Apcotex Industries Limited
Q1 FY '24 Earnings Conference Call
July 27, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 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.

At this time, I would like to hand the conference over to Ms. Purvangi Jain from Valorem Advisors. Thank you and over to you, ma'am.

Purvangi Jain: Good afternoon everyone and a warm welcome to you all. My name is Purvangi Jain 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 first quarter of the financial year 2024.

Before we begin, a quick cautionary statement. Some of the statements made in today's Con Call may be forward looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by an information currently available to the 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 purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now, I would like to introduce you to the management participating with us in today's earnings call 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. Sachin Karwa to start with his opening remarks on the financial highlights. Thank you.

Sachin Karwa: Thank you, Purvangi, and good afternoon everyone and welcome to our earning call for the first quarter of financial year 2024. I hope you had an opportunity to review the financial statement and earning presentation which has been circulated and uploaded on the website and stock exchanges.

First, let me brief you on the financial performance for the first quarter of financial year 2024. For Q1 FY '24, the revenue from operation stood at INR 278 crore, which witnessed a decline of around 9% on year-on-year basis, an increase by about 8% on quarter-on-quarter basis.

EBITDA for the quarter was INR 26 crore, which declined by about 40% on year-on-year basis and decreased by about 25% on quarter-on-quarter basis with EBITDA margin stood at around 9.2%. The net profit stood at INR 12 crore, which declined by about 64% on year-on-year basis and decreased by about 48% on quarter-on-quarter basis with PAT margins stood at 4.36%.

In Q1 FY '24, on the back of new capacity commissioned, we witnessed our highest ever quarterly volumes and export volume growth of 22% and 110% respectively on a year-on-year basis which was led by nitrile latex carpet and construction. In spite of 22% increase in volume, revenue from operations fell by 9% due to sharp fall in raw material prices, which led to lower price realization of finished goods.

EBITDA margins were affected due to lower margins in NBR and paper binders because of pressure on demand, falling prices and inventory losses. Furthermore, PAT margin declined due to increase in depreciation and increased costs only because of the expansion projects commissioned in March 2023.

With that, I would like to open the call for question-and-answer session.

Moderator: Thank you very much. We will now begin the question-answer session. The first question is from the line of Nirav Jimudia from Anvil. Please go ahead.

Nirav Jimudia: So, I have two questions. Sir, in your opening remarks, you mentioned that we have been able to grow our volumes by close to 110% in the export market on a Y-o-Y basis and even in our annual report, we have been saying that we want to significantly up our exports going forward. So, just wanted to understand your thought process, like when we go and tap the export markets, are there customer approvals which needs to be taken from those customers to whom we are already supplying? Because what we could understand is that we are exporting close to now 45 countries. So, those customers would again ask for the approvals from the newer plants which we have set up. So, how those processes are? And then I can go up to the second question.

Abhiraj Choksey: Thank you, Nirav. So, it's a complicated answer, but yes, because that has to I would not say restart from scratch, of course, not at the lab level, but customers do want to initially try out some bulk quantity and then slowly move on. So, especially in our nitrile latex for gloves where the technology of the new plant is very different from what we were making for the last three, four years because we were making it in our own plant which was not necessarily the most ideal way of making nitrile latex because those reactors optimized for other products, you know, styrene butadiene latex, styrene acrylic latex and Vinyl Pyridine latex.

So, yes, the technology was a little different. So, some of our customers did want to, you know, not restock but wanted to start the off-take slowly. So, starting from March itself we started, you know, once our plant commissioned and slowly we have moved up, now we have completely, I am happy to say at least as of now about a couple completely shut down all production of nitrile latex from the old plant. Now everything is being manufactured in the new plant. And obviously, because the approval process takes three to six months typically, you know, we are slowly building up our capacity utilization.

As far as our other expansion project in Taloja where, you know, our current products are styrene butadiene latex, styrene acrylic and so on, it was much quicker. I would say almost immediately, you know, customers said, the technology was the same. It's just adding new reactors of similar technology. So, there the customer approval time is maybe even one or two months and they are happy to stop. So, yes, that's the nature of the business. Whether it's exports or domestic, it's similar, but I am happy to say that this quarter, 31% of our overall sale is from export market. We are still very much an Indian company, you know, strategic focused.

