

Apcotex Industries Limited
Earnings Conference Call
April 28, 2023

Moderator: Ladies and gentlemen, good day and welcome to the **Q4FY23 Earnings Conference Call** of Apcotex Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Sir.

Anuj Sonpal: Thank you. Good afternoon everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Apcotex Industries Limited. On behalf of the company, I would like to thank you all for participating in the company’s earnings call for the fourth quarter and financial year ended 2023.

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 belief as well as assumptions made by 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 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 and hand it over to them for opening remarks. We have with us Mr. Abhiraj Choksey – Managing Director and Mr. Sachin Karwa – Chief Financial Officer.

Without any further delay, I request Mr. Karwa to start with his opening remarks. Thank you and over to you, Sir.

Sachin Karwa: Thank you Anuj. Good afternoon and welcome everyone to today's earning conference call for the fourth quarter and financial year ended 2023. I hope you had an opportunity to review the financial statements and earning presentations which have been circulated and uploaded on the website and the stock exchanges. Let me first brief you on the financial performance for the fourth quarter of Financial Year 2023:

The revenue from operations were reported at 256 crores which declines at about 8% on year-on-year basis and increase by about 9% on quarter-on-quarter basis. Operating EBITDA stood at Rs. 34 crore which declined by about 25% on year-on-year basis and increased by about 11% on quarter-on-quarter basis. The EBITDA margin reported at 13.32%. The net profits stood at Rs. 23 crore which decline by about 25% on a year-on-year basis and increased by about 14% on quarter-on-quarter basis and PAT margin stood at 9.06%.

For the financial year we reported highest annual revenue at around 1,080 crores which grew by around 13% year-on-year. Operating EBITDA stood at Rs. 159 crore growing by around 13% year-on-year with EBITDA margin standing at 14.68%. The net profit was around 108 crore which cross 100 crore mark for the first time with the growth of approximately 9% on year-on-year basis PAT margin stood at 10%. Q4 FY23 margins were impacted due to overall pressure on demand in nitrile latex while NBR margins return to normalcy due to fall in import freight.

On the CAPEX front both the projects in Taloja and Valia were commissioned during the quarter with capacity of 35,000 metric tons per annum for multi-purpose latex plant at Taloja and 50,000 metric tons per annum for nitrile latex plant at Valia. Additionally, I am pleased to announce that we have declared a final dividend of Rs. 3.50 per equity share. With this, I would like to open the call for question and answer session.

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

Ankit Kanodia: So, I just wanted to understand in terms of revenue how much of this number is volume led and how much of it is value led if you can give some color?

Abhiraj Choksey: For the quarter, I think the volumes are flat. So, most of it is due to sort of net realization going up or product mix changes for the year I think we are up Sachin do you have the exact number for volume increase for the year, but I think it's about...

Sachin Karwa: Yes 8%.

Ankit Kanodia: So, in the last quarter we mentioned that basically the EBITDA decline was due to raw material and chemical inventory which were being carried on the books, are those the same reason this quarter as well?

Abhiraj Choksey: I mean for Q3 definitely that was a big impact in Q4 there was a slight impact on that in fact for one or two raw materials we will still carry some of the high cost raw materials may be that will be exhausted by April and May, but largely that has been exhausted. I think as Sachin mentioned in his opening remarks we have had two reasons. One is the NBR margins compared to Q3 and Q4 of last year and Q1 of this financial year were fairly strong because of shipping rates being very high. So, we obviously being the only manufacturing India for NBR that was an

advantage to us and so that is normalized sort of in Q3 and Q4 and the second is that nitrile latex margins continue to be extremely weak mainly the glove market is there were a lot of extra gloves produced during COVID times and then post COVID over the last year glove demand has been extremely muted down by 20%, 30% compared to the previous 2 years, 3 years and so margins for the nitrile latex for gloves are even lower than pre COVID levels so that has been a challenge for us currently and of course we are making small quantity so far or we were making and now with the new plant coming up the volumes will go up, our cost structures over the next 3 months 4 months should also go down that should help the margin, but that is a challenge this year.

Ankit Kanodia: So you do not see the demand picking up anytime soon or do you see any cyclical recovery there in the overall demand environment?

Abhiraj Choksey: Demand should pick up because it should go back to pre-COVID levels just that there is a lot of inventory in the pipeline for gloves which is causing pressure for the raw materials as well and additional capacity has also been created over the last couple of years. So, I think in terms of volumes it is not an issue. We still think we will achieve our targets in terms of volumes for the year, it is just that margins are obviously lower and being a new entrant it is difficult to get any premium margins at this stage, but overtime we will see how it goes. I think in the long term we are still bullish about the business. One of a handful of manufacturers that can manufacture this product we have been manufacturing quantities over the last 3 years, 4 years and now with the 50,000 ton latex plant obviously our volumes are going to go up.

Ankit Kanodia: And one last question before I go back in the queue how has been the performance of ApcoBuild for this quarter and how do you see that in FY24?

Abhiraj Choksey: Yeah, excellent we have had some fantastic growth because we have entered new markets in the year. I mean I do not know about specifically want to talk about the quarter, but for the year it has been great, it is obviously a much smaller part as I keep saying of our total business, but we are growing it slowly, but surely we have entered new markets, new states and I think we were quite happy with the growth. I think it should be around 25% to 30% this year.

