some time to decide. The environmental clearance is expected sometime next year maybe by April of 2022. Only after that, we can go ahead with that project. So, we have some time to decide. But we decided to go ahead with it because frankly, in the last six months we have competed effectively, we have tightened our belts, we have implemented a few things, reduced costs and, it is a question on where we want to allocate our capital. The NBR business according to us is still attractive and we will decide by next year. We have applied for the environmental clearance approval for that project.

**Amit Kanodia:**

And regarding the export, which is doing really well for us today. So, how much are we expecting as in...I know you can't give any guidance. But any ballpark direction as in, can we see export doing even better throughout the years? So it is already 24%, if I got it correct.

**Abhiraj Choksey:**

Yeah, it is. This last quarter was 24%. There were two reasons though and, frankly it is not that we are doing exports for the sake of doing exports. One was, of course we wanted to de-risk out of India because something like what happened you know, lockdown; we have seen a couple of times in the last year where India has gone through lockdown. Even in April and May, when we had this problem in India, we were able to quickly pivot and make sure we didn't lose sales and we were able to sell more in the export market. Now that percentage may vary. It maybe 20% next quarter if the domestic market picks up, it just depends. But now we are quite comfortable with this kind of 20-25% exports. Even our export markets are largely in Southeast Asia and the Middle East. I would say 80% of our exports happen around that area. Now what we are seeing currently, for example, in the month of July and even August from what I heard countries like Thailand and Malaysia have gone into a strict lockdown because the Delta variant has now erupted there, which was the case in India two-three months ago. So now it has happened there. So there some of our customers are shut. So, the percentage of exports may vary. The only thing that is important from our point of view is, frankly that we have now the capability and we have built products, our export sales teams and relationships with customers and we can even go up to 24-25%, we are able to do export sales.

**Amit Kanodia:** Anything drastic change or it is still a minus portion of our revenue or do we expect something significant for this year?

**Abhiraj Choksey:** Yeah. In fact, this year we expect to...earlier, we were in and around the Mumbai-Pune region, more around in Maharashtra. Now we have expanded to Gujarat, MP, Goa. So, we are trying a few other territories and seeing how it goes. So we expect, while it will still be a small part of our business we are feeding it, we are continuously feeding it, it is a good profitable business, but a much smaller part of it.

**Amit Kanodia:** Okay. One last question. EBITDA per tonne are we near the peak right now, or do we see more like from here as well, looking at the raw material prices and all? I know you don't share the exact number of EBITDA but directionally.

**Abhiraj Choksey:** Yeah we don't share the numbers but frankly, we feel comfortable with these numbers. I don't know if it's at the peak or not, but yeah I mean, the raw material prices have been rising for the last few months. I am not sure, it is difficult to say. But we feel confident that this kind of EBITDA numbers are possible going forward as well.

**Moderator:** Thank you. The next question is from the line of Manav Vijay from Deep Financial. Please go ahead.

**Manav Vijay:** I have a couple of questions. First of all, on the XNB latex. So last year when you started talking about the expansion, you started with around 30,000 tons of expansion. Then somewhere you increased that to around 40,000 tons and in the latest AGM you talked about 60,000 tons expansion plan. So if you can just, first of all explain as to what is the kind of expansion that we are looking at, what will be the CAPEX and what kind of sales you expect to make from that project at the peak level?

**Abhiraj Choksey:** So as of now the first phase in Valia is 50,000 tons of latex. I don't think we ever said 30,000 tons. It was always somewhere between 50,000 and 60,000 tons. So right now as of now, we feel confident that we will be able to do; once the project is commissioned next year, now it will be sometime in 2022, we will be able to make 50,000 tons per annum annually. But we will be leaving some more space in our civil buildings to add more reactors if required and more equipment if required in the future. But initially we are going to be investing around Rs. 110 crores for about 50,000 tons, which would be around Rs. 400 crores of revenue with current prices, conservative levels. In Taloja, we are planning around a Rs. 30-35 crore projects, again, to start off the construction after the monsoons. Again, it will be ready by the middle of next year. That is a project that will give us flexibility to make either 10,000 tons of XNB latex or we can make other latexes as well – the traditional SB. So, it will be a combination plant. Conservatively again, that will be about, I think around Rs. 80-Rs. 100 crores of revenue. So, overall we are looking at about Rs. 140-Rs. 150 crores CAPEX on these two projects besides maintenance CAPEX and so on that would happen of course, through the course of the year

over the next 12 months, 12-13 months; and, that would be about little less than Rs. 500 crores of revenue in top-line.