However, you know, many years ago, almost 8, 10 years ago, we were only at 2% or 3% of sales were exports. So, we were highly, heavily India focused. So, it was a strategic decision that over time you focus on products and geography that would allow for strategic exports, tactical and strategic exports and that's what we have done and for the first time we have crossed this 30% mark, 31% of our total revenue. It's almost one-third is you have to grow a little bit more and diversified. It's not only in one country. So, that's another good thing. So, now at least from a geographical risk perspective, we feel better about the company's sort of current position.

Nirav Jimudia: So, just to add here like when customers approach us, like in terms of from the different geographies what you mentioned, do they require some high value added products which probably they are not able to get from the existing set of vendors to whom they may be getting those products? So, we have been able to, one, innovate the products which is also visible in our R&D expenditures, which have been consistently moving up on a Y-o-Y basis. So, have we developed some products where these products itself is giving us first mover advantage of tapping those customers to whom earlier we were not supplying? And to add that what you mentioned in some of our previous calls that with this new capacities, probably our OpEx won't be going up, but with this new set of products, probably our per Kg realizations can or could move up, which would ultimately flow to our EBITDA per Kgs.

Abhiraj Choksey: Yes. Look, in some cases, you know, we of course and we have certain advantages as far as product performance or product quality is concerned. In some cases we have a geographical advantage as I have said before. So, for example, there are a lot of our customers in Africa, the Middle East, in the GCC that are anyway importing the product from Europe.

So, there in the current context because of the high energy prices, the costs are higher. The time taken from Europe to come to some of these countries is higher. Service levels, you know, they have not been able to keep up with our kinds of service levels with the talent that we have in India and by that I mean technical service helping them with the final performance of their product, visiting often, building a relationship often.

So, you know, there is a combination of the reasons why there is a competitive advantage. In some cases it's not necessarily that product performance or product quality is significantly better. We have been able to develop it, but we have been able to provide other services and that are better than our competitors. So, it's a combination of both.

Nirav Jimudia: And second question is on ApcoBuild. I think one of the statements in the annual report is that we have significantly upped our sales value. We have increased our distribution network. So, if you can throw light in terms of the opportunity size for our b2c business where we are currently, what needs to be done over next three, four years to up the business from the b2c division significantly? So, could it form a significant part of our business going forward? Because probably the margins there are better, stickiness of the customers are better and with the distribution network, I think we can penetrate more. So, if you can just explain better those lines?

Abhiraj Choksey: Yes. Look, our strategy in the b2c business has been to focus on our strengths which is polymer. So, we are backward integrated and so a lot of the products for the b2c market that we are focusing on are the polymers that we manufacture and from that we understand we are outsourcing and so we have a basket of products. We are slowly building a distribution network. So, we are earlier we were only in Bombay. We moved it to Maharashtra. Now we are in four or five states. Within the four or five states, now we are working with more distributors to distribute our product. So, as of now we are growing organically and we have been growing at perhaps about 20% a year for the last two years barring the, you know, one year in COVID, one, one-and-a-half year in COVID, which was difficult. So, we plan to continue to grow that. As the total value of the business, it's still a very small percentage of overall Apcotex revenue. Over time, over 5, 10 years, you know, we expect it to play a more significant role in terms of profitability and then valuation at the right point because it's, you know, the business is a little different from the b2b business. So, building takes a while. Building the brand, building distribution network takes time.

Nirav Jimudia: Correct. But sir, can this business, whether the thought process within the company that could this business be scaled up to 300, 400 crores of size within the time limits what you mention upon or it's too ambitious?

Abhiraj Choksey: Unlikely. No, that is too ambitious. I don't think that will be 300, 400 crore in the next 3 to 4 years.

Nirav Jimudia: No, no, I am not talking about 3, 4 years. I am talking about the 5, 10 years of the time period what you mentioned where we can…

Abhiraj Choksey: Yes. I mean, frankly, we have, you know, we don't talk about it too much because it's an internal, it's a smaller business and for comparative proprietary reason we are not talking about the numbers of that business. I think any numbers or, you know, obviously we are in it because we think it will play a significant role to diversify the business. It's a good opportunity. We can be backward integrated. We understand the market and so we hope that it plays a significant role in the overall business either in terms of revenue or profit or EBITDA. That's the endeavour of course.

