Apcotex Industries Limited
Earnings Conference Call
28th July 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY23 Earnings 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. At this time I would now like to hand the conference over to Ms. Chaiti Gujarati of Valorem Advisors. Thank you and over to you ma'am.

Chaiti Gujarati: Good afternoon everybody and a warm welcome to you all. My name is Chaiti Gujarati from Valorem Advisors we represent the Investor Relations for Apcotex Industries Limited on behalf of the company and Valorem advisors. I would like to thank you all for participating in the companies earning conference call. For the first quarter of the financial year ending 2023.

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.

I wouldnow like to introduce you to the management of Apcotex Industries Limited participating with us in today's earnings call. We have with us Mr. Abhiraj Choksey – Managing Director, Mr. Anand Kumashi - Company Secretary and Mr. Sachin Karwa – Chief Financial Officer. I now request Mr. Sachin Karwa to give his opening statements. Thank you and over to you Sir.

Sachin Karwa: Thank you Chaiti. Good afternoon everyone and welcome to the earning conference call for the first quarter of financial year 2023. I hope you had an opportunity to review the financial statements and earning presentation which has been circulated and uploaded on the website and stock exchanges. To brief you on the financial performance for the first quarter, the financial year 2023, the revenue from operations grew 66% on year on year basis to around 307 crores, EBITDA grew by 66% on year on year basis to around Rupees 49 crores with EBITDA margin reported at 15.86%. The net profit grew 53% on year on year basis to around rupees 36 crores with PAT margins at 10.96%. The growth in the first quarter was driven by strong volumes across all industries, geographies, product groups and also increasing the realizations. On the Capex side, the work on both the new expansion project is running on schedule and is expected to be completed in Q3 of financial year 2023. Lastly I'm happy to inform you that company’s Taloja plant has been awarded with Greenco Bronze Award and Valia plant received TPM excellence award during the quarter. With this I would like to open the call for question and answer session.

Moderator: Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Ankit Kanodia from Smart Sync services. Please go ahead.

Ankit Kanodia: My first question would be so when we are looking at quarterly results of most of the company they are seeing a lot of variation in margin when you compare it from Q4 of last year. So why we have almost similar margin? How much of that is due to product mix or cost control? Maybe if you can elaborate a little on that. That would be great.

Abhiraj Choksey: So I obviously I don't compare to other companies. And when you're saying other companies, obviously there's a huge wide range in not only in the chemical space, but of course overall as well, so I can't really comment on other companies. Our company as I've told you before, and we've mentioned before that look we are trying to stay in this range of 15% plus minus like we could have quarterly,quarters where it's a little lower for various reasons, but by and large we have been able to pass along a cost increases, by and large, and therefore you see the EBITDA margins staying at reasonably healthy levels.

Ankit Kanodia: So basically the main reason for asking this question, is because we have already seen so crude is a big input for us and crude has been very volatile in the last six months. So that was my main reason for asking this question because as you rightly said that if you can pass it on then it's fine, next question.

Abhiraj Choksey: Just to correct you. Crude is not our main input. Downstream petrochemical derived from crude remains our main input . You don't always follow crude exactly. So in the current context, for example from last few weeks we are actually seeing petrochemical prices come down quite quickly, whereas crude has been around the same levels, I would say 10% here or there. So its petrochemical prices is what we follow.

Ankit Kanodia: And in our last call you mentioned to one of the participants that due to inflationary pressure, you may have to look into some Capex plan. Do you have anything extra to say on that? Or the Capex planner.

Abhiraj Choksey: No, so the Capex there was already announced the two Capex projects that we announced. One in our Taloja plant, one in Valia plant both for latex manufacturing. Those are already underway and almost ready to be commissioned in the next quarter and by the end of this quarter and next quarter, so those are on schedule. This was for future Capex plans, which we have still not decided on this final decision on that, however, we are in the design phase for NBR phase two expansion, which we are going to start or we have already started.

Ankit Kanodia: One of the biggest risks for us was a dumping what we faced in the year 2019, so is it fair to say that if something like that happens today, we are in a much better position compared to 2019 or we face the same kind of risk even today?

Abhiraj Choksey: See look that's for the anti-dumping that was there was or the anti-dumping case that was filed in the dumping that happened in 19-20 was for NPR which is about 30%-35% of our business. Obviously we're in a better position as a company then we were, let's say 2-3 years ago, we are stronger as a company we have more products coming up but obviously that risk is there, today there is no anti-dumping duty on those products, but we feel quite confident that we can compete anyway. We felt it was fair to have an anti-dumping duty levied given what is happening every now and then. But we have learned to compete, and we're going to continue to compete. Having said that, yes, margins can be affected from time to time, but we'll see. The matter is also a little bit sub judice because we have appealed and it's going on so I don't want to get into a lot of details about that.

Ankit Kanodia: Right, so no future plan for NBR as of now.

Abhiraj Choksey: There is a plan, but we have not started that. I would say we're in the design space so we're going to invest some money only for designing, but we haven't decided on actually starting the project yet. Although we have received all the environmental clearance by the way, it is another one piece of news that we may not have covered earlier. In the opening statement but we have also received environmental clearance from MOEF for that project in this last quarter.

Ankit Kanodia: Right one last question regarding Apcobuild or how has been the performance in terms of growth percentage this quarter.