**Manav Vijay:** Abhiraj, one of the main, I would say achievement that you have mentioned in last couple of calls is that you have said that we want to stick to the timeline. So, you believe that this Rs. 150 crores or Rs. 140 crores of CAPEX in the next twelve months without any kind of exigency, maybe one month here and there is beyond anybody's control. But twelve-thirteen months is something that you will be able to finish it off? Because since now you have the clearance in place and the speed at which you move is up to you so, you believe that is doable?

**Abhiraj Choksey:** Yes, absolutely it is doable, and as you said now of course, it will be more in our control. We were waiting for some environmental approvals, which is what delayed it by a few months. But now immediately after the monsoon, we expect to start construction. We have already finished the detailed designing of the project. We are already manufacturing this product in reasonable quantities for the last one year now or more than that. Even before pre COVID, we were doing it in smaller quantities, but now of course given what happened, we modified some of our reactors to make nitrile latex for gloves in the last one year. And we were fairly confident, we have everything in place. We have the technology, we have the customers, we have capabilities, it is only about project execution. So as you said, one month here or there, unless some third wave hits us badly and of course there are those kinds of challenges where some of our vendors, like for example, in April and May when whatever machine we had ordered some of it got delayed because of the second wave and some of them were shut, especially in the North. So barring those kinds of things, we feel fairly confident about a one-year timeline.

**Manav Vijay:** You also mentioned that apart from this 50,000 tons in the Valia plant you will have some space. So, after this expansion, I believe there is a plot of around 22-23 acres and currently, I think you are using somewhere around to 7-8 acres. So post its expansion, how much space you will still have to do any future expansion apart from the NBR that you are planning?

**Abhiraj Choksey:** As of now, we are looking at this nitrile latex project of 50,000 tons and as I said, we will be able to add some more. So we will have enough space maybe to increase capacity in the future by up to 50%. Exact numbers I would only have to work out, I will be able to tell you by end of next year and then NBR, that's it. I think beyond that I don't think we will have more space.

**Manav Viraj:** And, for this Rs. 150 crores, so I believe you have around Rs. 80-Rs. 90 crores of cash on books. So, you would want to, let's say raise some debt or you believe that the internal accrual, plus let's say that you have the portfolio, all that is sufficient to fund this expansion?

**Abhiraj Choksey:** Yeah, thankfully we feel confident that the internal accrual and of course, if we use all the cash that we have on our books, then that is sufficient to fund the next one year. But we do plan to take on some debt at least, because in our kind of business we have seen in the last 10-15 years, there have been cases where it is always good to have some cash in the books, because

there is volatility in raw material prices, sometimes availability, sometimes what happened with COVID last year. So we would not use up all the cash that we have on our books. So we would take debt and as of now we are almost debt free. So, we have the ability to raise some debt at least.

**Manav Viraj:** The last question from my side is that, so I have been seeing you guys for the last almost 10 years. So, in last one, one and a half year you have added some people at the top level. So, you believe that now the size of this business has become so big that you need extra hands to take care of it?

**Abhiraj Choksey:** Yeah, I mean as the business grows, I am sure you would agree that you need people at all levels; and that is what we do. As and when we think we require people, we recruit.

**Moderator:** Thank you. The next question is from the line of line of Manoj Sajpal from Avadh Developers. Please go ahead.

**Manoj Sajpal:** Sir, suppose if there was no lockdown in the second quarter, then by how much percentage our revenue could have increased compared to Quarter 1?

**Abhiraj Choksey:** Mr. Sajpal, usually we don't give quarter-on-quarter guidance. Overall business is strong, things are looking good. We don't give exact guidance on percentage as to how much will it increase. Overall, I can just say that business is looking okay. There are obviously challenges. As I mentioned earlier, currently there are lockdowns in few of our export markets like Thailand, Malaysia. So we have challenges on that front. But India market has picked up. Also, this is a monsoon season so a few of the industries that we are catering to like construction, carpet and paper this is sort of not their peak season. So those kinds of quarter-on-quarter challenges can happen. But looking at overall nothing, substantially changes in the business quarter-on-quarter.