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

Aditya Khetan: Sir, my first question was, so what was the utilization level we clocked for nitrile latex in first quarter? And what is our target for the full fiscal year?

Abhiraj Choksey: So, for the first quarter, our utilization level was approximately 30%. Yes, 30% plus minus. Yes, somewhere around there. And obviously, every quarter or every month rather, we are looking to increase that and so we hope by the end of the fourth, by the fourth quarter, we would be at 70%, 80% capacity utilization for that quarter. The average for the fiscal may be only 40%, 50%, but I must say that in the first quarter itself we have exceeded both for nitrile latex as well as for our other products, you know, where we had built capacity, our SB latex and for paper, carpet, construction, textile and so on. So, we are quite happy and both plants are at about I think 30% or so. Sachin, correct me if I am wrong, but it's around 25% to 30%, right?

Sachin Karwa: Yes, 25%.

Aditya Khetan: And sir, we have taken also inventory losses into this quarter. So, the complete impact that has been taken away in terms of per kilo margins, so can we take a call that we are standing at the bottom or there is more room for inventory losses or things can go wrong and there could be further downside into the per kilo margin?

Abhiraj Choksey: Yes. So, I am glad you asked that question. So, there are two or three reasons, you know. I mean, exactly about a year ago, it was the other way around, you know, there was a lot of tailwind. There was because of the supply chain disruption, the issues with China, you know, freight rates were very high. So, as Apcotex is a company because 50% of our products are imported the competition only, we benefited from that. Now sort of and prices were going up still petrochemical and finished goods prices. Now we are in a so to speak this quarter at least where we have seen raw material prices crash and frankly, earlier, Q4 and Q3, we had a lot of stock that we had overbought, you know, raw materials at that time because of supply chain issues. In beginning of Q1, we had pretty much exhausted all of that and we had sort of normal levels of inventory, but the drop for some reason has been so sharp and so unexpected in the last quarter that even with regular stock we have had to bear with these inventory losses.

To answer your question, yes, it continues into Q2. It's little bit recent, but in the last week or 10 days I would say things have seemed to have bottomed out, but I think it's too early to say. We have to wait for another couple of weeks, but it was still dropping as of July. So, it's difficult to predict where. If you were to ask me, in my opinion, there is not much left to go below it. Really some of our petrochemical raw materials are at the lowest that I have seen in many years, you know, even some of them below COVID if you believe it or not when the first COVID wave hit. So, it's unbelievable.

Aditya Khetan: Sir, just one last question. Sir, considering our nitrile latex business, when it runs at full utilization level and since this product is majorly for catering the export market, so this mix of 30% of exports, how much this can shift at peak utilization when nitrile latex will run? Can this go to around 45%, 50% or for what combination?

Abhiraj Choksey: Yes. Over the next five years, you know, obviously we are going to grow the domestic market as well where we have high market share in all our products, but that will grow at some place. We are adding new products to the domestic market as well, but yes, we think, you know, with nitrile latex and some of the other products that we are pushing, you know, we are still pushing with some customers. There at the peak I think we had worked about 40% to 45% of our overall sales should come from export. That is four, five years later.

Moderator: Thank you. The next question is from the line of Bhavya Sonawala from Samaasa Capital. Please go ahead.

Bhavya Sonawala: Sir, basically, I mean, just looking at our customers and competitive commentary that, you know, Top Glove had closed 17 factories temporarily and Synthomer also had a kind of guidance that nothing will get any better in at least one or two quarter in terms of inventory pile up. So, how are we seeing the situation right now? What is our take on the current market? If you can just throw some light on it will be great.

Abhiraj Choksey: No, I mean, I think very similar. As of now at least for the next one or two quarters for nitrile latex, it doesn't look like margins are going to improve. However, as you can see some of the capacities that were added both at least the glove capacities, there is some shutdown happening. So, hopefully with, you know, again normalizing at some point, things should return.

I know from the way we are looking at it that our nitrile latex margins are well below pre-COVID levels, maybe one-fourth of pre-COVID levels. When I say margins, contribution margins at the gross margin level and obviously, like one-tenth of what they were during COVID levels, but let's assume that's negative and also compared to our other products, you know, they're much lower. So, at some point it has to correct. Supply demand will correct itself.

Unfortunately, we came in at a time, our plant, new plant came in at a time when the market is at the bottom. It has been for the last six, eight months or more and it's expected to be as you said from the commentary that some of our customers like Top Gloves and others have been given and some of our competitors as well, I don't think we have any different opinion.