Abhiraj Choksey: **Yes Fantastic,** we continue to grow quite well in high double digits last quarter as well. Of course in that market the margins have been under pressure because it's a consumer product we're not able to raise prices as quickly, so with raw material prices having increased in the last six months, the lag effect is a little bit more. Now we have taken some corrections in the last couple of months, last month or two, but overall we're focusing on growth. We are adding new geographies and it's going quite well. We're quite happy with the progress.

Ankit Kanodia: The same four states, or we have added more states there.

Abhiraj Choksey: No same state but within the states we've added more territories.

Moderator: Thank you. The next question is on the line at Sandeep Abhange from an Anand Rathi, please go ahead.

Sandeep Abhange: I have few questions. So my first question is majorly towards the demand side. So as you mentioned in investor presentation as well that you have seen 32% modern growth even this quarter. I just wanted to understand whether this kind of falling growth is sustainable or not and apart from that, what are the industry wise trends like paper, gloves and textiles like can you give a heads up on growth in these industries? Like how is in the demand trend in the industries as well as some growth numbers on your EBITA pattern which you cautiously track. Is there a strong double digit growth there as well?

Abhiraj Choksey: I'll take your questions one by one. So as far as growth of 32%. Look, we did two things. One is all the debottlenecking projects that we took up which were some commissioned or which we started last year between let's say July and September. Obviously we are running at full capacity for the last couple of quarters. So between Q4 and Q1 we are at pretty much full capacity and full volume. Now, whether that growth continues for sure not in the next quarter because we still are not in this Q2, because we are at full capacity and we don't have more capacity in this quarter more capacity will be added in Q3, which will slowly obviously will take us time to ramp up six months, nine months to ramp up slowly in both our plants, which we will continue to do. Of course, The uncertainty levels now as you all, as everyone knows, going forward the next six to nine months with a lot of issues of course the war as well as America recession shares and what's happening in China and the slow down and lock down. So obviously globally there is a lot more pessimism, so we're not sure if this kind of growth will continue, but we're hopeful that we'll maximize the growth that we can. So that's overall our growth as far as industry wise is concerned. Look every industry goes through ups and downs and I think, for example, currently the glove manufacturing industry is going through a really tough time because post COVID, I mean, during COVID the first two years 2020-21. A lot of gloves are manufactured and a lot of inventory was created. Now obviously that's reversing, and at this stage gloves as well as latex margins and supply demand is a lot more with the buy side so its buyers' market right now, but that those kinds of ups and downs, and therefore I think context is well positioned because we're in seven or eight different industries that we cater to. So that kind of up and down will happen and your last question was, I believe on EBITDA per ton now as we don't pick up a ton number, but again, between Q1 this year and last year, we have grown at healthy double digits upwards of 25%.

Sandeep Abhange: One follow up on the gloves, like in the gloves you are also products in the construction a lot. So are you not seeing any good demand over there?

Abhiraj Choksey: Look, I think industrial gloves. I think that's what you mean. Industrial Glove is a much smaller portion of the overall glove market. It's less than 10%. So it won't have a major impact either way.

Sandeep Abhange: One last question I had was, our trends in the prices of Styrene. Are you facing any supply contract constraint for importing these raw materials. Is there any inventions right for that?

Abhiraj Choksey: Not at this thing. I mean its ok. We do have sometimes often on some supply constraints, especially with shipping and all delayed for imported Petro chemicals. But by and large I mean it's been ok.

Moderator: Thank you. The next question is from the line of Aditya Khetan from SMIFS Ltd.. Please go ahead.

Aditya Khetan: My first question was on the volume part. So what was the quarter on quarter growth in volumes and realization for the quarter?

Abhiraj Choksey: The volume growth was about 32%. .

Aditya Khetan: 32% was on YOY basis so on quarter on quarter basis what was the volume growth.

Abhiraj Choksey: We are running at 100% capacity utilization, so that's fairly flat. Q4 and Q1 we don't have any more capacity.

Aditya Khetan: So 10% of the revenue growth so that is contributed by the realization.

Abhiraj Choksey: Yes, absolutely.

Aditya Khetan: Secondly, on to the nitrile latex Capex side. So this Capex is of 1.8 to 1.9 billion. How much are we incurred till date and how much is left to do.

Abhiraj Choksey: 1.8-1.9 is between both factories. Valia is for nitrile gloves and Taloja is a flexi latex manufacturing facility. Sachin would you have approximate number out of this 180-190 crores how much would have been invested or spent so far and how much is pending approximately?

Sachin Karwa: Approximately, we have spent around 100 crores, around 90 crores will be spent in the next 3-4 months.

Abhiraj Choksey: So that's a cash outflow.

Aditya Khetan: 100 crores has been spent ok. But Sir when I come so when I look at your balance sheet for the last two years including the CWIP so we had done Capex roughly around 80 to 90 crores. So this also includes the NBR capacity expansion of 5000 tons. So that debottlenecking.

Abhiraj Choksey: Yeah, that's done this 118-120 crores it is only for the two new project.

Aditya Khetan: OK, so when we have started doing this expansion.

Abhiraj Choksey: We started it last year in 2021.

Aditya Khetan: OK, on to the number side like I was looking on their balance sheet so that number was not quite reflectable. OK, no issues there, I'll just check again.

Abhiraj Choksey: Maybe you can send an e-mail. Maybe there's some confusion in your mind. But maybe you can send an e-mail to our CFO and the finance team. They will revert with the clarification.

Aditya Khetan: Sir one more question on to the pricing part. So when we compare the nitrile latex pricing, so that would be at a premium as compared to our basket of the synthetic latex or the pricing would be same.