**Moderator:** Thank you very much. The next question is from the Alisha Mahawla from Envision Capital. Please go ahead.

**Alisha Mahawla:** Sir, firstly I would like to understand that for the kind of growth that we are witnessing, is this all volume growth or is it some kind of value realization growth that we are witnessing?

**Abhiraj Choksey:** Compared to which period?

**Alisha Mahawla:** Obviously, while I understand that Q1 is on a low pace. But in general, for the last one year for the kind of growth that we have seen, just want to understand that, if it is a volume growth or is it a realization growth? Or are we seeing a mix of maybe the volumes are going up, but maybe the realizations are correcting? Just wanted to get some kind of insights there.

**Abhiraj Choksey:** So if you see the last one year then of course we have had mostly it is around volume growth. But if you see the last one quarter, yes realizations have also gone up. So it is a combination of realization and volume. For example, if you compare Q1 of this year, which is this quarter compared to the previous quarter which is Q4 of last year, the top-line is about the same. It is about flat but frankly, our volumes have been a little bit lower, again we don't give exact numbers, but I would say in the single digit percentage lower. And the main reason is because we had a long partial shutdown in our Taloja plant which affected production and partly also because of the lockdowns in India that affected sales in some of our segments, some of our customers were shut, especially in the North for weeks, three-four weeks because of a lot of COVID cases. So obviously those kinds of things happened in Q1 that were not there in Q4. But by and large if you were to compare a whole year, it has been largely volume growth driven.

**Alisha Mahawla:** The other thing that I wanted to understand is that, this quarter the run rate is about Rs. 180-Rs. 190 crores that we are doing. We can maintain this with our existing capacities. What is the scope to improve this with the current capacities?

**Abhiraj Choksey:** So we have invested in the last five-six months and we continue and I think that is also mentioned in our investor presentation is that we have spent some amounts for debottlenecking and which will increase capacity by about 10-15%, somewhere between 10 to 15%, which will obviously keep us going for the next one year. And, after that of course, these two new projects are coming up as well by next year.

**Alisha Mahawla:** And the last question that I have is for the new capacity for the brownfield that you are doing that is expected in FY23, you are expecting it to be utilized in about two odd years or in general does it take longer to get utilized?

**Ahhiraj Choksey:** I think that would be a conservative assumption, but we obviously would like to do it quicker than that. It will take time as soon as it gets commission, because a lot of our customers would, because even though it is in the same plant, it is a new plant. It is a new building, new reactors so our customers would sort of slowly ramp up. I am hoping we can do it in six months to one year, but certainly in two year we will be able to ramp it up.

**Moderator:** Thank you very much. Next question is from the line of Satyan Wadhwa from Profusion Capital. Please go ahead.

**Satyan Wadhwa:** You mentioned that raw material prices are inching up. Just wanted you to get a sense of how much end product prices are moving as well so that is there likely to be a compression in margins in the near term or an expansion. And if you could shed some light on when the new Brownfield expansion will be ready and how much they would contribute to the top-line in FY23? And what is the fool actually capacity top-line contribution likely in FY24 at current pricing?

**Abhiraj Choksey:** To answer your first question, our endeavour is always to pass along the cost increase, and by and large we have been successful. So, even for example in Q1 compared Q4, we were able to pass on the cost increase and in fact, we may have done a little bit better than that. Therefore, our EBITDA margins were currently a little bit better than or around the same as Q4, or EBITDA was around the same as Q4. As far as the project is concerned, we expect it to be sometimes, by the next con call I should have a more accurate number because we have recently received these approvals and our projects team is now reworking the entire timeline and schedule. But we expect it to be sometime in the middle of next calendar year. So sometime in the middle of FY22, and as I was telling the previous caller that, we would want to ramp it up in less than one year. So it is very hard to exactly pinpoint what would be the revenue extra generated only for FY23. But overall as I said, at full capacity, with the new volume we expect revenue of about Rs. 500 crores to be generated from the new CAPEX.

**Satyan Wadhwa:** I didn't get that. At full capacity...?

**Abhiraj Choksey:** Rs. 500 crores per year additional.

**Moderator:** Thank you very much. Next question is from the line of Abhishek Basumallick from Intelsense Capital. Please go ahead.