So, our focus is though focus on since our capacity is quite small, you know, at 50,000 tons and we are already doing as I said about 30% in the first quarter of commissioning the plant which I think is a fantastic job that the team has done. So, we could hope to continue to improve that, focus on improving our capacity utilization or market share and at the time when it turned, you know, we will be there. We will be there in the market and there are a lot of opportunities not only in Southeast Asia and with some of the big customers but in South Asia and Sri Lanka, India, some opportunities have arisen with specialty products in the West, in Turkey, Europe. So, we are now focusing not only on Southeast Asia but other markets as well.

Bhavya Sonawala: So, just one more question that I had was is the medical glove market growing irrespective of what's happening on the inventory side? Is there any degrowth or it's growing at lenient level, if you can have any sense on that?

Abhiraj Choksey: So, the way to think about growth at least, I mean, I am ignoring 20, 21, 22, right, the calendar year 20, 21, 22 because that was a blip. All medical whether it was gloves or masks or everything else, you know, demand was through the roof. So, obviously compared to those numbers, you can't count growth, but if you look at 2019 and then try and draw a line, yes, absolutely, all, at least for gloves I can tell you that one is that, you know, the quality of health care and the awareness of personal protective equipment in Asia is really almost at the bottom. That only can go up. And in America and Europe, yes, it's a mature market. So, that's growing.

So, that’s what I am talking about gloves overall, but within gloves also, there is natural latex gloves and nitrile gloves. Now because of the availability issues, uncertainty of availability plus the protein allergies in the west, you know, issues around those things, the market is moving from natural latex gloves to nitrile latex gloves. It has been moving for the last many years, 7, 8, 10 years, but that continues to move. So, as a result of which nitrile latex gloves are growing at a faster clip than overall other PPE markets. So, we continue to remain bullish. All reports show that, you know, growth over a 10 year period for nitrile gloves worldwide.

Bhavya Sonawala: And will we stick to the 200 crore guidance from the new capacity?

Abhiraj Choksey: Sorry, what is that 200 crore number?

Bhavya Sonawala: No, I am saying, are we expected, I think, 200 crore from new capacities coming in this year…

Abhiraj Choksey: Revenue?

Bhavya Sonawala: In terms of... pardon?

Abhiraj Choksey: In terms of revenue you are talking about?

Bhavya Sonawala: Revenue, revenue, yes.

Abhiraj Choksey: Well, look, I don't want to give annual guidance. Yes, we have certain targets, but overall, we are looking at about 600 to 700 crore from the investments that have been made at 100% capacity utilization.

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

Aditya: So, if you could quantify the inventory loss for this quarter?

Abhiraj Choksey: Yes. I mean, I would say, I think we would have lost about almost or around 3% EBITDA because of the inventory losses this quarter.

Aditya: And sir, what was the Q-o-Q decline in the raw material prices for us?

Abhiraj Choksey: Good question. So, of course, as you know, we have multiple raw materials. I am just trying to find you those data, but for the quarter I would say between March and June, depending on the raw materials anywhere between 10% and 30%. So, one of our major ones was almost 30% across over the quarter and if you take 4 months including July, it's even more, you know, 18 and 40%, 45% or something like that. So, it's a big drop. It's one of the biggest drops you have ever seen in such a short period of time in a quarter. It has happened in the past as well, but it's very, very rare. So, while we have, you know, once we look at this regular stock gains and losses maybe plus minus 1% here or there, this has been obviously much steeper than what would be our sort of average or normal.

Aditya: Sir, any specific reason why we have seen such a sharp decrease because of crude has remained stable for the last one to two quarters? So, any particular reason?

Abhiraj Choksey: Absolutely. So, we were surprised as well. So, there are a couple of reasons. One is at least from March it was frankly for us also internally we didn't expect this kind of drop because we thought, you know, post-COVID the prices had already come down a little and stabilized for one or two quarters and then suddenly to see this happening after March, especially when crude was around the same, you know, it's been around $70, $80 for the last three, four months. So, one reason is China. They are saying China post-COVID, the kind of pull that was expected has not happened and as a result of which these commodities that we buy at least for our petrochemicals and I can't speak for every, but I heard a lot of them also. Because of China slowdown that was unexpected and therefore there has been a sharp drop and then, of course, that also has had an impact on the demand for these raw materials, so as a result of which sudden crash has happened.