Ankit Kanodia: 25% to 30% what is this number growth and in terms of the total contribution to sales would be still in single digits?

Abhiraj Choksey: It is much smaller; it is not much. We are not revealing those numbers yet, but it is not much.

Moderator: Thank you. The next question is from the line of Aditya from Securities Investment Management. Please go ahead.

Aditya: Sir, we have commissioned few plants in this quarter, but there has not been much increase in our OPEX cost, so will we see an increase in our OPEX cost from next quarter onwards?

Abhiraj Choksey: There will be a slight increase, but the way the plants have been designed is not a significant OPEX cost increase. The only OPEX that will go up is in terms of fixed cost that will go up is some manpower in both the plants and I do not think it is going to be significant at all and when you say OPEX what exactly do you mean obviously raw material power and utilities and all will go up of course as the volumes based, but both the plants commissioned in March so obviously a large chunk of the growth will come in this year going forward.

Aditya: So my question was related to the fixed cost?

Abhiraj Choksey: So it is not much of a fixed cost increase in either case it is just manpower and maybe some maintenance and all, but we do not expect much in the first couple of years.

Aditya: And if you could throw some light on you know on the competitive intensity we are seeing in the synthetic latex segment, so with reducing freight cost and slowdown in global economy, are we seeing global players exporting more products in India because I think similar situation like this has happened with us before and there is a slowdown in global demand companies try to run their products in India, so are we seeing this kind of situation happening over here?

Abhiraj Choksey: Not in latex at all because latex is more of a regional business. So, on the contrary in fact I think we are doing better and exporting in the latex market, but in NBR for sure that has been the case with shipping freight rates being quite low now. We are seeing higher competitive intensity for NBR.

Aditya: So, not much competitive intensity in the synthetic latex?

Abhiraj Choksey: No, I mean look there are local players in India which is mostly us and one more company hold about 80% of the market share. So, most companies have recently increased capacity. So, I think you know in the short term there is a little bit of excess capacity I would say for the next year or two, but it is not I mean margins have been affected a little bit in for example styrene butadiene latex. The main place where margins have been affected the nitrile latex for gloves where there is no other manufacturer in India and we are exporting. I think globally there is a lot of gloves and therefore latex as well and that is caused a real slowdown in margins or decrease in margins rather.

Aditya: And in the synthetic latex segment do some industries you know like this is or paints have higher margins compared to paper or carpet?

Abhiraj Choksey: Yes and no I mean in some cases we do see yes that within so for example we are in construction, carpet, paper, textiles and I would say and then there are some specialty as well. So, the specialty applications within each of these industries that we are supplying there we would see higher margin. So, I would say overall margins are fairly similar, paper is sometimes

generally lower than the rest, but not by much by and large they are very similar if you see an average of let us say 4 years 5 years.

Aditya: The reason why I was asking this question is because Synthomer has been moving out from the paper carpet industry because it is saying that it is a commoditized industry and it is focusing more on the abrasives and coatings industry. So these are similar situation you are seeing in India as well?

Abhiraj Choksey: Not really I think we come from a smaller base. In Europe it is a little different what has happening, for example, I will give you paper in Europe mills are shutting down as the demand for paper has gone down due to digital overall the digital industry has taken over. In India, we came from a very low base and paper includes packaging as well. So, as our population is growing and as a GDP per capita is growing which is at a very low level right now as you know \$2500 and even less than that. Therefore, we are not seeing that in India at all.

Aditya: So there is scope for these industries to work at paper and carpet industry to grow in India?

Abhiraj Choksey: Yeah, absolutely we are not seeing it in India and I mean obviously we export as well to the Middle East, Southeast Asia and we are not seeing it there either, but I agree I mean the company you mentioned is largely in Europe for those paper carpet and Europe is going through a tough time even in terms of energy cost and other issues.

Aditya: Just the related question the increase in exports which we are seeing one of the reasons is because the players over there are shutting down are not detailing to these kind of industries, would that be one of the reasons which is why we are seeing increase in our exports?

Abhiraj Choksey: No, I do not think we are not catering. I think they may be defocusing I mean at least some information that you have, but they of course they are still in the market as far as we know and we do compete with them in some of the export markets.

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

Karan Bhatelia: Sir, how has exports done for fourth quarter and for the year FY23 and how do you see that at least for the next one year if you see so?

Abhiraj Choksey: Sachin do you have the numbers in terms of volume growth for exports.

Sachin Karwa: For the quarter we have an export growth of in volume terms is 28% and for the year we have grown 16% in volume.

Karan Bhatelia: And any further clarity on the NBR project doubling of capacity out there, anything concrete out there?

Abhiraj Choksey: We are going through the detail engineering which should be done in the coming quarter and then once we have the final costing and we also want to just see how the market is in the next few months and then we will take a final call.

Karan Bhatelia: And apart from the seven user industries that we cater to in latex which among the two, three might be really doing well and any qualitative commentary out there?