Abhiraj Choksey: Are you asking about the margins or pricing?

Aditya Khetan: Pricing

Abhiraj Choksey: Pricing is typically a little bit higher. Nitrile latex is a little bit higher than the other latex product. Obviously the rubber products being 100% solids they are maybe more than double of latex products per KG.

Aditya Khetan: OK, so considering now that on to the gloves part. So there are lot of like tough side which is going on. So have you looked at the pricing list has cooled off from the Peak line.

Abhiraj Choksey: Absolutely I mean, last year one the absolute peak in terms of pricing, pricing and margins are considerably cooled off and as I mentioned, obviously, yes, in a way we are coming into the market in not so favorable pricing environment and sustainable economic environment for this product, but when we have invested in something, we look at the long run. We still believe in the long run. The medical gloves industry is going to grow at double digit case. Nitrile latex is going to do any raw material that will be required for this industry. And this industry is going to be in Asia so we feel this is for the long term, strategic growth of the. Company, it's a good product and we're looking forward to coming into the market.

Aditya Khetan: OK. So that guidance or 500 crores revenue so that would on print down.

Abhiraj Choksey: No, not really. I mean, look as I said, pricing has come down somewhat, but it will be around 500 crores plus minus 5%-10%.

Moderator: Thank you. The next question is in the line of Ruchita Kadge from IWealth. Please go ahead.

Ruchita Kadge: My question was on the side of the capacity that you're putting for this nitrile latex for gloves. So there is an article or that I read a few days back which had mentioned that the industry is promoting the use of natural rubber for glove in place of Synthetic rubber, so how much do you think this will impact our business and the capacity that we are putting?

Abhiraj Choksey: On the contrary, it's exactly the opposite, so I'm not sure what article you have read, but the gloves were initially invented with natural rubber gloves or natural latex gloves over time due to supply constraints, pricing constraints as well as certain allergies that natural. Rubber latex was causing and over the last 15-20 years there has been a shift to synthetic latex, which is nitrile latex. And in fact, now a majority of the gloves are made from synthetic latex. Of course there are other types of latex is as well not only nitrile latex, but a majority is made from synthetic latexes and a majority of that synthetic latexes is nitrile latex, which is market that we have entered so I think that article is inaccurate.

Ruchita Kadge: OK, because I just read it like 2-3 days back and I think I didn't send it to your CFO because in that article they have clearly mentioned because synthetic rubber is not very environment friendly. And in order to move towards that, they were saying that you should be using natural rubber.

Abhiraj Choksey: No, it's also a misconception it is not that synthetic rubber is less environmentally friendly than natural rubber latex. Natural rubber latex is also not extremely environmental friendly and everyone is working on how to make these gloves biodegradable. What kind of materials used and so on. It's a longer term project but again, a misconception. And I think I know the article you're talking about and I think well everyone free to write what they want. But I think it's a little inaccurate.

Ruchita Kadge: OK, so the nitrile latex capacity that we are putting so are we making it only for domestic market

Abhiraj Choksey: Domestic market is very small for this. It is largely for export market. I would say 90% would be for the export.

Ruchita Kadge: And if you could just tell me the market size like in. What is the market size for this nitrile latex?

Abhiraj Choksey: What we are coming in coming up, which will not be even 3- 4% of the total market size. So you can just extrapolate that maybe 2% to 3%. So probably you know 50 times. What we are coming up with 50-60 times.

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

Dhiral: So what was the export contribution in Q1 and the growth on the YOY basis?

Abhiraj Choksey: Export contribution in terms of a revenue I think was 18% to 19%. And the growth is 27 % is the export growth in value.

Dhiral: 27% growth on the YOY value terms, OK, and Sir, do you fill this nitrile latex incremental capacity we can register any volumes in Q3 or it will come from Q4.

Abhiraj Choksey: No, we will be able to register some volumes in Q3, but I said it will be a slow ramp up. Q3 will again even though we have some approval, whenever there's a new plant in our industries. Any new plant requires. I would not say approval from scratch from all customers, but customers would want because the way their manufacturing in the new is going to be different from the way we manufacture. Likely better process and more stringent quality norms and such. So I think it will take us, as I've mentioned before, 6 to 12 months to ramp up slowly slowly. But yeah, I mean, for all practical purposes, I think Q4 is where we would see some numbers jump.

Dhiral: OK and so lastly, how much pricing has come down in the nitrile latex from this week that you are talking about.

Abhiraj Choksey: It's quite a bit, I think about 15%-20%. I don't have exact numbers, but more than 15%-20%.

Dhiral: So what is your current pricing sir

Abhiraj Choksey: You can look it up. It's all published and I think it's frankly month on month so. It's all published. You can find it anywhere.

Dhiral: So now the current prices are questionable going at. You feel, Sir.

Abhiraj Choksey: Yeah, I think all industry report said this is really the rock bottom. Yeah it should Be stable and hopefully should improve over the next 6 to 12 months.

Dhiral: So is it better than the pre COVID level?

Abhiraj Choksey: No, it's in fact worse than the pre COVID level.

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

Karan Bhatelia: Sir, can you help me out with the revenue mix between rubber and latex.

Abhiraj Choksey: I think it remains about the same. It's about a 55% or so latex and 45% rubber.

Karan Bhatelia: And now it's, more than two quarters that we are running at peak utilization in the latex business. So any capacity expansion plan?

Abhiraj Choksey: No, no in all business, even rubber. Yeah rubber and latex we're running at full capacity.