Aditya: And sir, if you could just explain what is happening in the NBR market? So, are we seeing higher inputs from the players in South Korea?

Abhiraj Choksey: Yes. Look, we are seeing imports as well, but NBR, see, again, NBR, it's a little bit of a cyclical commodity market unlike our latex products which are not easy to store, not easy to transport. With NBR and NBR you can store anywhere. You know, it's a synthetic rubber. You can store it for six months, one year.

So, what we have seen is because raw material prices have come down, there is also destocking happening which typically doesn't happen in latex products but in rubber products that can happen. People don't want to say they run at very low inventory. So, there is a amount of destocking.

So, therefore, demand itself has been pretty poor in China, in India. When I say demand, I don't mean final consumption demand. I mean, selling or buying of the product right now for the last two, three months, but that's turning now in Q2.

We see it turning now going forward because it's kind of bottomed out and sometimes it's a, you know, prices are coming down. Demand reduces. Therefore, prices are coming down. That cycle continues for two, three months till it kind of bottoms out, you know. So, volumes and margins have been quite challenging for NBR in the last quarter for sure.

Aditya: And what is happening in the synthetic latex business excluding the nitrile latex for the domestic market because you mentioned that we have seen some weakness in the paper segment? So, if you could just elaborate what is happening over there?

Abhiraj Choksey: Look, I think weakness in the sense there has been not much this quarter, we have not grown in the paper segment. That's what we mean by demand. We have added capacity. A competitor has added capacity. So, there is a little bit of market share sort of grappling going on as a result of our margins and paper especially have been at a little lower, but I don't think the weak demand has not resulted in lower volume and whereas the other segments construction, carpet, textiles, we have seen growth in volume both domestic. So, that's the nuance, but yes, I mean there the business is going reasonably well. Besides the stock or inventory losses that we have had, there is no major issue.

Aditya: And just one last question. So, in the annual report, we have mentioned that we have completed a rebranding exercise to effectively communicate what Apcotex stands for. So, if you can just explain what is this rebranding exercise?

Abhiraj Choksey: So, couple of things we have done. So, you know, it's been seven years since we acquired Omnova, modified the logo a little bit. We have defined our values in our company. We have started social media marketing which we were not doing earlier and so please I would encourage all of you to follow us on LinkedIn as contact on the page and we are quite active now on LinkedIn which we weren't earlier. So, that's what we mean. So, rebranding and sort of social media campaign we have revamped our brochure and I encourage all of you to sort of support us and follow us.

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

Dhiraj: Sir, I wanted to know how our contract work with our customers, so is it like a monthly contract or a quarterly contract? Because whatever raw material price fall which we have seen, so are we going to benefit from that?

Abhiraj Choksey: No, on the contrary, we are not benefiting from it because we have two types of pricing. One is formula pricing, which is based on some published rate of raw materials. Sachin, what percentage, about 25% to 30% are on formula price customers from what I recall?

Sachin Karwa: Yes. 20. Yes. And that is the difference.

Abhiraj Choksey: Yes. So, around sort of monthly spot pricing. So, what typically happens is when, you know, there is weakness in the market and prices are falling, they are forced to correct our prices on the first of every month because that's the industry norm. Particularly on the first of every month, you know, all us and all our competitors issue a pricing list for the month, but we are still stuck with some amount of high cost material, you know, raw material and finished goods because we have to work with some kind of inventory. So, that's why the inventory losses come in and that's been the problem this quarter. So, it doesn't benefit us.

Where it benefits us is when things start going up and then we may have some stock gain going on. So, typically, as I said, look, stock gain and stock losses generally doesn't make a difference of more than 1% a quarter, but in this quarter itself, we have had a pretty large hit with up to about 3% because the drop has been very sharp and constant over a period of three months. Sometimes we see a drop for one month and then, you know, flattening out or rising also in the third month between March and June.

Dhiraj: So, whatever, you know, drop in the price is what we have seen that we have to compulsory pass on to the customer.

Abhiraj Choksey: Absolutely.

Dhiraj: And sir, lastly on the CapEx part. So, now whatever CapEx we have done till date, so what will drive the next stack of growth in the company, sir?