Abhiraj Choksey: I mean what I already mentioned look I think as far as paper, carpet, construction, textiles, tyres all those are doing frankly well. As I said for our markets which is mostly India, Southeast Asia, South Asia and the Middle East, North Africa I think nothing to complain at all. The only latex where nitrile latex for gloves, which is a new product where we have invested 50,000 ton. So, as a result of that we have obviously pivoted and converted our Taloja plant into a multi-purpose latex plant which includes styrene-butadiene latex and styrene acrylic and so on so we did that and that should be take maybe a couple of years for us to fill that capacity of 35,000 tons that is in addition to our current 65,000 tons which is almost more than a 50% capacity increase and the other is in Valia which is a \$50,000 ton nitrile latex plant that is definitely a challenging market and in the current context, but in the long term we are quite bullish on it and we think that the margins will turn at some point, volumes we are again confident of doing, we have a set of customers that we have developed over the last 3 years, 4 years and that will continue to sort of grow in terms of volumes and value where the concern is margins and on the synthetic rubber front as I mentioned by and large status quo steady of course there is some volatility in margins from every now and then, but I mean if you see in a course of a year or two we have had similar margins for the last 2 years, 3 years I would say since 2020 after the first COVID phase July 2020 so almost 3 years, but there have been quarters up and down and there we are the only manufactured India.

Karan Bhatelia: And still we do not hear anything on anti-dumping duties or any protection to?

Abhiraj Choksey: I mean you can follow let us say it is public now we had filed appeals and we have had some very good results in sort of our appeals with the High Court and the Supreme Court and we hope to hear some good news soon I am not sure how things will play out, but I mean it is not in the public domain you can search for it what is going on with those anti-dumping. It is not only up by the way in many different industries and many different companies that have filed appeals and they are in different stages of the appellate process, a lot of it is public and looking positive for everyone who has filed the appeals of why anti-dumping was not levied even though the DGCR, the Ministry of Commerce had had recommended it. We will see what happens I think we should know more in the coming few months couple of quarters.

Karan Bhatelia: 150 crores of top line for the new project like I am talking only about the XNBR gloves?

Abhiraj Choksey: Sorry what is the question again.

Karan Bhatelia: It is safe to assume 150 crores, 200 crores in the first year of operation from the latex gloves part of the business?

Abhiraj Choksey: Totally with the capacities that we have added we can add up to 600 to 700 crores in top line with these capacities. We hope to get full capacity within and when I say full capacity I mean on a monthly basis. So, within 2 years nitrile latex may be a little bit faster because you know we are new in the market and we are able to get good volumes already in the first month of operation although we are going through some trials because it is a new process. So, we are quite bullish on that and we think so Sachin I do not know if we have the numbers, but I would say I mean I do not have the number of the top of my head, but I would say about yeah 200 to 250 crores top line from both these plants additional top line in the coming year should be possible.

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

Nikhil: Two questions one was on the margin side now if we are not specifically on the quarter, but if we look at last year whole year margin, the first half was very good and second half we had this inventory issues and everything and on the blended basis we still did around 13%, 14% when there were push and pulls in the industry. If we have to adjust the one-off cost, would you say that this 14% to 15% is kind of a base margin at which the business will operate over a longer term because of the probably the diversification of the industries and everything?

Abhiraj Choksey: So, first of all for the year and Sachin correct me if I am wrong, but our EBITDA margins are above 15% right FY22 as well as FY23.

Sachin Karwa: So we are at operating margins, operating EBITDA is at around 14.68 and 14.61 for last year.

Nikhil: Operating I was looking at total margins which include other income I guess so around 15?

Abhiraj Choksey: Obviously we did have in both the years FY22 and FY23 there were some tailwinds that have helped us obviously like very high margins for nitrile latex because of COVID at that time and the demand for gloves was high that is actually gone the other way down where margins are maybe less than half of pre COVID level. So, I think that will go back to pre-COVID levels and therefore I think in the short run because of the nitrile latex margins there might be a margin hit for a few quarters, but other than that I think we are looking at this 14%, 15% as sort of the base and of course as we grow in our kind of business as one of the previous callers asked the operating expenses are not very high in terms of increase in operating expenses are in fact very low. So, as we grow and achieve economies of scale in fact we are aiming at a higher EBITDA margin of 17%, 18% in the long run when things normalize for nitrile latex. So, just to give you an idea nitrile latex margins are to be much, much lower than what they were pre COVID and they are much lower than all other product and typically historically pre COVID they were higher than other products in other latex products. So, we believe it will go back to pre-COVID

levels at some point when that happens is anybody guess it could be 6 months, 9 months I am not sure, but in the long term it is a good business to be in, it is a technology that is not easy to master, you have done a good job in terms of being the only manufacturer from India and obviously getting approvals in a lot of customers in Southeast Asia and South Asia as well. So, we are quite happy with where we were of obviously the circumstances of entering the market with a new plant a large capacity is obviously not ideal, but that is something you cannot predict in time.

Nikhil: I understand that the industry cycle just did not support us at this point in time, but it should improve. One question now in a previous question you mentioned that among the industries the specialty would have a higher margin while there is no one rule for all the industries that some industries are low margin, some industries are high margin?

Abhiraj Choksey: No, because even within the industries there are specialty products and sort of what somebody else termed it as commodity products, but what we call large volume fast moving products would be at a lower margin and obviously big customers would be able to negotiate a better price sometimes. So, I do not think it is industry wise in our kind of business, it is more so it is application wise. So, within paper you could have some applications that are for sort of commoditized paper and yes margins there would be less, the quality requirements are not as stringent, but then there are some applications that are obviously at a much higher margin because they are specialty applications which are made by one or two people in the world and we are one of them for few applications. So, similarly in carpet, construction, textiles it is very similar.

