Apcotex Industries
Q3 and Nine Months FY22 Earnings Conference Call
January 28, 2022

Moderator: Good day and welcome to the Q3 and nine months FY22 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 '*' then "0" on a touch tone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Anuj Sonpal – CEO of Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Thank you. Good afternoon, everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent investor relations for Apcotex Industries Limited. On behalf of the company, I would like to thank you all for participating in the company earnings conference call for the 3rd quarter of Financial Year 2022. Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call may be forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements and making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review. Let me now introduce you to the management participating with us in today's earnings call. We have firstly Mr. Abhiraj Choksey – Managing Director, Mr. Sachin Karwa – Chief Financial Officer and Mr. Anand Kumashi – Company Secretary, without any further delay, I request to Mr. Sachin Karwa to give his opening remarks. Thank you and over to you, sir.

Sachin Karwa: Thank you Anuj. Good afternoon and welcome today's earnings conference call for the 3rd Quarter and 9 month of financial year 2022. Firstly, let me take this opportunity to wish you all a happy new year, and I hope you all are keeping safe and fine. Along with me in today's earning call, I have our Managing Director Mr. Abhiraj Choksey and Mr. Anand Kumashi our Company Secretary. I hope you had an opportunity to review the financial statement and earnings presentation which have been circulated and uploaded on the company website and Stock Exchange. To brief you on the financial performance for the third quarter of the financial year 2022. The revenue from operations grew by about 52% on year-on-year basis to rupees 251 crores. The operating EBITDA grew by about 40% on a year-on-year basis to rupees 34 crores. The EBITDA margins reported at 13.5%. EBITDA percent compared to Q3 of FY21 is lower but that is on account of higher prices compared to last year. EBITDA margin per metric ton is an important metric the monitor, and that is better than last year. The net profit grew by about 43% year-on-year to rupees 24 crore and PAT margins stood at 9.5%. For 9 months of FY22, the revenue from operations grew by 92%, year-on-year around rupees 679 crore while operating EBITDA grew by more than 100% to around 95 crores with EBITDA margin being reported at 13.9%. Net profit grew by more than 100% to around 68 crores while PAT margins stood at 9.99%. From the numbers you can make out that we have reached historical high in Q3 FY2022 across all financial parameters. Quarterly volumes grew YoY for both Q3 and 9 months FY22, due to the equal benefit of all debottlenecking projects, all of which were completed between Q2 and Q3. In addition, we witnessed a healthy broad-based volume growth across most industries, customers, and geographies. We have registered the highest quarterly export sale of rupees 53 crores contributing to 21% of overall revenues. On the project front work on new extension project is on scaling and expected to be completed around Q2 to Q3 of FY2023. Finally, I am pleased to announce that we have declared an interim dividend of Rupees 2/- per equity share and 11 February 2022 has been fixed as a record date by the Board. With this I would like to open the call for question-and-answer session. Thank you.

Moderator: Thank you very much. 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: Thank you. My first question is related to margin. So what is the reason for the margins to still be relatively stable? Can you speak a little on that?

Abhiraj Choksey: Thanks for your question. I'm not sure I understand your question. You're talking about EBITDA margins being stable and what is the reason they have not dropped or what is the question

Ankit Kanodia: Yeah, not dropped because across the board we're seeing commodity price increase and we still managed to continue to hold on to our margins. So, what has led to that? That is what i wanted to know.

Abhiraj Choksey: A couple of things, obviously the commodity prices have gone up, even for us, raw materials have gone up and we've largely been able to pass it through. And as I have mentioned before in our kind of share, for example, I'll tell you about this quarter, the revenue is up by 52% compared to Q3 of last year and our volumes are up by about 20%. The volume growth has been 20% compared to Q3 of last year and the rest of it is margin growth. So, obviously the volume growth has helped, and by and large as far as on a rupee term we have been able to pass through all the cost increases and in fact, EBITA per ton If you look at the rupees per ton has actually gone up. EBITDA percentage may be stable or even a little lower than last year, but had there been no inflation, then our EBITA percentage would have been much higher than percentage term compared to Q3 last year. We have been fortunate, and we've been able to pass it along, or obviously a lot of things done internally and R&D as well. The product and customer mix, we are running at almost 100% capacity utilization. So, that has helped overall, there's doesn't seem to be any excess capacity right now, very strong demand, so all those things really happen. And we think this will help margins overall.

Ankit Kanodia: Just a slightly longer-term view on the same thing. I mean, if I just follow up on that varying since we are entering the general belief is that we are entering into an inflationary phase right now, and it may carry on for say about 2 years to 3 years or maybe 4 years. We don't know yet and if you look at in the past, so if you can share with your own experience in the past in the crude oil so crude is right now approaching 90, it's already 90, I guess. 2nd Question:-So, how does it affect us and how easy or difficult it is for us to keep maintain that margin in that kind of an environment because in last 3-4 years, the crude was pretty benign but now in the last 1 year and the projection or in the future also it looks like it may shoot up. How do we see ourselves in that kind of scenario?