**Abhishek Basumallick:** I just wanted to understand a little bit on the lay of the land for your latex gloves space. Because I have been reading up a little bit and I find that there is a, I was looking through LG chemicals and Kumho and some of the other players in the space. They seem to be saying that there is a very large demand which is there. So, basically wanted to understand, also Top Gloves. So trying to understand what are your thoughts on the demand scenario and what kind of volumes you are expecting say in the near term or the medium term; and especially when you are competing with other MNCs? What would be your competitive advantage if there is any?

**Abhiraj Choksey:** So, one is that even pre COVID, we had identified this product range, way back in 2015-2016 as something that was worth looking at because of two reasons. One is general level of hygiene going up in Asia, nitrile latex or nitrile gloves, taking more of the market share from natural latex gloves, because they have some inherent properties that are better than natural latex gloves and the competitive scenario or the competitive space being limited. There are a handful of players mostly in Asia that manufacture this product. So we had identified it four-five years ago. It took us two-three years to develop the product. We started selling, we started building customer relationships and now we are at a stage where we are selling reasonable quantities of this product for the last one year and then investing more into it. So, overall I would say look, the space of nitrile gloves and latex pre COVID was obviously attractive. And now, given what has happened with COVID, obviously it is expected to be even more attractive for the next one or two years, given overall the hygiene levels and the overall vaccination drives also, which will be continuing for the next couple of years. We will all need to get boosters at some point, even after your first two shots and so on where also gloves are going to be used. And Asian countries



typically had much lower glove usage per capita, glove consumption per capita which I think is going up. So all this makes it an attractive segment to be in both for glove manufacturers as well as the raw materials for glove manufacturers. Of course we do have certain competitive advantages. One is our capital...

**Abhishek Basumallick:** Sorry to interrupt. Before you get there, could you quantify in some manner what kind of growth can be possible, what our numbers look like or possibly what is the market price that you are looking at?

**Abhiraj Choksey:** I have all of these numbers, not with me immediately, number one. Number two, we don't share details of the market research that we have done because we believe that is proprietary. But having said that, even pre COVID the expectation was that this market would go grow at 12-13% per annum. Obviously last year, the growth has been phenomenal. That is not likely to continue that kind of growth with at least 10-12% per annum is something that we see easily growing over the next five-seven years. And, given that even at 50,000, 60,000 tons that we plan to sell even up to a 100,000 tons, to me maybe 5% of the global market for nitrile latex. So, we are not aiming towards a high market utilization or high market share, which of course, some of these guys already like, you mentioned a couple of peers in East Asia, they have larger plants than us and they do have certain advantages in terms of economies of scale. But I believe we have certain advantages and the way we have developed a product and the way we make it in terms of cost as well as sum amounts of quality parameters also where we are stronger than them. So we do have some competitive advantages as well.

**Moderator:** Thank you. The next question is from the line of Nikhil from Perpetual Investment Advisors. Please go ahead.

**Nikhil:** My question is about IOCL has announced plans to build a styrene plant in Panipat, which might take a couple of years, and if we assume that another company plans to add a plant for acrylonitrile, we have all three monomers being produced in the country. So, what is your opinion on how does this change the downstream industry? Does it open newer market? I mean, market for newer products for us? Or will it only help in individual working capital and help with logistics costs and further increase the pace of import substitution?

**Abhiraj Choksey:** I think it is absolutely critical in terms of having some of these monomers which I believe are critical building blocks. If a country wants to develop in industry, a downstream industry. Because more than the cost, I think the issue is when you have security of supplies and when you have strategic players, strategic supply of these products in the country, it really gives people like us a huge level of confidence to put in more investments downstream. Today one of the things that we look at is these kinds of things, we are unnecessarily as you said, having large inventories, more working capital, and we are still dependent on imports for a lot of things. So acrylonitrile you mentioned just a few months ago, there was a huge shortage. In fact, a lot of companies using acrylonitrile in India had a shortage there, they had to shut down

their plants for two-three weeks. So, those kinds of things don't happen if there is at least some amount of inventory or some amount of supply that is within India. So I think it is extremely critical. Whether we will be able to...just because that I have new products, I don't think so. I mean, that is an internal issue, that is our internal R&D and that is depending on the competitive landscape, so that is a different issue. But it does certainly give us a lot of confidence to invest more.