Nikhil: So, just my question was that because what we choose to do the business will define the ROC and our CAPEX investments for future and because it is too diverse industries and within industries there is further vertical diversification, as an investor how should we understand in terms of how do you choose upon what we will produce, what we will not produce because if we go by history our margins were not what we are doing today even in distress environment, so what all choices in terms of is it like we have exited some of the businesses among industries which were not profitable or ROC accretive and even in future when we think of CAPEX as an investor how should we understand our investments?

Abhiraj Choksey: So, for example I will give you it is a good example about 10 years, 12 years ago we had embarked on making emulsions for the paint industry and we felt that was highly commoditized margins were much lower and we completely exited that business. So, I would say not completely we are still making some specialty emulsions for the paint industry, but largely exited the business I would say whereas in the other industries what I just mentioned paper, carpet construction, tyres we believe it is the competitive intensity is not as high, the barriers to entry are quite high. So I mean as a business we look in barriers to entry, we look at competitive intensity, we look at obviously the industry that we are supplying to what is their future growth prospects and you know we have a checklist of things before deciding what to

invest in. So, that on a higher level as far as day-to-day operations obviously look depending on customer and industry from time-to-time like I just mentioned in the glove industry they go through their business cycles and you know unless it is a very long term, we believe that in the long term things do not think we would not exit that industry or that customer. We have done business with customers who at low margins this is well for a few months, we have made a commitment, prices have gone up sometimes in the past we have done quarterly pricing even today for few customers we may do quarterly pricing and you lose out on margins and suddenly raw material prices go up, but we have our strategic customers and strategic markets and we stick with them we are long term credible suppliers. So I hope that our answer your question I am not sure if that is what you are asking, but I hope that answers your question.

- Moderator:** Thank you. The next question is from the line of Raj from Arjav Partners. Please go ahead.
- Raj:** So, looking at all the expansions and everything which you have done, so can you give an outlook on FY24?
- Abhiraj Choksey:** I mean look we do not really give guidance in outlook, but as I said.
- Raj:** The qualitative outlook I am asking for?
- Abhiraj Choksey:** So, the qualitatively as I said I can give some quantitative numbers also these money that we have invested or these funds that we have invested is expected to give us an additional revenue of 600 to 700 crores at today's prices and I would say today's prices let us say in the last few months and so that could even go up if prices go up unlikely to go much lower. So this would be conservative and then we obviously hope to get full capacity or get the full capacity within 2 years from both our plants and I mean that is the outlook.
- Raj:** So by looking at this by FY26 and FY27 you will be doing an incremental sales of approx around 1,000 crores or so am I right?
- Abhiraj Choksey:** How did you get 1000 crores?
- Raj:** I just did a rough estimates and everything?
- Abhiraj Choksey:** Our current plants will give us another 600, 700 crores so we have about 1,100 crores today, we should get to about 1,700, 1,800 crores may be in FY26 I would say and obviously we have other plans to grow as well and invest so as and when that happened so that may happen as well over the next year or two.
- Raj:** And how about EBITDA and everything in FY24 can you expect similar EBITDA range?
- Abhiraj Choksey:** Look in the last couple of quarters we have had a EBITDA has been lower than the first couple of quarters, but on average as Sachin mentioned we are at about 14.5%, it is very hard to

predict exactly, had the nitrile latex market for example been absolutely normal, we would have been very confident in giving that guidance and look this is an EBITDA margin that going forward we should be able to do, but obviously you have seen in Q3 and Q4 for a couple of reasons the EBITDA margins have been lower. One reason was that you got stuck with very high-cost raw materials for some of our products and the second reason was nitrile latex margins kept falling all through 22 and into early 23 and obviously that on an average when if you are going to have 50,000 tons of nitrile latex coming up at a lower margin that is going to pull the EBITDA down. We believe it is a short term issue we are still going to push through and get our sales numbers. So, in the short term you could see EBITDA being lower, but in the long term as I said look we think with the way we are building this business and the way we have developed it and with economies of scale as we grow it should be at 14%, 15% and even higher.

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

Alisha Mahawla: Sir just wanted to understand that for our outlook for 24 I am not looking at numbers which is directionally, so on NBR side weight fall created seeing more competitive intensity from imports on the latex side again because of higher inventory we are seeing some amount of slow down?

Abhiraj Choksey: Sorry, we are not seeing any slowdown that is not true the second part is not true.

Alisha Mahawla: My understanding was that it is still replacing some amount of pressure in demand on the latex side and you think that is not true anymore.

Abhiraj Choksey: No, not overall latex I said only nitrile latex margin if demand is very strong for everything I mean we are doing our volumes, we have been running at 100% capacity utilization for the last more than 2 years and even in the last quarter we did not have even though we had these two new plants come up. The reason why we did not see any volume increase was because we had shutdowns, we had in fact to hook up the new plants, we had 10 days shutdown in one of our plants and a shorter shutdown in another plant. So, we lost a little bit of production which we were able to make up in the month of March from the new plant. So, overall the volumes were flat. So, we are not seeing any slowdown in terms of demand in fact we are seeing growth in terms of demand, our only concern for FY24 is margin and that also main reason is nitrile latex for gloves.

Alisha Mahawla: Is it possible for you to share some light or color on how much lower versus pre COVID levels or versus our average company level portfolio?