Abhiraj Choksey: First of all, the company compared to the past, now the company also has different strategies executed over the last 2-3 years after the acquisition, along with a lot of the debottlenecking projects, product mix, customer mix, and so on, new products that we have introduced. So, we feel a lot more comfortable. We are also at a much higher capacity utilization, the industry overall, it seems to be at a higher capacity utilization. So, it does seem that these margins and this is more sustainable than before.

However, you know look the macro environment and how inflation overall affects demand and such. It's hard to predict really all I can say is that we feel pretty confident that we will remain range bound in these kinds of percentage margins, anywhere between 12-13% to 17-18%, I would sayd`epending on where crude is. Suppose crude goes to $150, just for example, our margin may even fall further in terms of percentage, but in terms of actual rupees per ton marginwe will ensure to protect, or we will try and ensure that's protected at least by the different things that we've already done, and we continue to do. And as we know this year, we are also looking at substantial capacity improvements that should also overall help in improving EBITDA margin. Of course, most of that was coming into the second half of the year, not in the first half of the year, but next financial year. So, overall, we feel pretty confident about it.

Ankit Kanodia: Yeah thanks, that really helped and speaking about capacity in the last call, you mentioned about 220 to 230 crores of CAPEX over the next 12 to 15 months. So, in terms of timeline, we are on course of that.

Abhiraj Choksey: Absolutely, on course yeah. As of today, all the projects, both the projects and on both the sides are on course.

Ankit Kanodia: My last question on Apcobuild, so last call, you mentioned about we entering Madhya Pradesh any other new states we have entered, or we just concentrated on that.

Abhiraj Choksey: Maharashtra, Gujarat and Madhya Pradesh, within Maharashtra also increase the footprint and Goa. So, we are in four states. We also doing small business in the south a little bit, but I would say largely reached three states. Maharashtra expanding our footprint and entered Gujarat and Madhya Pradesh of the last year.

Ankit Kanodia: Is it possible for you to just share on Q-on-Q basis? What are the growth rates in Apcobuild number in Q1, Q2 and Q3?

Abhiraj Choksey: I don't have specifically, Q1, Q2 and Q3, but I have the YTD numbers. And I would say for this financial year as well, it will be the almost 150% to 200% for Apco build this year, 150%, at least.

Ankit Kanodia: And broadly sequentially have grown in the last 3 quarters also and on quarter-on-quarter also.

Abhiraj Choksey: Yeah, every year-on-year that growing. Of course, Q2 is always in this business, always a little lack, but even than we have grown Q2 compared to Q1 because of the monsoon season. That obvious this construction a little lack.

Moderator: The next question is from the line of Mr. Kewal Ashar from the DSP Mutual Fund, please go ahead.

Kewal Ashar: I have a few questions; first is you are into emerging polymer chemistry and if we see our global competitors like Synthomer and Trinseo and the way they have scaled up, I believe that we have a huge size of opportunity lying ahead of us. So, first of all, I wanted to understand from you that once our current CAPEX commences and we start generating cash flows, what are the new products that you can't do scale up and what is the size of opportunity that you see for a Apcotex?

Abhiraj Choksey: Now, absolutely. Look obviously Synthomer, Trinseo and some of the other global companies, they operate in multiple countries and multiple continents. Therefore, they are larger. We also see a lot of opportunity and good growth and we have seen that this year itself, where for the 9 months period of volume is up 40%, of course revenue is about 92% on account of inflation. And of course, last year, April, May of 2021 was obviously, because of lockdown in the plants were short on and so on, obviously was it challenging. On the basis of that, but yeah, absolutely the opportunities are there. On the latex side, of course, I think it's more of a regional play that means, we had focus on Southeast Asia, Middle East and India because of in latex, it's about 50% water. So, to transport it over very long distances may not make sense. So, I would say yes, absolutely the opportunities are there and we continue and that's what effort we have actually also exploited, and our export was close to zero 10 years ago. Now it's at 21% of the total revenue. This year we expect almost 150 to 200 crores almost 200 crores of top line to come from exports. So, we have exploited that we have taken advantage of that and, by proving again and again, it takes time in this kind of industry to prove to the customer that here consistent supplier in a consistent higher quality supplier and we have done that now. And so, one of the growths told by you is Nitra Latex for gloves, and that's what we are focusing the next 12 to 18 months on. In addition to that, as I have mentioned before that even in our current industries, paper, carpet and construction, the demand has been very strong, I would say in the last 9 to 12 months. And we continue to grow with that is were in fact, if you see Q3 we are at almost 100% capacity utilization, in fact, we had to let go of orders for the first time. And unfortunately, we are not able to take all the orders that we would have liked to take, especially both domestic and exports, in fact. So, overall, we feel quite confident.

Kewal Ashar: If you can throw some light on new products that you would launch post the current CAPEX if you have certain products.