**Nikhil:** I think that more or less it will increase the pace of import substitution. Then it will make you aggressive in terms of CAPEX.

**Abhiraj Choksey:** Absolutely. Yeah, because for example going forward one, both our plants are completely utilized and we have been discussing at the senior management level and the Board level is also that, the next phase of growth, if we want to do a Greenfield project, one of their important considerations is raw material availability. There is option to do it in other parts of the world. Why do it only in India, and raw material availability is a huge consideration. By then if the raw materials that are available in India, then that makes the case for India better for us.

**Nikhil:** So, I think you sort of just touched on my next question. I wanted to ask, so now if you are planning a third plant, can you expect to be in a petrochemical complex where there is consistent supply of butadiene which will again help you save on working capital and logistics?

**Abhiraj Choksey:** Yeah, absolutely. I mean, it is not easy because we have to work with other parties to make that happen considering we don't have our own petrochemical plant. But certainly yeah, that is one of the big considerations for future expansion.

**Moderator:** Thank you very much. Next question is from the line of Amar Maurya from Alfa Accurate. Please go ahead.

**Amar Maurya:** So Abhiraj, my question was pretty long-term. I have been watching this company from last 10-11 years. So, one thing is that there is a fair amount of visibility you reach into Rs. 1,000 crores revenue either by 2023 or by 2024. The thing which I asked you 10 years back, that broadly at that point of time, you were having five chemistries, which were at certain level and you were already a market leader. I think the same kind of situation now looks in a majority of your chemistry except the gloves latex, so how do you now plan to change the whole course of the business I mean how you plan to include new products into the products so that the next level of growth can come faster and probably the size which we are at 1,000 crore can become double in next three, four years?

**Abhiraj Choksey:** So frankly we have in the last few years seen opportunities what we have done is we have realized what our strengths are and played to our strength therefore the acquisition that we made five years ago was also with an objective that look we understand the chemistry it was a new product and new market for us where we understood the chemistry and the added value

we turned around the company and now we are building in that facility because at that time also we knew that Nitrile latex was something we wanted to get into. Similarly, we do have other products on the horizon which we are seeding now, but obviously those are things that we talk about it will be a little premature to talk about that, but certainly we do have plans to try and develop other products again keeping in mind our strength and keeping in mind the market opportunity we do have a few things in mind that we are working on.

**Amar Maurya:** So those products like are large size product kind of gloves latex which can take you global and which can basically give pretty larger run rate than the earlier ones?

**Abhiraj Choksey:** Well there is one or two products that are more specialty do not have the kind of global market size that Nitrile latex for example does and for example styrene butadiene latex, but they are more niche products but certainly large enough for a company Apcotex which is where you said for a 1,000 crore company need to grow to the next level we are also mindful of we are conservative in terms of investment, in taking risk, taking a lot of debt and so on. So, we will take it step by step for now I think our hands are full for the next two, three years and at the right time of course we would be talking about the future plan for growth and of course we are open to also not only investing in Brownfield or Greenfield, but also potential acquisitions that could add value.

**Moderator:** Thank you. The next question is from the line of Rajesh a Retail Investor. Please go ahead.

**Rajesh:** So this is regarding the Valia plant it was shut down in the beginning of this month is it up and running now?

**Abhiraj Choksey:** Yes it was maintenance shutdown we needed for about 10 days, 12 days it is up and running now.

**Rajesh:** And how about the Maharashtra facilities is there any impact because of the recent rainfall?

**Abhiraj Choksey:** No fortunately not we are in a Taloja area which is not in the parts of it is in Raigad district, but not in the parts where there was heavy rainfall so we have had no impact in production because of the rainfall.

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

**Farokh Pandole:** Just couple of questions firstly this expansion at Valia you mentioned 50,000 tons and you also mentioned that you are making provision for a further expansion at an appropriate time, so what is that what is given once this 50,000 comes up how much further can be expanded and at what cost?

**Abhiraj Choksey:** I eluded to the fact that we are at least making provision for up to 50% more expansion and it would be at obviously a much is a marginal cost, additional marginal cost. We have not exactly worked at out and if you do not mind let us get going. The idea was to first sell this 50,000 ton make sure we are currently doing a good volume, but this would be a different scale of operations so we just wanted to first stabilize and then take a decision on the further, asset turn ratio would be much better than what it is currently.