Abhiraj Choksey: Say that again sorry I did not hear you well.

Alisha Mahawla: Well I wanted to understand the margins in nitrile latex you said that it is lower even compared to pre COVID levels and the overall company level margins also, just wanted some color on how much lower is it at this point in time?

Abhiraj Choksey: At this point it is much, much lower than the average company level. So, for example, for the last 6 months if you were to remove the nitrile latex sales that we did which is only about that is about 10% of our overall sales, we would EBITDA margins would have been higher by about 100 basis and 200 basis points to 150 basis points. So, obviously it is very low EBITDA margins right now for our overall contribution margins for nitrile latex and as we are going forward obviously that is going to also have larger chunk of the volume. So, next year a total sale of nitrile latex may be 15% to 20% of our overall sales. Sachin do you have that number for our projections what should be in terms of revenue?

Sachin Karwa: You are right it will be to that extent.

Abhiraj Choksey: It will be about 15% to 20%?

Sachin Karwa: Yes.

Alisha Mahawla: The reason for the low margins is because there is an oversupply?

Abhiraj Choksey: Yea oversupply as well as reduction in demand because there was so much oversupplied during COVID that a lot of extra gloves were ordered and a few new plants have come up. So, I think the supply demand situation in the glove industry has changed dramatically and actually some of it is public information you can check the top 4 or 5 glove manufacturers in the world and you see there most of them are publicly listed in other countries and you can see their results are not very good.

Alisha Mahawla: Any sense on, you know, do we see this normalizing say in the next one or two quarters is FY24 also going to be difficult for this product and probably some amount of balance from the demand supply side can be expected only in FY25?

Abhiraj Choksey: You know it is hard to say when exactly obviously it is very hard for anyone to predict. Well, some people say that look the gloves expiry dates are within 2 years typically. So, even if gloves were made in end of 21 or early 22 they would sort of expire end of 23 early 24. So, it is hard to say when exactly of course it is very hard to predict frankly and there are different industry views on this, most of them are saying 6 months to 12 months.

Alisha Mahawla: And just one last question last time you were mentioning that the 50,000 tons is coming Valia so it is obviously only for gloves, but the 10,000 in Taloja was more like a same capacity and we were evaluating some newer products, has we identified new products, have we started or is it expected any color on that?

Abhiraj Choksey: So what we did with the 10,000 tons because while we were building the plant in the last 6 to 8 months when we realized that this was what happening in the nitrile market. We made minor additional investments and we have converted our 10,000-ton nitrile latex capacity in Taloja to a 35,000 ton multipurpose latex plant which is able to make nitrile latex and also able to make other current products which is styrene-butadiene, styrene acrylic and that demand is very, very good, very strong and in the first two months itself we are utilizing 20%, 25% of that capacity. So, that is expected to keep going up over the next one to two years and we expect to get 100% plus capacity utilization at some point in the following financial year for that that plant. So, that is what we have done and so that is what I think Sachin mentioned in opening remarks as well. I hope that is clear.

Alisha Mahawla: And this will be relatively better margins?

Abhiraj Choksey: Yes absolutely.

Alisha Mahawla: And just one clarification this Taloja plant you are saying will reach full utilization in 25?

Abhiraj Choksey: Some time in 25 which does not mean that we will sell 35,000 tons in the whole year. So, I mean we have to break it up monthly. So, for example, with 3,000 tons a month at some point in 25 we will reach 3,000 tons a month for the new plant.

Moderator: Thank you. We will take the next question from the line of Savi Jain from 2point2 Capital Advisors. Please go ahead.

Savi Jain: I just had this question on your treasury operation I see they are lot of active equity investing in other stocks, so I just wanted to understand what is the rationale for that?

Abhiraj Choksey: Actually it is not active frankly we have outsourced it to experts to actually manage treasury and wealth. So, we do not manage intern in house and there we have invested about 70% is an equity or little less than that 87 crores or 90 crores NAV let us say 90 crore NAV about 70% Sachin is in equity and that is also broken up into equity mutual funds and some CMS is also been invested in and that is why it feels like there is a churn, but there is really not.

Savi Jain: I can understand the funds and mutual fund etc, but I see a lot of stocks also being bought and sold. So, like there is lot of exits and new entries between two financial year. So, that is something and it is extremely highly diversified. There are like hundreds and hundreds of stock. So, it seems a little bit noncore for your businesses, it does not even look like long term investing because some of these stocks have been completely sold in a year, new stocks have been bought in a year?

Abhiraj Choksey: I do not think we are holding back that maybe true and we look into it.

Sachin Karwa: FY22 annual report 120 direct stocks.

Abhiraj Choksey: It could be because there are, but I am sure FY23 will be lower because we exited one of our wealth managers completely in FY23. I think we are reducing that and the FY23 annual report you will see that is a lower number. For our long term view is look we have this treasury that we have kept for either potential non organic acquisition growth or partnerships that we may get into or sometimes we also quick expansion decision we want to take we should have some liquidity and in terms of it is not a very large amount in our view, it is about 90 crores which is less than one-tenth of our total revenue from a market cap point of view also, it is a small percentage of our market cap and for the long term so we want to maximize it and we believe equity is generally over the long term gives you better returns than debt mutual funds or just or other receiving to it. Your point is taken and we will try and see if we can reduce that, but the idea was not to trade in stock that is not the idea at all. It maybe because you have given a two different managers in FY22 and part of FY23 and they in turn have given it to a couple of other PMS managers. So, therefore it looks like a lot of stock, but if you see the percentage that are in stocks is I do not have the exact number it would not be a loss most of it is in equity mutual funds.