Abhiraj Choksey: We are working on a few products, as I mentioned last time as of now our focus and what we have announced is the current CAPEX for latex products, which is Nitra Latex in Valia and a multipurpose Latex plant in Taloja, which will include all our current products as well. In addition to that, after that, we only have about 30% or less market share in the NBR business in India, we hardly exporting. We believe that in the long run, even though we are not a very high growth industry compared to let's say Nitrile Latex or some of the latex products, we believe that is a good opportunity for the import substitution in India as well as export into Southeast Asia, Middle East and Asia and so, we may double our capacity, at least have everything ready on paper and we may do that in 23 and 24 depending on the macro environment as well as depending on how the company is doing. That would be our next phase of growth. As far as new products are concerned, yes, we are. I mean completely new ideas that are not in the current sphere. There are a few things we are working on, but as I said, as I mentioned, the last call as well, it could be a little premature for me to talk about it. ASo looking at inorganic growth opportunities. Again, very premature to talk about it until something happens. Obviously, all those opportunities are the few opportunities and few things in the works that, we will, of course mentioned to the investor analyst community when we are ready.

Kewal Ashar: My second question is on ApcoBuild. We understand that you have assigned a separate team for Apco Build and you are cautiously expanding the product. Can you throw some light on how do we stand out in this construction chemical market compared to our peers?

Abhiraj Choksey: We don't really worry what market size, market share and so on as far as that is concerned, we are basically backward integrated, and a lot of our products are being used in construction chemical space, so we have a natural obviously cost advantage because of backward integrated. In addition, we have of course added a few other products to complete a minimum range, but we are not necessarily competing with the large players in the construction chemical industry. We are trying to capture our downstream modules which were done well focus on a few other specialty products that we are outsourcing that we believe we can add value at in which we understand again, in the polymer and waterproofing space and repair space that we understand. We are not everything to everyone kind of construction capital company

Kewal Ashar: Given the lower base of revenues currently. What do you think can be our topline in the next three to five years in ApcoBuild?

Abhiraj Choksey: We do not give separate numbers for ApcoBuild. It is, as I mentioned before, it's a small part of our company so far. We believe in the next 3 to 5 years, it will become a larger chunk and as and when we feel, that some critical mass, which is what reporting is a separate segment, we will do that.

Kewal Ashar: This one last small suggestion, so that if you can give productwise volumes and productwise revenues in quarterly presentation then that would be great for us also.

Abhiraj Choksey: As I said before, we would love to be as transparent as possible, but I hope you would appreciate that the certain things that are competitive advantages to us and certain proprietary information that we don't want to get out in the market while obviously it's not the investor community, but a lot of other people also follow our investor concalls and our data, which we would like to avoid giving them this.

Moderator: The next question is from the line of Nakshita Mehta from Credent Asset Management, please go ahead.

Nakshita Mehta: My question is one in the expansion project based on Nitrile Latex, right? So, how much revenue are we expecting out of its incremental revenue and how much incremental EBITDA are we targeting?

Abhiraj Choksey: Look we are doing two projects. One is mostly nitrile Latex in our Gujarat facility and in Taloja is a multipurpose Latex plant. In the beginning for the, initially we are looking at a total of additional 60,000 tons, which would give us about 500 crores of revenue but as I mentioned before, that, the additional CAPEX that will required for an additional revenue that will come another 300-400 crores will be at the marginal costs. So, it will be for about 500 crores of revenue. Once, both the plants are fully utilized. And as far as EBITDA margins is concerned, obviously EBITDA margins should only improve because the fixed costs will not increase by that much. We are hoping, as we grow the capacity utilization, we increase the capacity utilization of the new plants EBITDA margins slowly go up.

Nakshita Mehta: Is there any particular number we are targeting for the EBITDA margin?

Abhiraj Choksey: No, as I told you earlier, that in percentage, margin varies quite dramatically in our kind of business, we would be satisfied with anywhere between 13% to 18% is what 12% to 18% even it's fine, depending on where oil prices are. The most important metric for us is the return on capital. As long as we were delivering, a healthy return on capital EBITDA margins, we are happy.

Nakshita Mehta: And the nitrile latex mainly using for Apcobuild, is it?

Abhiraj Choksey: Nitrile latex is not at all for Apcobuild, that’s for medical glove industrial.

Nakshita Mehta: Sir, another question is what would be our EBITDA per ton. Can you give some specific number right now, presently?

Abhiraj Choksey: I'm sorry. We don't reveal those numbers again, as I mentioned, I mean, wewould love to be as transparent as possible, but I'll say the same thing I said to the previous caller that’s it. For proprietary reasons as certain numbers for our volume EBITDA per ton those kinds of things, we have taken a conscious call and we've done that consistently for years.,.

Nakshita Mehta: My next question is on your revenue stream of which sector would you think, can you just give us a breakup somewhere is there major revenue, can you throw light on that?

Abhiraj Choksey: So, what do you mean by stream? If you can elaborate your question.

Nakshita Mehta: Mainly the sector, also construction chemicals and the synthetic rubber, the paper companies, copper gloves, construction, automobiles. Can you just give us rough break up as where is your maximum revenue?