Karan Bhatelia: So, while we are evaluating Capex, NBR and NBR latex, So anything on the legacy business of latex.

Abhiraj Choksey: So the one that is in Taloja that we have invested in out of the 180 and 190 crores. About 45 crores is in the Taloja facility, which is a multi-purpose latex plant, so we can manufacture nitrile latex and or other latex is so in the current environment or in the current context. We would sort of allocate that capacity to our sort of legacy emulsions that we make for paper construction, carpet, textiles, and a few specialty application. Facility as of now is multipurpose and we will use it for whatever makes sense at the time.

Karan Bhatelia: Right and we've done strong volume growth. So can you attribute that to a couple of industries or you think all the user industry is contributed equally?

Abhiraj Choksey: Yeah, pretty much across the board. I would say we have grown a quite well yeah.

Moderater: Thank you. The next question is in the line of Anmol Grover from Albatross Capital. Please go ahead.

Anmol Grover: Yeah, so I just wanted to understand your margin has been holding up pretty well. So how are you managing your raw material volatility? If you could shed some light on that.

Abhiraj Choksey: This is nothing new. I mean, raw materials have been volatile for the last 15-20 years and so. There's always something or the other right. The 2008-09 there was a crash and then sudden pick up after that, then we had COVID in 2020 Again crash and sudden pickup, in between also there has been 2-3 cycles Uh, we manage it a couple of different ways. One is, we have some of our customers are on formula based pricing. In which case whatever raw materials, however volatile there, whether they go up or down where it's just a formula and the margin remains fixed for a certain period of time within six months or one year. For yet, for some others even though it may not be a formula based pricing, it does follow these petrochemical norms. Then whole industry works on that. So our competitors as well will increase or decrease prices depending on what. Happens so we have not found it to be, While the volatility of course is challenging to manage and sometimes if it, especially when prices go up very quickly there is a time lag between which we get the price increase with the customer come so there is a time lag and therefore I've always mentioned that quarter on quarter we could see even when prices come down sometimes you're stuck with high cost imported raw materials, especially in this scenario where everything is delayed our inventory norms have increased consciously we've increased inventory norms for many of our imported raw materials, and in that case if there is a crash, we're stuck with some high cost imported raw materials and that may affect our margin. But by and large in the long term we always look at the long term, and think strategically. And then we don't worry about too much. What happens quarter on quarter basis because that can happen in our kind of it.

Anmol Grover: Second question is where are you funding the 180 crores Capex from?.

Abhiraj Choksey: Partly internal accruals and partly debt, approximately 50-50 I would say.

Moderator: Thank you. The next question is from the line of Nikhil Chaudhari from Cris PMS. Please go ahead.

Nikhil Chaudhari: So I wanted to understand in the nitrile latex. I understand we are I guess the only guys who are doing this in India so wanted to understand does it has got application medical or it has got application industrial because I since the Capex cycle like probably if you we understand if it is picking up then probably the industrial gloves will be the one that will be picking up really fast. So if you probably focus there we may have some stable demand coming from that end too.

Abhiraj Choksey: Yeah, absolutely so the grades that are there for medical gloves and obviously grades for industrial gloves as well depending on thickness application there are a range of maybe 10-12 different types of grades of this nitrile latex, we obviously we have products for bothapplication. Having said that the Industrial gloves is a much smaller percentage of the gloves market compared to medical gloves. It's much smaller. It may be in single digits less than 10%, so obviously the focus is on both but the larger industry is for medical gloves, so we can't ignore that for sure.

Nikhil Chaudhari: I'm saying it's only that probably used to dump in India so how is probably being the dumping lately, like I need to understand about.

Abhiraj Choksey: I would rather not talk about that. I just said the matter is in appeal and its sub judice, so I just like to pass on that question please.

Moderator: Thank you. The next question is from the line of Keval Ashar from DSP investment managers. Please go ahead.

Keval Ashar: NBR is contributing 45% of our Covid revenue

Abhiraj Choksey: No, synthetic rubber is contributing 45%, NBR and allied products which includes powder, Poly blends all that is about Less than 35%.

Keval Ashar: I have seen that the realizations have inched up significantly in FY 22. Is theprice cooling off in this, or is it still at the same level at realizations.

Abhiraj Choksey: You're right in that sense for all our products. Not only NBR but the peak pricing I would say was in Q1, since the end of Q1 we are seeing a reduction or I would not say sharp decrease but a consistent decrease in our raw material prices. When that happens, automatically our finished goods prices also do come down. I don't know what will happen tomorrow, but if I this is more recent I would say last few weeks things have been cooling off, so realizations are coming down as of today, but we have seen in the past that we think realizations are coming down for a few months and a few weeks and then suddenly they go back up. So it's hard to predict.

Keval Ashar: The second thing is that currently borrowings are at 50 crores at the end of FY 22 and what could be a peak debt if you have any estimate.

Abhiraj Choksey: Yeah, I mean I think 50 crores probably includes a working capital as well. So working capital is a factor of what happens with our raw material prices as well. Obviously due to the war, all our raw material prices have been much higher and our working capital requirement has been much higher than what we had anticipated. Let's say even six months ago, pre the war. I mean we did. No one had predicted oil prices of $120 and plus so. So it's hard to predict on the working capital front what would happen, but if I were to just take the term loan debt, I think the peak would be at about 110-115 crores and with working capital problems, obviously a little bit more so it's hard to predict

Keval Ashar: And the last question is are we going forward for the NDR Capex, for which we've got the ECC.