Abhiraj Choksey: So, as of now we have just completed a CapEx of 100 crore over the last year or two. So, we are more in the consolidation phase and what we have is enough for the next couple of years. So, we are just consolidating right now watching our cash flows, debt levels. In the meanwhile we have completed the detailed engineering and budgeting for expanding our NBR business where we are trying to double detailed engineering, but we were trying to see now we are working at sort of advanced stages to see how we can reduce the CapEx cost and investment cost. At the same time, you know, there is enough work going on in terms of selling this additional capacity that we have just invested in.

So, one area of growth is the NBR business. The second area of growth is that as and when the nitrile latex market turns in terms of margins, you know, at a minimal investment we can further expand volumes by about 60%. So, that's another area. And the third area is, of course, growing with the current sets of businesses and we can always invest again in our, you know, expanding our current set of businesses. And the fourth is we are looking at new products, new opportunities which are very different from our current sets of products. So, at the right time as and when we have something concrete .

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

Aditya Khetan: Sir, my question was, sir, this 30% utilization figure which we had given for this first quarter, this is on a capacity of 85,000, right?

Abhiraj Choksey: This is on an annual capacity, yes. So, the quarterly capacity is one-fourth that. So, let's say about 21,000 and then 30% of that. Yes.

Aditya Khetan: So, despite we have started one of the big project of nitrile latex, our employee cost on quarter-on-quarter basis has declined by 4%. There should be a rise in employee cost considering we have started taking the volumes and numbers into our financials. So, why that has declined?

Abhiraj Choksey: I think one reason, I mean, Sachin perhaps can answer this better, but one reason is include over our last year, you know, a lot of our bonuses and variable pay was sort of included in that. I would have to go back and check. Other than that, I don't see any reason for decline and don't forget we had already recruited all these people obviously before the plant started. So, the only thing I can think of is a variable pay component which generally hits the March quarter which it doesn't hit the Q1 quarter. Sachin, anything else I am missing why it would decline?

Sachin Karwa: No, no, perfect. I think that's the reason.

Abhiraj Choksey: Yes.

Aditya Khetan: Sir, you might have recruited them early, but you will account for the numbers when you have started accounting for the volumes, right?

Abhiraj Choksey: What do you mean account for the numbers because how can, because they have already joined us. So, they were part of the employee cost anyway. Yes. And some of them at that point were working. Because the plant had not started. They were working in other current plant, those kinds of things. I mean, it's been going on for the previous 6, 8 months. So, they were part of the employee cost. I mean, that's the only thing I can think of. Sometimes we also have some provisions made that are written back or something, but that might be minor. I don't think, but it's not a big issue. Yes.

Aditya Khetan: So, currently, sir, what the issue with the chemical industry what they are facing is the weakness in demand into US and Europe? So, out of our total exports, sir, how much will US and Europe will contribute to the total export sales? And what is the outlook currently like what you are experiencing?

Abhiraj Choksey: Sachin, would you have it? But my sense is not more than 10%, 15% is Europe and US for us and that's why as you can see, we have seen a 22% volume growth overall. Our exports have in fact grown by 110%. Frankly, we have not seen any, but you are right. You are right. US and especially Europe, I would say, more than the US, Europe has definitely seen a tough few months in terms of volume demand and that's what I hear for other companies, but ours is not significant amount. It's I think less than 10%. Sachin, do you have the number with you ready or?

Sachin Karwa: I need to check, but yes, it is in the range of 5% to 10%.

Abhiraj Choksey: Yes. That's what I would venture against, Aditya.

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

Ankit Kanodia: I just wanted to know what is the percentage of our revenue from NBR today. Roughly. Not exact.

Abhiraj Choksey: I mean, look, I don't have today meeting is for the quarter. We don't get quarterly numbers. So, I can tell you broadly. Obviously, this quarter there has been a change come from not NBR, from other latexes, nitrile latex and other SB latex for carpet, construction and so on. But I would say about probably around 30%. I don't, plus minus couple of percent. It is not the exact number.

Ankit Kanodia: In the last year same quarter, we were at the same level, 30% to 35%. So, I was expecting it to come down.

Abhiraj Choksey: Yes. So, it maybe 35% last year, 30% now. It is not the exact number.