Abhiraj Choksey: We have actually quite well diversified, I would say, we have a few industries that we are catering to, obviously one of the large industry will be paper and paper board, but even that would not be more than 20% of our overall sales, maybe less than 20%, In fact, now in the current context, 17%-18% then after then followed by construction, which includes construction chemicals and paints then followed by tyre industry, carpet industry. There's also NBR, which goes into several industries, right. Which is a lot of rubber industries. That would be another 25% of our sales. Fairly well diversified. We are not dependent on any one major industry; nothing is more than 20% of our overall sale.

Nakshita Mehta: So, this is basically well diversified. So, you know, there's no concentration.

Abhiraj Choksey: No concentration.

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

Farokh Pandole: I just had a couple of questions on the CAPEX. Firstly, on the NBR, as you rightly said in response to an earlier question that both from a macro and a business standpoint, I think things are going pretty positively for the company at this point in time. And so why would we our balance sheet is very strong and, obviously, cash flows, etc. are capable. So, why would we not accelerate that process in tandem with the existing plan that we have for this year, rather than waiting for 23-24 and thereafter just the gestation period putting up for the facility, etc. Why would we not work on that in tandem and be little bit more aggressive over here? So that was the first part. And the second is if you could just mention the CAPEX again, what you had said, the CAPEX, which has already been announced for this year, I think you mentioned 500 crores incremental revenue from that CAPEX, and then you also mentioned the further 300 to 400 crores. Is that on a second leg of i minimal investment that we could get that incremental? Did I understand that, correct?

Abhiraj Choksey: So, I will answer second question first. Yes, that's correct. Just to clarify that these two projects that we are doing is about 180 - 190 crores of CAPEX. Both the projects are on schedule and likely to be, at least for trails to start, sometime towards end of Q2 and early Q3. So, for the 180 crores of CAPEX. We are looking at about 500 cores of revenue. In addition, after that, there will be perhaps an incremental CAPEX it would be under 100 crores would be in two digits somewhere within two digits we haven't worked out the exact number, but intuitively we know it will be quite good, and we expect another 300 to 400 crores from that. From the incremental in, because in a lot of the civil the buildings and so on, we already have been created in this first phase. So, afterwards we just need to add the equipment's as when required. So, that incremental CAPEX could even happen one by one, it may not even happen at a time. That's something we look at depending on the demand and how things are going.

Farokh Pandole: I think, the time won't be a factor to that as well as you say, you can do it one by one not as much.

Abhiraj Choksey: They won't be, I mean, sometimes some of these things have a lead time. Some of the equipment have lead time of 6 to 8 months. But like I said, there's no civil jobs and stuff required then. So, answer first question you are actually right, and we have debated it over whether to be aggressive or not. Frankly, we went through a period of about 1.5 year when NBR margins were very low as you know we filed for antidumping as well, which the DGTR in fact sided with us. But unfortunately, the Ministry of Finance did not notify for various reasons. That's an appeal, we have gone and appealed and that's in the courts now. We don't know how that will pan out. I would say the last one year has obviously been better. We also waiting to see, there are obviously overall on the macro side of NBR globally, one of the biggest consumers on NBR in globally is the automotive industry and it's the traditional automotive industry. So, there was a huge change towards electric vehicles, there could be an impact of slow demand while the rest of the market where NBR is supplied is growing quite well but if automotive were to come down, there could be a glut of NBR in the market, which could result in depressed global margins. Therefore, also from a just a management bandwidth point of view, which of course is something we could do and also, we need certain environmental permissions, which we already applied for, which would come through this year. Even if we wanted to, we could not start that plant till we receive the environmental permission, which I expected in this year in 2022. For both 2 or 3 reasons, we have just decided to go a little bit slow on that and just wait and watch to see what happens this year.

Farokh Pandole: Right, and also you mentioned that you were operating at full capacity and that you had let go some orders, both export and domestic in this quarter. Now for the 4th Quarter and for the 1st Quarter of the next fiscal until such time as the next leg of capacity comes on stream, which I am presuming will be the 3rd Quarter will be the 2nd quarter of the next fiscal year. That's the September quarter.

Abhiraj Choksey: In fact, by the time the volumes grow it will the third quarter because we realize, we will start commissioning and trials, it will be end of Q2 and early Q3 of Valia plant should be ready first in the end of Q2. And Taloja the expansion plan will only be early Q3. So, obviously by the time the volumes, obviously with being a new plant, that also takes our time even existing customers will want to take from the new facility before, so I just wanted to correct that. So, it’s in fact the next 3 Quarters that we had a 100% capacity utilization.

Farokh Pandole: Do we have anything to mitigate this issue of capacity coming up against capacity? Are there anything that we're working on for the next years?

Abhiraj Choksey: The short answer is yes, we are working on certain things, but also, we don't expect any major upticks. What, we in fact created almost 15% extra capacity over the last couple of quarters and at least as of last couple of months, even that has been completely used up the equity. So, the demand has been extremely strong. We do expect that in the second Q2, some of the industries like construction and paper for even to some extent, because of the monsoons sub demands does come up. In that case, we'll take more export orders, but you're right in terms of financial numbers, in terms of volumes, I would say there isn't much room for significant growth over the next 3 quarters. Of course, compare to Q1 of last year and compared to Q2, we would grow because of, we didn't have those capacities then. I might compare to, I would say Q4 would be somewhere at the max levels if Q4 goes well and then Q1 and Q2 would be, I would say similar to Q4, maybe a little bit trying to do small things and tweaks to get as much out of the plant as possible.