Abhiraj Choksey: We have started the design phase already and we have received the environmental clearance for NBR in. The last month. In June, so we're excited about that and so now it's up to us and, we started the design phase which should take a few months and I think over the next few months, once the design phase is over, which is expected in the next three to six months. And then I think by the end of this calendar year, we would perhaps take a call and we are also conscious of the fact that our entire team is focused on commissioning these two significantly large projects of Latex right now, and so we want the focus to be on that, and we will take it up after those two are commissioned and we also want to see the overall macroeconomic environment globally and in India, given the uncertainties that everyone is reading and talking about we'd also have to see that, but we'll keep everything ready. And then we'll take a call on when to actually some sort of invest and we'll see that. As I mentioned last time as well, we'll take a look at quickly the Capex costs which had signal. I mean just a few months ago, steel. And a lot of the commodity prices were at its peak, and at that point we felt that it was not a prudent decision to look at capex when commodity prices were their absolute peak. I think it's expected to correct significantly, so then Capex costs also may be lucrative or maybe down to make the project lucrative. So we'll take a call over the next six months.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: I hope this up so just wanted to check while you were mentioning to an audio participant with respect to our margins where it has been slightly volatile, especially because of the way crude is, what's the sustainable growth margin for our business? Because I agree that last quarter we were sitting on some low cost inventory. So those kind of number we're doing right now, and how does it change when a product mix changes.

Abhiraj Choksey: It's hard to predict we focus on EBITDA margins. Of course, gross margins do change depending on overall macroeconomic environment, supply, demand and so on. But we feel very confident that EBITDA margins would be. You know around that 1516% mark. And as I mentioned, you could have some quarters where it could fall. Some quarters where it's even much better. You know you could go to 17, 18, 19 percent with the current volumes. As we grow over the next one or two years, obviously this should hopefully improve further and that what we're looking at in terms of EBITDA Margins and gross margins can vary depending on several factors.

Alisha Mahawla: But if I Just look historically we've moved between 30 and 38 at gross margin level and that is a pretty high rate, so just wanted to know what would be a most stable numbers and with the kind Capex that we're doing in latex nitrile latex, what is the kind of sustainable number?

Abhiraj Choksey: So I think it will be around that range. Obviously I yeah it will be around that range. I would think. And hopefully towards the higher end of that.

Alisha Mahawla: And in the previous call you were mentioning that there is some competition in Europe which is shut down. Just want you to know has that come back. It's the competitive intensity at a global scale. Are we benefiting because of that?

Abhiraj Choksey: I don't remember the context, but what was the competition for which product had this shutdown happened? Because I know in the last year that happened. A couple of times for various reasons, but I'm not quite, I don't recall. But as of now all I mean working and I know last year there was some couple of competitors and a couple of products had shut down for some internal reasons for a couple of for 2-3 months, but I think as of today everything is on again a competitive intensity as of now is as you can see from our margins, we've done quite well. So it remains quite stable.

Alisha Mahawla: Sure, and just one last question. While the Taloja plan would be a multi-purpose latex plant, So Valia plant will be dedicated for gloves for medical use.

Abhiraj Choksey: All kinds of all kinds of gloves, medical as well as industrial.

Alisha Mahawla: Industrial, yeah so maybe the ramp up over there could probably take some time. Depending on demand.

Abhiraj Choksey: That's right.

Moderator: Thank you. We'll move on to the next question that is on the line of Manav Vijay from Deep Financial Consultants Pvt Ltd. Please go ahead.

Manav Vijay: So few questions from my side. First of all, now like the way you mentioned that you have received the clearance for your NBR project. so you were supposed to do a second phase in your Valia plant for your XNB latex now does this approval stands true for that expansion as well?

Abhiraj Choksey: Yes that's true as well, but that decision. We would probably take after maybe more than a year. First we would have to see how the current, once we commissioned and start selling from our current new plant. And once we ramp up and get closer to a full capacity utilization then we can add a couple of more reactors and I mean it's obviously not as longer project. Maybe a 6 to 8 month, 8 month lead time I would say and the lead time is mostly because of our vendors not being able to get it done. I mean get it done quickly these days, it's taking a long time. So 6 to 8 month lead time on that, but you're right, the EC covers both.

Manav Vijay: Second thing is that so this expansion is will generate close to 500 crores for you, so I believe that in last quarter call, you had mentioned that roughly 60 to 70% of sales will come in at FY 24, so does that statement still stands true or you believe that you could have some deviation from that?

Abhiraj Choksey: Well look we compared to last concall and this con call. I would say the only thing that has changed is a macroeconomic mood in the world. Obviously we are Cognizant to that as well. We will continue to maximize our sales and try and make sure we are on budget. But having said that, we are cognizant of the current macroeconomic environment in the world, and so we'll have to sort of keep adjusting to those realities as well.

Manav Vijay: OK my next question so mine exception would be actually a couple of questions that I have from your annual report. And plus one statement that you made in even in your AGM. So you mentioned in your annual report that you are looking to install renewable energy sources and also exploring. The direct feeder line for your Valia plant. Now I believe that in Valia a couple of years back, once we acquired that plant you had installed a captive power plant. and I believe that that power plant became operational couple of years back. So if you can explain this renewable part and also this direct feeder, what does this lead to basically?