**Farokh Pandole:** Just wanted to get some sense on this finance ministry not notifying on the anti-dumping duty, so assuming a status quo on that front what will be the determining factors for this NBR project or could it also be that you may shelve the NBR project entirely and look at maybe new projects or maybe look at expanding gloves capacity further, what is the thinking I do not expect you to commit to anything, but just in terms of what are the deciding factors of whether this will go ahead or not resuming things as serious?

**Abhiraj Choksey:** I just want mention two, three things. One is that for last six months there has been no anti-dumping duty in India and it was completed effectively with all the steps that we have taken. So we are still fairly that NBR also we are quite competitive at these level if we do decide to go ahead and double the capacity for NBR obviously it will come even more competitive because some economies of scale will start kicking in. Number two the Indian market itself will be larger / is large enough where even currently at only about 25% market share. So we feel the Indian market itself has that and the third important factor is just a month ago one of our large competitors has announced coming out of NBR business by December. So you know we will wait and watch we have applied for environmental clearance for that project as well. We expect to get it sometime next year calendar year 2022 given our experience over the last 6 months I do not want to commit to which month or which quarter, but sometimes in the first few month of 2022 is a current expectation from what my team tells me. So I think we will take a call on we will have another year to decide on that also from a risk point of view we want to focus on the current two projects that we have taken up, finish those and then we will decide. I think the NBR market, personally I think will be attractive to in India to invest as well, but it will depend on where we want to allocate our capital at that point. So that is the thinking I hope as I said we have not committed to it, but we are optimistic that it would work out and we are leading space in Valia for now and we may pick up the project next year.

**Farokh Pandole:** And just lastly if you could you mentioned earlier one of the earlier questions was regarding the interim 12 months before the new capacity the two new projects go on stream, is it fair to assume a 10%, 15% growth between volume and price for the next four quarters going forward in terms of revenues given by as I said we are in this zone of being high on our capacity utilization at this point in time and still four quarter away from the new projects?

**Abhiraj Choksey:** As I said we have invested some debottlenecking in the last few months and which will also come on stream in Q2 some of it is already started playing out. So I think we should be okay for the next one year for 10% to 15%.

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

**Karan Bhatelia:** Sir that we do not have any anti-dumping duties in place for the NBR, so just wanted to understand the pricing delta between our pricing and what is the rented price?

**Abhiraj Choksey:** Look we are forced to price it at whatever price it comes in right because we have to compete. See on volume even if our prices is 5% higher buyers would not buy from us 5% or 10% higher it is more of a commodity than latex is in that sense. So the pricing at the end is a same yes there was injury we want some duty and we had a very good case for duty, DGTR which is under the commerce ministry actually went into the detail. It was a one year detailed investigation and for more sufficient they did recommend some duty, different types of duty for both petitions, but they did think our case our strong and agree to it is unfortunate that the ministry of finance did not notify and I think it is not only us from what I understand this is happening for a majority of the cases these days.

**Karan Bhatelia:** I just also wanted to understand how far are we with respect to our historic high, realization or margins especially in the NBR portfolio?

**Abhiraj Choksey:** NBR portfolio you know quarter-on-quarter there are changes of course certainly NBR in the last three to four months is not been historic high margins of because we went through April and May where we had really because of the lockdown especially the automotive industry in the North went through some trouble. So, it has not been historical highs recently.

**Karan Bhatelia:** So sir just wanted to understand how far are we is it 10% or 20% lower in terms of pricing or in terms of margins?

**Abhiraj Choksey:** Sorry I do not have the exact numbers with me right now.

**Karan Bhatelia:** Just one last question if I go ahead we are catering to various set of industries in latex so how is the overall sense for FY22 which industry you feel can grow faster and which can be a laggard or which can be a flattish industry?

**Abhiraj Choksey:** You know we supplies to many industries like paper, carpet, construction, auto, gloves, lot of industrial rubber parts and what we have been seeing for the last 6 months a fairly recent India, fairly bullish trend and everyone seems to in general feels that this year is going to be quite strong for them. However, we have to wait and watch and the way we are building our business at least is that we are making sure that from an industry point of view and from a geographical point of view at risk and in case one of the industries does not do well even at least some of the volumes can be push into another geography or another industry. So we are trying to derisk from that, but in general it seems that our customer seems to be quite bullish for the next year.