Moderator: The next question is from the line of Nikhil from Perpetual Investment Advisors, please go ahead.

Nikhil: My first question is about this quarter, so Q-on-Q while the sales is more or less the same our gross profit has gone from almost 70 crores to 88 crores. So, at least as per my estimate the EBITDA should have been higher. So, what caused this significant growth in other expenses? Could you help us to understand on that?

Abhiraj Choksey: Look there is a few things that have come about. One is and left to go look at the numbers, but obviously, because of COVID last year, there was no increment. Obviously, the employee costs have gone up because we had given reasonable increments this year. If you look at Quarter 3 of this year against Quarter 3 of last year, so obviously overall employee costs added to the team sized, team sizes gone up. So, overall employee cost has gone up in addition to that because there have been a few good quarters we also have taken off. And frankly last year because of COVID for two reasons, one is because of COVID, we couldn't get a lot of contractors into our plants, so we didn't want to get a lot of contractors in 2021 So, lot of repair jobs, and maintenance jobs were held up, which we have really taken up in Q3, Q2 Q3 and we going forward also for the next 1 or 2 quarters before the monsoons. Those are the only two reasons that I can think of. Other than that, as I said, we look at EBITDA per ton was EBITDA margin and we are quite happy an EBITDA per ton, has actually gone up for us. I know we don't give those numbers out, but EBITDA per ton is above 15%-20%. So, we are quite happy with that.

Nikhil: Because there is no one time expense other than these expense in this quarter. What I actually meant to ask you apart from that?

Abhiraj Choksey: These are not one time, but these are regular expenses. I said, sometimes I was just giving an example of certain repair works, painting works, that are significant, but we couldn't do in this previous year, which we have taken up after the monsoons of this year. That may have been to some extent.

Nikhil: Because then in that case say broadly, I think that NBR is probably doing pretty much well for you now and since Butadiene was down almost 50% in last quarter. There should have been the margin expansion which had already happened.

Abhiraj Choksey: Just because raw material goes down, does not automatically mean margin expansion happens because we are also forced to pass along that cost. In fact, Q3 compared to Q2, our value growth has only been 3%, but our volume growth has been more than double that. We have actually had to give some declined to our customers as well. Some of it on formula pricing, we do some of it, our annual contracts and for formula pricing.

Nikhil: So, if we continue Q4 at the same rate would other expenses be the same for in Q4 and Q1 and so on.

Abhiraj Choksey: One more thing I must mention, sorry. There is one more reason for other expenses. It's I'm glad you brought that up. One of our plants we run on thermal power plant. So, and also the backup boilers run on gas, both gas and coal costs have gone up significantly. That also is a part in other expenses. I would say they have reduced in the last month or two, but not what they were about a year ago. For sure. So, that's something they have had to absorb.

Nikhil: Would that be double now or is it? has eased out for what we usually do?

Abhiraj Choksey: It was that specifically, the coal costs were more than double of let's say a year ago.

Nikhil: So, after debottlenecking can you tell us what is the capacity for latex now? I think it was 55,000 tons before debottlenecking and can be assume it to be 60,000 to 63,000.

Abhiraj Choksey: It's about 60 to 62 we are on the run rate about 60 plus.

Abhiraj Choksey: I just want to mention when we mentioned capacity, obviously look, we have many products and depending on the cycle times, if you were to only manufacturer products with lower cycle times, we could even go up to 70 to 77, but sometimes we take a conscious, we want to be, across the board in several segments and several industries and several customers. So, currently yes 60-62.

Nikhil: And one last question is what is split between rubber and latex in the last quarter?

Abhiraj Choksey: I don't have the exact Sachin; I just request one of my colleagues to answer that. Sachin, Suraj do you have that number? It's in one of the Excel sheets, you can look it up. I think it's about 55%-56% latex and 45% rubber. It's been about the same for the last few quarters.

Moderator: The next question is from the line of Rohit Sinha from Sunidhi Securities, please go ahead.

Rohit Sinha: Most of my questions are already answered just a few things. When we are talking at volume growth, it has been close to around 20% this quarter where we have seen next one traction, or it is across the segment. Secondly, if we say 20% volume growth was there and obviously, we are almost full on capacity. So, next quarter, what I see is that the price increase which has happened in the commodity prices and price realization, or we have been taken. Maybe still something is pending we could reflect maybe in Q4 or Q1. So, I am just assuming that the would not be significant from the Q3 levels, but still there is the room for realization improvement. These two questions are from my side.

Abhiraj Choksey: Look, the volume growth, as I mentioned, that most of the debottlenecking projects are completed in Q2 and Q3. So, Q4 of course we would have little bit more headroom for volume growth, not significantly more, but little bit more. As I mentioned to one of the previous callers that Q4 onwards, maybe for another 2 quarters, we may not have headroom for volume growth, but exactly what you said is right that we obviously here depending on customer mix, product mix, some amount of headroom for margin growth as well, because we are running at 100% capacity utilisation because the demand cycle is quite strong. Obviously, we will try and do that, and we hope to do that. So, in terms of profitability and bottom line, we hope to improve on Q3 numbers going forward.