Abhiraj Choksey: So the captive power plants was for a certain amount of production at. At some point a you know our plan teams have worked out that the captive power plant will not be sufficient. For our total power requirement in a Valia plant as a result of which we will have to rely on. Also after that we will have to rely on power from the grid and so we are investing in a direct feeder line because we're in a rural area, So what was used to happen from the great power it used to go down quite a bit. There are a lot of trips in a month. There were quite a few trips and in a continuous plant it's very difficult to manage if there are multiple trips. Every few days so as a result of it, this direct feeder line will eliminate or significantly reduce the steps and this is for our future power requirements this direct feeder line. We can also invest in renewable power elsewhere in the state, and then use that power through this direct feeder line, so yeah, this feeder line is just for security or power for the future beyond 2024. renewable power we are looking at more from just being a responsible a corporate citizen. Yes, currently the power that we use largely is not renewable. We do have a windmill and we do have some solar panels that are on all the rooftops that are Taloja. Factory, but going forward, we're looking at investing in sort of larger renewable projects which will mean that a significant or we would like to over the next 4-5 years. It is a much more longer project over the next profile is significant portion of the power that we are consuming should come from renewable resources and so that would be our longer term target. Its part of our ESG targets as well. So that's what we meant by. Looking at renewable sources for the long term.

Manav Vijay: Now in the AGM you mentioned about actually looking at 3rd land for expansion because once you are done with your NBR rubber expansion in. your Valia plant and you will not have any space, so any thought process that you can share on 3rd land.

Abhiraj Choksey: Again, this is a long term longer term thing. We believe that with these two latex projects that we have undertaken and then when we do undertake the NBR project, this should be enough for the growth for the next three years or so. And beyond that, if we want to grow we have to start thinking from now because as you know, in India, acquisition of land takes time followed by, you know, environmental permissions. Preparing the land for use who could take the whole project could take up to 3-4 years. So we are looking ahead and sort of exploring different options for future growth.

Manav Vijay: OK, so nothing on table as of now concrete that you can share. OK, my last question is in your annual report there's a 3.45 crores of actually export incentive that forms part of your sales. I have not seen this number ever in your annual report, at least of last 5- 10 years or so was it a one off something of that sort. Or am I reading too much into the numbers.

Abhiraj Choksey: I will. Have to check but from what I understand there is RODTEP scheme. That the government has introduced just last year. So that is what maybe is 3.45 crore Sachin, Suraj. would you guys have anything to add to this?

Sachin Karwa: **Yes,** this scheme was introduced by the government again, so also export turnover is going up, so you'll see this number better than the last financial year.

Manav Vijay: So my only point is that this was not a one off. It will continue as your export sales moves up.

Abhiraj Choksey: Yes

Manav Vijay: And one last maybe, I mean a very broad question. So few days back when actually BASF release their numbers in Europe they mentioned that actually there witnessing that say the demand slowdown. And they're actually witnessing more Prominent in Europe and for the fact that the way energy prices are moved up in the entire Europe, they might look to shut down some plants. Now we have seen instances of dumping happening. Uh, let's say from Europe in India. You believe that, let's say if, let's say, if BASF Or other, Let's industries were to face this kind of an issue in Europe on at a very broad level. This is this is positive for you or negative for you, in both SBR as well as your NBR latex.

Abhiraj Choksey: Hard to say. To say so first of all, as far as exports is concerned, Europe makes up a very small, 80% of our sale is in India. A 20% is all over the rest of the world. But Europe is obviously a smaller percentage of that, remaining 20% soas. Far as exports is. Concerned slowdown in Europe, while it may affect us, it's not going to have a significant impact. number Two, as far as competitors shutting down. You know anytime a competitor shuts down I guess theoretically it's a good for the other competitors, but we focus on our own business and we build on our own strength, uh, if external environment favors us so well and good, but we have not factored that into any of our business plans. We have assumed business as usual and I don't. I frankly don't know whether it will benefit us. I don't think it will negatively impact us in any way, but I don't know if it will benefit on it.

Moderator: Thank you. The next question is from the line of Archan Pathak from Centra Advisors LLP. Please go ahead.

Archan Pathak: Last part of my questions have already been covered. Just one question. I just wanted to know on the revenue front would it be possible for you to send that what percentage of our revenue would be coming from the auto mobile segment or tyre segment in general?

Abhiraj Choksey: Automobile maybe 10% to 15% of our revenue, somewhere between 10 to 15 I would venture to guess. And, I'm just guessing because NBR is about 35% of our business and. Maybe 1/3rd of that is auto. So that's why I'm saying 10% to 15% and then tyres is about 10%-12% of our business, which is tyre cord we have supplied the tyre cord manufacturers who in turn supply to tyre companies so.

Moderator: Thank you. The next question is from the line of Anubhav from McPro Research, please go ahead.

Anubhav: One question again related to whatever is happening in Europe regarding the respect to energy crisis and all. I think broadly you covered on the export opportunity and all I want you to understand that what kind of impact you seeing on the entire value chain. for us in terms of pricing as well as the realization for the end products, is there any impact already in the market or anything which you are anticipating because of this?

Abhiraj Choksey: I'm sorry, can you repeat I? I'm not sure if I understood the question properly. If you can just repeat it one more time.

Anubhav: So it's chiefly because of the energy crisis in Europe, so, and given the likelihood that some of the plants probably operating there may not be running at full caps, that you may have to go for false, I want to understand that Is there a impact already being seen in the market with respect to the entire value chain right from raw materials to the final product prices.