**Moderator:** Thank you. The next question is from the line of Vinay Nagori an Individual Investor. Please go ahead.

**Vinay Nagori:** My first question is for the last three quarters we have been spending on repairs and maintenance to make our reactors fungible, so going forward from the next quarter as you had guided before do we expect some operating leverage coming from here?

**Abhiraj Choksey:** Frankly I do not know where the question is coming from. I do not think repairs and maintenance is that large a line item that significant advantage would be there and look whatever is required we both our plants are fairly old 30 to 40 years old and so as and when repairs are required we do them and we ensure that assets are maintained at high level. There are some quarters where we have higher than normal repairs and some quarter a better, but I do not think it is going to be a big factor in terms of overall margins or anything on that.

**Vinay Nagori:** So just wanted to understand so now three years down the line we will be a top line of around 1,100 crores to 1,200 crores so we will be having a very strong cash flow so then after that are we thinking of say going downstream in NBR or brand building in Apcobuild, are those logical steps am I thinking into?

**Abhiraj Choksey:** As I said our hands are quite full for the next three years I think if we go ahead with all the plans that we have. I think it is little premature to talk about it, but certainly we have besides seeding products and businesses that we are already doing we also have opportunities at that point and when we feel that the affordable amount of cash again we want to take on some debt this year and as and when you feel comfortable as enough levels of cash you may even look at other opportunities, inorganic opportunities so both options are on the table.

**Vinay Nagori:** And I just wanted to understand have we added good amount of customers in the last one year and have we developed some new products?

**Abhiraj Choksey:** Well this for Nitrile latex for gloves at least has been a new big industry for us and we have added quite a few customers in that space as far as the other industries are concerned we obviously added new customers, but it is a good point one of the things I do not track very closely how many number of customers we have, but I know our sales and marketing department tracks it next time I will perhaps get that number for you, but certainly we add every quarter we add new customers and even within the industries wherein grades are always increasing or tweaking or changing we always find niche applications within those industries like paper and construction as well.

**Moderator:** Thank you. The next question is from the line of Deepak Mehta an Individual Investor. Please go ahead.

**Deepak Mehta:** Sir my question is around the product R&D what this is pipeline for new products R&D?

**Abhiraj Choksey:** We have a pretty good strong R&D team and again within the industries that we are in we are confidently doing work for improving the number of grades, increasing number of grades, improving our current product range, reducing cost wherever we can and as far as completely new ideas are concerned we have a few, but as I mentioned to one of the previous callers that something we do not really talk about till we are sure we are going to invest in that business and go ahead with it.

**Deepak Mehta:** My next question is around you mentioned that one of the competitor is exiting the market and we have market share of 25% so if you can throw out how much market share is that is that competition and what will in terms of market share we can grab due to this exit?

**Abhiraj Choksey:** I think this competitor at least in India are the market share was low it was in the single digit I think maybe 7% to 9% from what I recall last, but the bigger issue would be that with one big plant shutting down they are diverting the capacity elsewhere to other product not making NBR they are not going to make NBR from what I understand. It would of course overall globally or in Asia helps the entire demand supply ratio and I am not sure if immediately we will be able to increase share by too much because we are already running capacity utilization at pretty close to 100% for the Indian market. If we feel the margins are good enough next year we will double the capacity of NBR and then take a call going forward.

**Moderator:** Thank you. The next question is follow up from the line of Manav Vijay from Deep Financials. Please go ahead.

**Manav Vijay:** I just have couple of questions from me so now in next let us say 12 months we will have your XNBR projects ready and you also mentioned what kind of sales can generate for you, so help us to understand one thing is that as far as your current existing business is concerned there the number of customers that you have are large whereas far as XNB is concerned there the number of customers would be lower, so you believe that once you have this entire sales in your P&L these volatility in margins that you have will actually subside to a large extent or we still continue to have depending upon the way raw material prices move that volatility?