Rohit Sinha: And about that volume growth where we had seen maximum traction?

Abhiraj Choksey: Frankly across the board, we have seen domestic, international, whether it's paper, paper board, construction, textiles, carpet, it's really, almost across the board and of course, medical gloves right now, obviously the demand is high and whatever we can manufacture from our current plant, we are supplying. The one place where we don't see a great amount of volume growth is automotive industry where we are supplying NBR too, but the rest of industries where we are supplying NBR into industrial components, forces all kinds of other agriculture products there we are seeing good growth except automotive, mainly because of the chips shortage, I would say most automotive companies have not been able to. That's been the one only one point where there has not been much growth, but again since we are running at a 100% capacity utilization, so if we want growth and we are not able to give any more NBR.

Rohit Sinha: Just one last question on the balance sheet side, looking at the CAPEX which we are looking at, how our balance sheet would be looking like the cash positioning and the debt position would be?

Abhiraj Choksey: As on March 31st of last year, we hardly had any loans. I don't think maybe working capital loans and one small term loan was there. Obviously, we have already taken some debt for CAPEX. So, the entire CAPEX should be funded from these two years cash flow which is FY22 and FY23 along with somewhat net debt would be needed for the CAPEX which we hope to repay it back shortly thereafter.

Rohit Sinha: So, the overall what sort of number would be number was there for FY23 maybe.

Abhiraj Choksey: Maybe close to around 100 crores.

Rohit Sinha: Not more than 150 crores, I mean 100 to 150 crores.

Abhiraj Choksey: Yes, 100 crores term loan is what we expect to utilize.

Moderator: The next question is from the line of Manav Vijay from Deep Financial, please go ahead.

Manav Vijay: My first question is actually a slightly broad question. We have been hearing that some of the logistics issues, but since you import and export a lot. If you can help us to explain as far the logistics costs are concerned, the container availability, debottlenecks that were there with, I would say with China. All those issues are persisting, or they did some despite on those issues, because many company have been mentioning that it is not the demand, which is fueling the inflation, it is these debottlenecks with the supply side due to which inflation is higher than normal.

Abhiraj Choksey: That could be the case in terms of inflation. I don't know that there are multiple reasons for inflation. That's not the only reason I would not say that the only reason, but as far as the company is concerned, I would say the issue of supply chain was at peak in Q2 in terms of, you know a lot of problems that we had to get raw materials. We were fortunate that we didn't have any major matter issues whether has some delays we did have some shortages but were able to overcome them. One of the things we have done is of course, increased the inventory, obviously not the most financially prudent thing to do increasing inventory, but in the current context of where the world is with so many uncertainties, with a lot of dependents from China direct or indirect, even if you're not directly importing from China, certain critical raw materials. Our vendors, raw materials can come from China. So, because of that, we have taken a strategic call to increase all our inventories of some critical imported raw materials especially. And, but we have seen in general, while there have been delays, obviously shipping rates have gone up substantially. It's not led to major issues in terms of our supply chain and our production.

Manav Vijay: My second question is, as far as your XNB Latex is concerned, so apart from Top Gloves, have you signed up with other manufacturers as well?

Abhiraj Choksey: Yes, of course we have many customers there was just one or two that we mentioned in our presentation because well-known customers. The other problem that we have is a lot of other customers are telling us that, look, you don't have the capacity now, why would we go through this whole process? You won't be able to give us anything for another 9 months. Why don't you come to us closer to the date? Then we will be going to the process. But lot of them, we have done lab trials and whatever we could, but unfortunately, we're not able to give bulk quantities because we don't have the capacity today. Can we have at the expense of other customers, which also we don't want to do, which is not a good idea.

Manav Vijay: Okay, I agree. So, in that case, we will have the capacity available, let's say by quarter 3 and we will be done with all these trials as well. Would it be a safe assumption to believe that in FY24, you can run the plant at full capacity, and you can generate 500 crores of topline from both the plants put together.

Abhiraj Choksey: I mentioned in one of the previous calls that, the safe assumption would be at least 6 months to scale up. I would say it's not 500 crores. We should be able to do atleast 70-75%, 80% of that in FY24. Assuming that we take 6 months from November to scale up. It may take April, May to scale up and it could be even a little bit longer than that. So, the quality issue, it's not only about the quality and the volume, but it's also about supply chain and getting that right. We would have never done these kinds of volumes and supply chain and while we're working through it and preparing for it, when it actually comes to executing it, we know through experience that there are issues, there can be unforeseen issues that do come up. I would say 6 to 12 months is what I'd mentioned in one of our previous calls. We will hope for 6 months. It could be as long as 12 months to completely scale up. I don't think the entire 500 crores in FY24, but we do hope a large majority of that would happen in FY24.