Abhiraj Choksey: So far we have not seen any impact. We do import some raw materials from Europe and we have not heard from any of our vendors about anything and of course in many of those cases we always have a second supply from another part of the world. That's something that we've been working hard on for the last. Year or two, so that's on the raw material front and on our finished products as well, we have not seen any impact, positive or negative, as I told the previous caller as well

Anubhav: And NGC would be sourcing acrylonitrile from Europe.

Abhiraj Choksey: Not really. There are some specialty products, otherwise, most of the other major raw materials like acrylonitrile, styrene and such all come from Asia. Mostly come from Asia.

Anubhav: So another question on the NBR thing though, I understand that there is a bit of a delay you're anticipating because of macro as well as your calculation on the IRS. I give the Capex costs. I want to understand is there a clarity that direction we are going for a NBR project because I think one of the calls you also alluded that you know, given the supply available and a possible demand impact in the auto space duty due to a mutation and also that is something you will have to evaluate if I have to go for it. So are you right now clear on that business prospect.

Abhiraj Choksey: We are staying ready let me put it that we were staying ready we're moving ahead with the design phase as well, which is obviously a small cost but we have not taken the final call yet on it. Yes, we're going to watch it from the macroeconomic environment, the raw material environment, Capex costs all that, and then take a final call at the right time, but As of now, we have our hands full with our current two projects, so I think for the next 3-4 months this is that's going to be the focus anyway.

Anubhav: And my last question is on this how much your medical gloves would be contributing to our total sales as well as two exports now.

Abhiraj Choksey: It's in single digits still. It's probably I don't have the exact number, but in the current context we have a sort of modified our current reactors to manufacture nitrile latex for gloves, once the new plant comes, obviously it will be significant, but as of today it's still in the single digits. You know 6-7. Percent I think.

Anubhav: OK, and largely it is for exports, right? I mean whatever we have that's selling?

Abhiraj Choksey: Yes

Moderator: The next question is from the line of Aditya Khetan from SMIFS Ltd. Please go ahead.

Aditya Khetan: Sir, onto the marketing kind quarter on quarter basis we are witnessing that the bit of margins are plated but on gross margins there has been a quite so there is a dip of almost 3%. So can you quantify what is this dip majorly because of the employee costs and other expenses? So is there a one off in this quarter which we have taken?

Abhiraj Choksey: Sorry, you're talking about gross margin dip. What are you talking about?

Aditya Khetan: EBITDA margin has expanded so this I want to know. So there is a one off which we had taken into employee and other expenses for this portal.

Abhiraj Choksey: I'm not sure if I understood the question Sachin. Do you have? Do you understand the question and whether you can answer it?

Sachin Karwa: No so I. So the costs are in line.

Aditya Khetan: Yeah, so gross margins have crafted, but EBITDA margins has been almost flatter, so this is led by the so decline in employee costs and other expenses.

Abhiraj Choksey: Gross margin, they could have dipped a little because of overall raw material prices going up. Sometimes there's a lag. Margins could have come down little, maybe there is some such and you know this question. I'm not sure I don't have the numbers in front of me.

Sachin Karwa: So I'm transferring through right now, so one is they are compared to last quarter. Is the input cost has come down, but it's primarily because last quarter has been the year end, quarter a bit more progress in getting in and now this quarter was perfect so in terms of volumes, yes. In terms of material cost, there is increased because obviously increases because of the product mix. Also because the material costs and keep changing. And yes, we have improved on efficiencies along with that so that expenses and everything we keep a check on. So as rightly said, that if we focus on a EBITDA per margin

Abhiraj Choksey: So maybe Q4 we had some employee bonuses and all paid out, which may have been a little higher.

Moderater: Thank you. The next question is from the line of Tej Kumar Pandya. An individual investor. Please go ahead.

Tej Kumar Pandya: Mr. Abhiraj was saying that in the last virtual meeting which we it was pointed out that outstanding payments have increased substantially. Now what is the situation? Have you these outstanding payments are under control?

Abhiraj Choksey: I think you may have misunderstood this. I don't think outstanding payments have. Increased what do? You mean when the payments to vendors or payments from customers?

Tej Kumar Pandya: Payments from customers

Abhiraj Choksey: So no, overall I don't think the payments were delayed or anything. I think overall realizations have gone up. So therefore what used to cost 100. Let's say a year ago is now costing 150 right so as a result of which the total outstanding receivable numbers look big, but in fact number of days we have done a reasonably good job in reducing those number of days outstanding.

Tej Kumar Pandya: What is it? Probably suppose if you raise an invoice. So how many days does it take for it to get them back the money?

Abhiraj Choksey: Sachin you have the average number, but I think it's about between 50 and 60 days right Sachin.

Sachin Karwa: Right

Abhiraj Choksey: How much is it? Sachin, you know the days.

Sachin Karwa: It's between 50 to 60 days depending on the term,

Abhiraj Choksey: around 55 days. But what is the average was some 51 or 54 or something, right?

Sachin Karwa: So last year it was 62 and now they've come down to 56 in this quarter.

Tej Kumar Pandya: Do you think it's OK for the industry? Because if they if you can't get the interest cost from 50 to 60 days, that means two months interest, do you work it that way or you do not work it that way to find out the cost for the capital which is aligned with the customers?

Abhiraj Choksey: Yes, absolutely. Look we would love to make this zero as well, but this is the sort of industry standard and a lot of our competition offered similar term so I would say we would be a little better off than most of our competition given how we collect and some of the incentives we offer customers to pay faster so, in fact I would say the industry normal 60 to 90 days and we are under 60.