**Abhiraj Choksey:** I am not sure if even Nitrile latex for gloves there are many customers all over the world mostly in Asia of course these days, but in the future I believe America and Europe there are a few gloves manufacturer that are coming up from what we hear so they also importing nitrile latex from Asia. So I do not think the number of customers are barring in margins it is just the volatility of the raw materials that we are in and sometimes we do and because we are importing so many raw materials sometimes we do get stuck with higher cost inventory that does happen and therefore margins quarter-on-quarter could get affected by few percentage points. As I said it is very hard to predict what happens I am just saying historically what has happened is that margins have got affected quarter-on-quarter overall if you see our endeavor has been if you see annual numbers or takes any four, five quarters together endeavor is to slowly improve margins and we have done that by and large from the single digits to the last I

would say almost one year we have been in the mid-teens between 13% and 16% over the last four quarters.

**Manav Vijay:** Actually my question was slightly on the longer term I mean yes let us say so last 10 years we have increased your margins from around 8%, 9% of almost 15%, 16% all I am saying is that because of the volatility in raw material prices your margins move very sharply as you always will be in a position to pass on that with a certain time lag, but because of let us say lower number of customers it is all relative on the XNBR side the margins predictability will be better or not that is my sole point?

**Abhiraj Choksey:** Frankly the answer is I am not sure as I said it is a new business for us as well and as we do higher volume I think margin predictability would be a little better, but I am not sure because suddenly raw material prices we are stuck with some high cost raw materials and overall market all whatever reasons and margins will fall in that segment as well sorry it is not a great answer, but the real answer I am not sure.

**Manav Vijay:** My next question is what a little bit understanding I have on the I mean as far as NBR rubber is concerned so auto is a large part of business for your current business you believe that the way whatever changes that is happening on the EV side you believe that is going to have any kind of impact on the demand of NBR over the next five to seven year timeframe?

**Abhiraj Choksey:** The short answer is absolutely yes the long answer is that overall 30% to 35% of the Indian NBR consumption is in auto according to our studies that we have done and within auto also there is two wheelers, three wheelers, passenger cars, trucks and buses. So obviously within that we do think in the next five to ten years especially two wheelers, three wheelers there will be large amount of electrification that would happen, but if you see the remaining will grow. So, overall while the growth on the NBR market may not be as strong as some of the other products and segments that we are in. I do feel that there will be a good single digit growth either way with or without electrification and of course electrification is going to happen there is no question about it.

**Manav Vijay:** My last question to you is that you mentioned that because of this the debottlenecking we have around I mean 10% kind of a growth let us say for next till the time the expansion contemplate, so would it be safe to assume that the Quarter 1 sales become a baseline and that whatever you do whatever that will come from debottlenecking will be on top of that?

**Abhiraj Choksey:** I mean I would say in Q4 and Q1 so the previous quarter and this quarter we have been at somewhere between 90% and 95% capacity almost 100% capacity utilization anything above 90% is almost 100% I would say and the only reason is because in some products obviously our capacity is not absolutely we cannot make every product in every aspect that we have. So, there are some products that were at maybe 80%, 85% capacity utilization and some products



are 100%. So I would say yeah if you see the last two quarters there would be a good benchmark on a good day.

**Manav Vijay:** And what kind of tax rate is possible for this year and next year because last year also your taxes was around 42% Quarter 1 you are at 21% whereas normally let us say if you move to the new regime you will be paying 25.6%, so what would be a safe number to work with?

**Abhiraj Choksey:** I think we had some carry forward that credit that we could take for couple of reasons. I believe they have now come to an end we do not have any more credit so I think the safe assumption would be 25%.

**Moderator:** Thank you. The next question is from Darshita Shah from Axis Securities. Please go ahead.

**Darshita Shah:** Most of my questions are already answered I just needed the revenue contribution between the segments that we have later stages are in NBR for the current quarter and also for FY21?

**Abhiraj Choksey:** FY21 I think it was overall about 55% latex and 45% rubber. In Q1 I think it was more latex because some of our rubber customers were affected due to the lockdown in India. So I do not have the exact number, but would be more latex maybe 60%, 65% latex in Q1, but on average I think we expect latex to be going forward at least about 55%, 60% and the rest rubber.

**Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I now hand over the conference to the management for closing comments. Over to you.

**Abhiraj Choksey:** Thank you very much. Thank you for once again joining us ladies and gentlemen, we look forward to meeting you next quarter again till then stay safe. Thank you again.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Apcotex Industries that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.