Manav Vijay: Since Top Gloves has been listed and they also declared results every quarterly. They have detailed out even their expansion plan in terms of doubling the capacity from almost a 100 billion pieces to 200 billion pieces over next 4 years. So, whatever will be their requirement, let us assume for a second that Top Gloves will your old wholesale buyer, so, as let's say 200 billion pieces, how much percentage of their raw material you would be supplying at your max capacity?

Abhiraj Choksey: I would say I don't have the exact calculation with me, and I don't want to talk about one specific customer, etc. But one thing I can say for sure that even today, even with our total capacity that is coming up, it will not be enough for 2 or 3 of the other largest glove manufacturers. Their consumption is already more than what we can supply for what each of them, one of them.

Manav Vijay: So, let me ask you slightly differently. You will have a 40,000 ton a year capacity,

Abhiraj Choksey: Both to put together 60,000 ton.

Manav Vijay: So, 60,000, including the second order financial year, right?

Abhiraj Choksey: No, in our first phase between Valia and Taloja we have about 50,000 in Valia and 10,000 in Taloja whether or not we use a Taloja capacity to supply to the glove industry or a current, some other products that is a decision you will take later on, or at least as of now 50,000 has been year marked for the glove industry.

Manav Vijay: Fair enough. So, on 50,000 ton you will add around 50% as well. So, at around 75, or even at 85,000 tons. How much of the total industry capacity, you will have 5%, 7%, 10%?

Abhiraj Choksey: Not even, 5%. I'm talking about global capacities. Some of the large players in this industry are much larger than us, and they are also adding capacity. As the glove industry is growing and nitrile latex industry is growing. So, I mean, I don't even think 5%.

Manav Vijay: In last almost I would say 18 months of Top Gloves which used to do around 15%, 16% and 17% of margins went up to 63%. It has again come down, now because of this wild movement of margin, the pricing you get from them or I would say even from other players is that pricing is also under pressure or no.

Abhiraj Choksey: When we initially made a decision to get into the nitrile latex market, there was no COVID. This was back in 2016-17 when we started developing it, obviously during 2020 and the first half of 2021, gloves availability and glove demand and therefore gloves prices, whether it's natural gloves or nitrile glove were at historic highs. Therefore, obviously the players that were in the nitrile latex market also got good margin. Now the margins, I would say normalized, they are not in the pressure, but they have normalized than what they were earlier and that they were for the years and a half. And all our projections have been based on normal margin, our return are based on for the normal margins. They are obviously not as great as they were 6 months or a year ago, because demand has come off now for gloves in general. There's also a lot of inventory and so on, but that's fine. That in every industry, whether its carpet, tyres, paper, they all go through their ups and downs in the demand cycles.

Manav Vijay: In this XNB Latex, what kind of working capital requirement will be there because in your existing business you are in between 30 to 45 days kind of a number? This would be the similar number even for the expansion or be slightly higher?

Abhiraj Choksey: Sorry, it did break in between. I am not sure.

Manav Vijay: I am saying in terms of working capital for this project. So, as of now, the working capital that's you have in is between 30 to 45 days. Even for this expansion, you will have that working capital cycle, or it would be slightly different.

Abhiraj Choksey: No, it will be quite similar.

Manav Vijay: Last question from me on your investment portfolio, have you book any profits or not?

Abhiraj Choksey: Yes. From time to time, we do book profit. As I have mentioned before that all this is managed by outside financial wealth advisors and they will book profit from time to time as and when one day when they feel it's right. Of course, as they keep us, we have almost a monthly call with them, and we take calls.

Moderator: The next question is from the line of Alisha Mahawla from Envision Capital, please go ahead.

Alisha Mahawla: My first question is it possible for you call out what has been the volume growth Q-on-Q?

Abhiraj Choksey: Yes, it's about 20%. Volume's growth quarter Q3 of this year compared to Q3 last year.

Alisha Mahawla: No, I am asking Q2 versus Q3.

Abhiraj Choksey: It's about 6%.

Alisha Mahawla: Can you also mention what will be the peak revenue with once the additional capacity comes on stream, excluding all the pricing the high realization with which you are currently witnessing? Like you mentioned 9 months of almost 30%, 40%. If we exclude all that with the capacity and new capacity that comes in each H1 of 23, what would be the peak revenue?

Abhiraj Choksey: I don't know what in high and low we have had higher back in 2011, I mean, somebody could argue 2021 was a Lowest and it's never going to come back again because of COVID. So, I would say that there is no higher or lower. It's what it is, and we have been wrong before on what high and low, but assuming at these levels, let's say we are already at run rate of 250 crores from our current facilities, our current plants, which means we are already at run rate of about 1,000 crores, which will add another 500 crores at the minimum. And as I mentioned that we will have, created enough capacity to go up by another 300-400 crores. So, which there will be additional investments. We think that the peak we can do 1500- 1600 crores as much as 2000 crores once we do the second phase of expansion.

Alisha Mahawla: and just one last question in India in NBR, what is the split between auto and non-auto?

Abhiraj Choksey: Typically, India auto is about 25% or 27% of the total NBR consumption in India in auto. Globally, I think the number is higher. Globally, the number, maybe about 40% maybe auto, but we are largely in the India market so far.