Tej Kumar Pandya: The second question is the market size of the construction chemicals is estimated to be 5600 crores. How much of this percentage of this market is expected by Apcotex to share how much source the market share would you think you Will be able to get during And third similar question to it how much capital expenditure will be required to develop the production facility, and when would this facility be completed?

Abhiraj Choksey: So as far as construction chemicals are concerned, we supply to some of these construction chemical manufacturers that have the brand we have in two years ago started our own brand Apco build and I think that's what you're referring to. Apco build we are not looking to compete in the larger big space and become a, you know, compete directly with the brands we have certain niche products in waterproofing and repairs that we are focusing on where we are backward integrated and focusing on a few geographies in the western part of the country so far, So far in the few geographies and really building the business from there, so we're not really looking at a market share. Will be a very small percentage of the market if you are saying it's 5600. Crores. I've seen different numbers being thrown about depending. On what so?

Tej Kumar Pandya: I said 5600 as since that is in your annual report, it has been said in the annual report.

Abhiraj Choksey: So 5600 crores is approximately one number but yeah but so we are very small. As our old company turnover is only 1000 crores last or close to 1000 crores. Last year, out of which most of it is B2B sales. So we would be a very small percentage.

Tej Kumar Pandya: I just want to know that before this nitrile latex, have you applied for patents because it had been developed in house.

Abhiraj Choksey: It was being developed in house, but it is a product which has been around for many years, so it's already off patent. It has not been invented by us, it was already there also in the market.

Moderator: Thank you. The next question is from the. Line of Amar Maurya from Alfaccuarate. Please go ahead.

Amar Maurya: I have one question. Basically what I can see is that from last three four quarters on an average we are maintaining a very strong EBITDA per kg Kind of a number, and given that now the new product which we are launching is likely to be a better margin product, so I mean first thing is that are we confident to maintain this kind of EBITDA per kg And secondly, can we see some inch up from here on, let's say once the new product get launched?

Abhiraj Choksey: It will depend. As I said in the current context, if you were to see the latex products that we currently already manufacturing margins are reasonably strong, uh or stronger than what they were earlier, and that I think will continue for some time subject to the whole macro-economic situation in the world. I'm not sure what will happen in the next three to six months because there's gloom and doom talks everywhere else in the world, China, Europe, etc. As far as nitrile latex for gloves is concerned, obviously the margins peaked last year when COVID was a I would say you know, sort of pre or around the time the first vaccination happened post the 1st round of vaccinations in fact demand has come down significantly which is led to lower margin so as I said look those kinds of cycles will happen from time. For time and in fact the wheel, we look at the long term. We think it's a good market for the long term and we believe we can add value. In this market. So therefore we are in it, so it's very hard to predict what the margins will be. You know quarter on quarter or month on month. But we look at more long term we're trying to maintain margins of 15%-16% and slowly grow them as well, and as volumes grow, what happens in our kind of business is a fixed cost yet divide it with in larger volumes. So even if contribution margins drop, you could still see EBITDA margins being quite healthy.

Amar Maurya: But then do you look margin as a thing or you look EBITDA per kg as a thing.

Abhiraj Choksey: Well we focus on both I would say obviously, but EBITDA per kg as is what would be our primary sort of focus on.

Amar Maurya: But then that is what my question is like whatever the current EBITDA per kg we are maintaining when that is likely to be maintained like from here on. Or do we see some because you know I'm asking.

Abhiraj Choksey: We don't give forward-looking statements. It's hard to say, but obviously endeavor would be to maintain it right.

Amar Maurya: And second question is in terms of the new capacity which we are putting up for the latex in Valia for the gloves how the utilization would be like? It would be gradual. Let's say if it comes in third quarter, so should we expect like? Say third and fourth quarter. What would be the kind of utilization and how the utilization would move in '24?

Abhiraj Choksey: So as I told in the previous call like I cannot predict quarter on quarter exactly what would happen because it would we are dependent on customer approvals under the current context I mentioned, this is quite a challenging environment, but we are going to try and push through the customer approvals in Q3 and hopefully start seeing some sales in Q4. But it would take us six months, 6 to 12 months to Ramp up slowly, exactly at what pace that would happen is very difficult to predict.

Amar Maurya: Basically what I was trying to understand. Like approval time I believe already you are with the same dealing with the same customer. So once this new plan come, you have to again send the product for the approval or the product is already approved, right?

Abhiraj Choksey: Well there are two things where the product is already approved, but the new plant, the way of manufacturing is different it's not going to be exactly the same, and customers do want to feel comfortable for any new plant that comes up even for any of our competitors. If they were to start a new plant in the same facility or in another location, there will be some sort of approval process. May be a shorter one, not the longer one that has to start right from scratch, but some kind of approval process has to go through. Also, please keep in mind that we have only got approval from a certain set of customers. A lot of customers we could not get approval because we didn't have material, so when we approached them for approval, that first thing was like you're not able to be able to give us material or limited capacity. So come to us closer to the time when your plant is commissioning. So now over the next 2-3 months we will approach them, Start with the lab approval, then the plant will Commission and then we will, uh, you know, get some bulk approval so that takes time, so there are a few customers where we don't do not have full approval, but we feel fairly confident that given some time we will get approval from them over six eight months or so and then one saying the ramp up will be 6 to 12 months.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now have the conference over the management for the closing comments.

Abhiraj Choksey: Thank you all for participating in our Q1 FY23 conference call, we look forward to seeing you again in Q2 and thank you once again.

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