Sachin Karwa: Yeah 10% to 15% that is it rest all in mutual funds and debt funds.

Savi Jain: In terms of just the three year outlook you have mentioned about the two new plants, but is there anything else that is in the pipeline in terms of new products or new categories that you are getting into?

Abhiraj Choksey: So one is for NBR we only manufacturing in India and it has been running at full capacity. Some capacity will be freed up till March we were making nitrile latex in our NBR reactor which will move out. So, we will give us some additional capacity there may be about 15%, 20% additional capacity. So, we want to try and see if we want to double that capacity because the market is there. We have done a good job. We are just waiting for a couple of things to see the current CAPEX cost whether the returns will make sense. Of course, there are new products that we are looking at as well no decision has been taken when the time is right we will announce the decision as far as investments is concerned.

Moderator: Thank you. We will take the next question from the line of Aditya Khetan from AK Capital. Please go ahead.

Aditya Khetan: Sir, on to the demand side as you had mentioned earlier that demand has been started to witness an uptake into the globe side, I believe so last quarter where we discussed on this so you had mentioned that so there is some pain of 6 to 9 months again sir this quarter we are guiding that so there could be some pain for again 6 to 9 months into the globe segment, so when we see this pain to end into the nitrile latex segment and what is our target utilization for FY24 when the capacity will start?

Abhiraj Choksey: So, two things one is that demand is not a big issue where 50,000 tons in the nitrile latex market is very small. It is not even a couple of percent of the total market even at these little bit lower level. So, demand is not an issue. The issue is margins, margins are very low unfortunately as we have entered the market and what was your second question.

Aditya Khetan: Sir, what would be the utilization level?

Abhiraj Choksey: So, we expect utilization levels to be somewhere between 40% and 50% for the year.

Aditya Khetan: For the complete 85,000 tons or only for the nitrile latex 50,000 tons?

Abhiraj Choksey: No nitrile latex 50,000 tons and that also for the remaining 35,000 tons there also we would have been at 50% honestly, but we have to wait for some, we have got permission to only manufacture a certain amount because earlier as you recall the Taloja plant was a 10,000-ton latex plant. So, we had applied for environmental permission for only that amount. Now because SB latex or other latexes we are able to make 35,000 tons. We have applied for additional permission to make more products from the same plant that also requires some environmental permissions. So, as and when that comes true expected in the next 6 months we should be able to increase that as well. So, we are little bit dependent on those environment permissions, but we are hopeful that it will come through in the next 6 months because it is not very complicated, we are not going to have to put up a new plant or anything of that sort. So, hopefully in the next 6 months that would come true. So, I would say if you look at the entire 85,000 tons I would say maybe about 35% of the total.

Aditya Khetan: On to our quarter-on-quarter so when I was looking at the raw material prices and some of the finished product prices so there is a clear contraction in terms of spreads which is seen quarter-on-quarter, but still the numbers have been good like so in quarter-on-quarter basis the margins have been flat, have we stopped that inventory at lower prices and that benefit we had got in this quarter that is why the numbers which are reflecting on the spot prices that is what reflects into the results?

Abhiraj Choksey: I am not sure if I have understood the question clearly.

Aditya Khetan: Sir I am asking that so the spreads of the styrene-butadiene and acrylonitrile and some of the finished products like NBR synthetic metric, so that spreads in quarter-on-quarter want to spot it through so there is a decline, but our margins have been constant. So, I was just wondering so have we stock inventory at lower prices because the raw material prices they had started to go up, but the finished product prices they were going down. So the spreads have contracted, so I was wondering whether we had kept some inventory?

Abhiraj Choksey: I am little confused, but what are you looking at it so how are you following styrene-butadiene and acrylonitrile prices.

Aditya Khetan: So, it is styrene prices so we are tracking some of the Chinese prices in Southeast Asia prices?

Abhiraj Choksey: So, I would say that and that is not always so what happens in reality is not what is published. So, for example, as I mentioned in the last quarter that we had some high cost raw material inventory that we were stuck with in the previous quarter that now in Q4 is somewhat normalized and therefore you cannot really compare that just because those are published rate is not what Apcotex rates are. So, sometimes the published rate may be lower than Apotex rates sometimes it could be a little higher also. So, I would not look at the published rate I mean it is a benchmark, but it is not really accurate and yes to answer your question Q3 in fact it is the other way round Q4 is by and large okay. Q3 we were stuck with higher cost raw materials. So, even though published rates may have gone down, our rates were not down in Q3.

Moderator: Thank you. The next question is from the line of Mohit Arora from SOIC Ventures LLP. Please go ahead.

Mohit Arora: Sir first question is in FY24 inside of the slight increase in OPEX do we still see absolute growth in EBIT?

Abhiraj Choksey: Yeah we do expect an increase in EBITDA. In fact, what you would see happening in FY24 is the profit before tax will go down because we have a large CAPEX which we have never done before and all the CAPEX has come on stream in the last quarter. So, upwards of 220 crores, 230 crores so that depreciation is going to start hitting in Q1 and the interest which was so far being capitalized because we have taken a term loan to partly fund the CAPEX that would have start hitting the P&L as well. So, from an EBITDA point of view we would obviously on an absolute basis we would see some growth or we would hope to see some growth, but on a PBT level because of depreciation and interest being going to be much higher in FY24 going forward or from Q1 of FY24 than it was in the past.