Alisha Mahawla: It's up to 30% of the NBR revenue.

Abhiraj Choksey: Yep.

Moderator: The next question is from the line of Kewal Asal from the DSP mutual fund, please go ahead.

Kewal Asal: So, sir since we are an icon in exports markets, wanted to know, well, there is presence of much larger players. What is the edge that we have over them?

Abhiraj Choksey: Multiple things that are three things, but one of the things is obviously that the technology, which we are manufacturing has been different from what they're doing. We believe that a certain inherent advantage that we need do have. Second is, as I mentioned, that export market, I mean, if you were to export to America, North America, South America, I would say they were at a disadvantage because of the freight costs and so on. At least Southeast Asia and Middle East, we feel that we are fairly competitive with raw material costs. Some of our raw materials are available very close to our plants and the others are imported but again available close at a very reasonable rates from the Middle Eastern, Saudi, Kuwait, etc. The technical service, the customization that we provide versus some of the large players in the past, it's really been our competitive strength and advantage and helps us gain market share. We think we will continue that path, having said that, we have to not to say that we can do away with our competition. They also have certain advantages. They have scale, they have the depth that we have to build over time. And, but certainly we are within confident that we can at least compete with them in the market, both from a cost perspective, quality perspective, and service perspective, focus on it.

Kewal Asal: One more question is on the raw material side. We import majority of our raw materials. So, do you see any Indian companies in coming times doing CAPEX in Styrene and Butadiene? If you have any answer on that.

Abhiraj Choksey: As far as Butadiene is concerned there is already an excess of Butadiene in the country. There have been a few projects announced, but I don't know how far they are in terms of execution. Styrene also there have been a couple of projects announced, but I'm not quite sure on the execution. However, as far as Styrene is confronted easily available from various sources in East Asia as well as the Middle East. We feel quite is being in Mumbai, which is closed to both in Maharashtra and Gujarat. Sometimes, the freight cost is cheaper coming in from Saudi, Kuwait or UAE compared to bringing it from Delhi or from the North or the Eastern of. So, we are okay with it.

Moderator: The next question is from the line of Karan Bhatelia from Asian Market Securities, please go ahead.

Karan Bhatelia: Two questions of mine; one is just to CAPEX expense for the current year and for next 2 years and while you mentioned with respect to the asset terms on the edges of NBR business, and can you guide us with respect to the assets on the NBR business and the normal latex business.

Abhiraj Choksey: I think, I would say between FY22 and FY23, we are looking at about 225 crores. The large chunk of it would be these two expansion projects. We are also implementing a zero liquid discharge facility in Valia factory, which, for several reasons, one is obviously being the environmental reasons. Totally about between 200 to 250 crores over this financial year and the next financial year. Beyond that is something we are not sure off yet. We will make that decision over the next year.

Karan Bhatelia: We are in still factoring in no NBR CAPEX at least by next year.

Abhiraj Choksey: NBR CAPEX we are not factoring in this 200, 225 crores as I said, then in the following year 23 and 24, we may probably look at NBR CAPEX. We will see depending on how this year goes. As far asset turn are concerned, as I mentioned, we are looking at 180 crores right now for these two projects, which will give us a turnover of 500 crores. So, that works out to be an asset turn of less than 3, I guess. As I said, what about 3 years it will be, but overtime the future CAPEX after that will be at an asset turn of maybe 7 or 8, I am not sure. So, average, maybe 4 or 5.

Karan Bhatelia: So, my question while you said let then we asset turn. Can we expect the NBR business will be superior asset turn to this, or maybe it can be lower something?

Abhiraj Choksey: NBR business is a lower asset turn. Investment will be as much, and the value of revenue will be lower. We will see therefore the hesitancy on whether to do this project, whether to utilize the funds for doing something else, it's not as compelling a case so far, but we may still go ahead, and do it because it may be a good opportunity in any way. So, we will see how it goes next following year, and then take a call.

Karan Bhatelia: So, it all depends on the Anti-Dumping Duty?

Abhiraj Choksey: No, not at all. We cannot put up a project based on government interventions. No, not at all. We would take a long-term call based on what we feel is going on with the market, market growth. How EVs are factored and how the auto industry worldwide is affecting the NBR business, worldwide. We have had one competitor already announced that they are going to leave this business. If that happens, that may, significantly improve competitiveness in the market for the players who already there. They were announced it, but they are not get executed. They announced they will exit the business. So, we will see.

Karan Bhatelia: Strong NBR business, are we back to historic, realization, or historic margin or far from there.

Abhiraj Choksey: I don't want to comment specifically because this matter subjects is in the court appeal. So, I would rather just not discuss NBR specifically margins and so on.

Moderator: Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Abhiraj Choksey: Thank you all for joining us on this Q3 conference call with Apcotex Industries Limited. We appreciate your time, and we all hope that you stay safe in these difficult times and you and your families are safe. We look forward to seeing you in the Q4 conference call in next quarter. Thank you very much.

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

Abhiraj Choksey: Thank you.