Mohit Arora: Second question is in terms of like what is the overall vision of the company over next 3 to 5 years are we looking to launch any new products or are we like looking to like such a broad vision over next 3 to 5 years?

Abhiraj Choksey: Yeah, I think we have a lot of opportunity in the emulsion polymer space that we are in and even if you see the last 5 years, 6 years we have done four things. One is grown the current business in India, second is we have grown the current product range outside of India, third thing we have done is acquired a company in which was an adjacency for NBR and allied products. As a result of that acquisition, we were able to put up a nitrile latex plant in that facility in Gujarat. So, these are the four things that we have done. Going forward we want to as I said one thing is obviously grow in emulsion polymers space. We are looking at other spaces as well, but obviously I think that is premature to talk about. We will continue to grow our exports, we will continue to grow nitrile latex NBR and our current product range where there is a lot of opportunity that we do see. Some specialty products within these emulsion polymers

that we are looking to add, for example, textiles which is very, very small part of our business 5 years ago is now becoming a larger part of our business and another strong leg another industry that has become quite strong for us. So, yeah various things and obviously we are looking to grow both from a inorganic opportunities obviously we are evaluating all the time and looking to grow through a new product pipeline if possible, but it is too premature to talk about this.

Moderator: Thank you. We will take the next question from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: I just had one question related to the exports, so can you give some geographical breakup as to we have mentioned that we cater to 7 continents, but if you can just quantify that?

Abhiraj Choksey: I do not think we are supplying to Antarctica, but Sachin you have the numbers for that I mean as I told you Ankit we are mostly in South East Asia Middle East and Middle East South Africa and when I say Southeast Asia I am covering South Asia like Sri Lanka, Bangladesh and Nepal and those countries as well. If I were to venture a guess I would say Sachin 80%, 85% of our sale is in this region.

Sachin Karwa: Yes in these two what we are talking about Southeast Asia and Middle East.

Abhiraj Choksey: Southeast Asia and Middle East which include Sri Lanka and then the rest is Europe, China even America some of it South America I mean there are some specialty products we export everywhere, but a large chunk is in this three zone.

Ankit Kanodia: Any color of difference in terms of demand between the Southeast do you want to comment on that?

Abhiraj Choksey: Sorry, what is the question again?

Ankit Kanodia: The question is any color on what is the situation or what is the difference in situation between Europe and Southeast Asia or are they....

Abhiraj Choksey: As I said Europe is not a very big market for us mostly Southeast Asia and Middle East and we are growing quite well in these two markets. Europe, North America, Japan those are we supply some specialty products and they are fairly steady. We have had no major issue, but I would not say there is a strategic market just because of the distance it takes and the time that it takes plus on the latex side to shift that much water across continents it is not necessarily feasible unless it is a specialty product.

Moderator: Thank you. We will take the next question from the line of Bhavya Sonawala from Samaasa Capital. Please go ahead.

Bhavya Sonawala: I just have two questions first question is just wanted to know that glove manufacturing CAPEX in the latex CAPEX have they grown in line in the past few years if that is possible to answer?

Abhiraj Choksey: Sorry again what is the question I did not understand.

Bhavya Sonawala: So, basically wanted to understand that the glove manufacturing and latex manufacturing the CAPEX for both have they grown in line?

Abhiraj Choksey: I mean look I think glove manufacturing because of COVID I think a lot of people enter the glove manufacturing business because it is more of a low-tech business in that sense and you know lower CAPEX well. So, we have seen a lot of companies in America, China, Southeast Asia enter the market and as a result there is a lot of glove. In nitrile latex we also have seen extra capacity come on stream, but it has been from existing players for example like us we have been an existing latex player and we have started manufacturing nitrile latex a couple of years ago and then obviously invest in the plant. Similarly, some of our competitors in the industry have added some capacity in their existing plants and some were announced, but I believe they have all been put on hold given the current market scenario.

Bhavya Sonawala: So in the last question you had mentioned about the high value raw material inventory that we were holding, so is it fair to assume that probably this will be the last quarter we have the high value raw materials?

Abhiraj Choksey: Yeah absolutely I mean Q3 was a big hit I would say. Q4 was slightly less and Q5 we are largely done with it borrowing a few specialty raw materials that we keep 6 months inventory and for example, we had ordered in September, October and it came in November, December and then now we will probably be done with it in this quarter, but I mean it is slowly coming down and I would say largely almost done now.

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

Aditya Khetan: One of the participants you had stated that the capacity expansion would give a revenue of 200 crore I believe we had given a guidance of 550 to 600 crore just wanted to verify in this?

Abhiraj Choksey: No, that is the capacity expansion is 600 to 700 crores. For this year FY24 is 200 to 250 crores is a best estimate.

Aditya Khetan: And the total would be somewhere around 600 to 700 at peak utilization?

Abhiraj Choksey: Exactly at full utilization.

Moderator: Thank you. The next question is from the line of Om Prakash Dhoot an individual investor. Please go ahead.

Om Prakash Dhoot: I have a question that Taloja plant capacity which has been increased 35,000 from that when can we achieve that or the products which are coming are they being accepted from customers?

Abhiraj Choksey: Both plants which are there 35,000 ton latex the current products what we have that only we are making, but we have some new customers, but there is no approval or nothing like that and of course in export market there are new customers where approval are running that we are doing from last 10 years and increasing our distribution network and as far as new plant which is in Valia of 50,000 ton nitrile latex in that certainly new approvals efforts are running on and many more customers are going to add in next 6 months to 8 months and their approval process is running and it takes time. We are confident that from last 10 years what we have learned and made the network of export distribution and our sales people they are working hard at increasing sales so we are quite confident.

Moderator: Thank you. The next question is from the line of Chandra Pal Singh an Individual Investor. Please go ahead.

Chandra Pal Singh: Abhiraj I wanted to know that in NBR case is there any planning done?

Abhiraj Choksey: I have already answered it before. In NBR we have invested in detailed engineering so that project will be over. Now depending on the final CAPEX amount board and senior management team will take a final decision over the next few months when we want to go ahead with it. So, we have not yet decided.

Chandra Pal Singh: And margins have been normalized of NBR?

Abhiraj Choksey: Yes in between which has been increased because of higher shipping cost that has been normalized.

Moderator: Thank you. The next question is from the line of Raj from Arjav Partners. Please go ahead.

Raj: You have said that under latex there is no demand issue so exactly what is the issue there?

Abhiraj Choksey: There is margin issue. Our plant is a small plant so we are confident of doing 50,000 tons of latex selling is not a problem, but in today's date because overall market is quite weak, we have to give very low prices to be able to sell and generally the market margins have reduced considerably compared to of course COVID levels, but also during pre COVID levels. So that is the reality. So we are confident of doing 50,000 tons because millions of tons are being sold in the market. So, 50,000 is not a very big amount.

Raj: So, then it is a supply issue we can assume?

Abhiraj Choksey: Now, but the industry is not doing well so there is a lot of pressure on the raw materials of gloves also. The glove industry is not making money, they want to ensure that raw material suppliers also I mean they cannot afford beyond a point because glove prices have really fallen. So, we have to support them for some time till things normalize.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: One question Abhiraj because in the call you have mentioned that the demand is pretty strong and we had the ability to switch the CAPEX a nitrile latex to NBR?

Abhiraj Choksey: No, nitrile latex to other latex products.

Nikhil: What I wanted to understand is that when we put the capacity is it like we have how good sense of our demand do we have in terms of the market where I am not specifically talking on the gloves part of it, but overall as a general rule is it like we have a commitment from the customers that 40%, 50% of the demand we believe that the capacity can be filled by existing customer order or is it our assessment of the market based on which the CAPEX plans are organized. Well, I am not specifically talking on glove I understand it was a one off scenario, but as a general rule how do you plan it out?

Abhiraj Choksey: Yeah, absolutely so look it is obviously talking to customers. We do not have contracts signed in advance before the plant comes, but you know if you see the industries that the latex products that we are supplying to and it is as I said 75 plus percent in India 25% exports. We believe that all the industries paper, carpet construction, textiles, tyres, all in India is a growth industry and we have talked to our all our customers, we have got their 3 year projections or 5 year projections and we want to try and invest in projects where we at least see 25%, 30% ROCE when we start the project, when we plan the project return on capital and we see that we can utilize that capacity within a period of 2 to 3 years.

Nikhil: The reason for asking the question is that because like during the call you mentioned that you are even whatever is happening on gloves you are still confident that the capacities will be optimally utilized in a period of 2 to 3 years, so just wanted to understand that when we plan for the capacity even in other products like is it pure assessment or is it like customers are also like giving a good enough design that when we put the capacity at least 40%, 50% utilization we will be able to reach easily, is it like that kind of an assessment do we have?

Abhiraj Choksey: I thought I answered your question, but yes we talk to customers, but we do not take any written commitment from customers, but yes customers do tell us look we are putting up additional capacity, for example, let us say in the paper industry we are close to most of our customers and they will tell us look in the next 3 years we are putting up this capacity. So, we will need this much more binder or latex over the next 3 years. So, we try and time it with that

and then of course part of it is an assessment as well for example construction and water proofing market has been growing really well in India it is double digit growth and the last 5 years, 6 years it has been growing at double digits in the next 5 years, 10 years also that is the assessment. So yeah I mean it is a combination of assessments being where new capacities are coming up and overall seeing the growth in Asia we being predominantly an Asian company and catering manufacturing in India and catering to India and Asia.

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

Abhiraj Choksey: Sachin do you want to do the closing comments.

Sachin Karwa: I think Abhiraj you should.

Abhiraj Choksey: So thank you everyone for joining for a Q4 conference call. We finished the year with a good strong set of numbers, we are quite satisfied and happy of course our projects were delayed by a few months, but we are also happy to share that the projects are both on stream and going reasonably well and we hope to now utilize this capacity over the next few quarters. We will also come back to you with future growth plans at the right time. Just one thing to keep in mind is that depreciation and interest will be going up over the next two quarters because of the large CAPEX that we have done in the last quarter. So, PBT numbers will be affected going forward, but EBITDA numbers is what we are going to focus on. Thank you very much. Look forward to seeing you all next quarter.

Moderator: Thank you. Ladies and gentlemen, on behalf of Apcotex Industries Limited concludes this.