Ankit Kanodia: No problem. So, given the growth we are seeing in the other segment, how do we see our product mix going forward say in the next couple of quarter or maybe three, four quarters down the line, if you can give some rough image?

Abhiraj Choksey: Yes. The last chunk of the growth is going to come from the latex products, nitrile latex and latex and styrene butadiene latex, styrene acrylic latexes and so on. Growth is going to come from there, but even NBR we are expecting a growth because we have done some debottlenecking recently, which I had not announced earlier, but to the extent of another 15%, 20%, we should be able to. We are working on the exact numbers because we were able to free up a lot of the capacity since nitrile latex now has moved into its own new plant. So, at both sides we have some extra capacity for the other products. So, we are working out those exact numbers, but a large chunk of the growth will come from the latex products and minor from NBR.

Ankit Kanodia: And related to NBR as in do we see any dumping risk, anything now?

Abhiraj Choksey: Sorry, can you repeat?

Ankit Kanodia: Do we see any dumping risk here in India which we faced in 2019?

Abhiraj Choksey: Yes, absolutely, absolutely. That risk is always there because it's, you know, as I said it's store product. China is really the main consumer of NBR. Anytime we see China demand slowing down, we see dumping. Dumping meaning much lower margins and when I define dumping, it's much lower prices or margins than the average that you would see over a period of five, seven years and it happens from various countries, you know, from mainly Korea, Russia. Those are the two. Sometimes China, but we don't…

Ankit Kanodia: Last question is related to asset and I find it very difficult to foresee what kind of asset turn we may have in FY '24 and maybe FY '25. Can you give some broad guidance? Maybe not exact number, but from broad guidance because on FY '22 was six times and then it has fallen 50% from there in FY '23. So, any guidance?

Abhiraj Choksey: Yes, but look, anytime you commission a new project, from a balance sheet perspective and in our case, you know, we had financial for many years. So, till FY '22, all our assets were pretty much written down or lower and suddenly you have this large chunk of 200, 250 crores coming in in one year as a result of which and the volume hasn't picked up that much and therefore asset turn is lower in that one shot. Same thing happens with ROCE, for example, ROCE numbers. So, when you look at asset turn numbers and ROCE numbers of our company or any other company where there is a sudden loss made in one year, you will see that the following one- or two-years numbers like asset turn and ROCE will be lower and then over a period of four, five years, three to four years, it will go back to the original level. So, yes, I don't have guidance for this year.

Ankit Kanodia: But I mean, on a longer term perspective, you expect it to go towards five to six times.

Abhiraj Choksey: Five times. Yes, absolutely. Now six times may have also been, you know, towards the end of our or that's at the end of our, not end of the CapEx. How do I put it? Just before the start of our CapEx cycle it was. So, a lot of our assets were anyway depreciated to a large extent. We did not have major investments in the last four or five years. So, sticks also may have been too high, but yes, at least five, four to five we expect it to go back to.

Ankit Kanodia: One last question regarding EBITDA per ton. I know that you don't disclose the exact number, but directionally, if you can just let us know where we were one year from now where we are today and directionally, how do we see going forward?

Abhiraj Choksey: Yes, it's much lower. It's much lower for again three or four reasons are given, but I will repeat them again. One is the inventory losses for this quarter. The second is overall margin in NBR, especially NBR have been very low. Number three, the growth that has come from nitrile latex is gone and number four, the tailwinds that we had one year ago are gone now. They are not there. They haven't been there in Q3 and Q4 of last year as well, but Q1 and Q2 we had them. As I said, the freight advantage that we had for our competitors' products that were imported. So, as a result of which EBITDA per ton is probably, you know, maybe half of it's similar. You know, our EBITDA has fallen by 45% EBITDA percentage. So, EBITDA per ton would have also fallen by around the similar numbers.

Moderator: Thank you. The next question is from the line of Tej Kumar Pandya from Ganesh Stocks. Please go ahead.

Tej Kumar Pandya: First thing is I am thoroughly disappointed. The finance cost and your depreciation and amortization cost from the last quarter has increased tremendously. Finance costs has gone up from 58 lakhs to 363 lakhs and the amortization has gone up from 468 lakhs to 738 lakhs. Why so much of depreciation, increase in depreciation and finance cost?

Abhiraj Choksey: Mr. Pandya, in fact, I don't know if you were in a Con Call, the last con call that we had where I had mentioned that please expect higher depreciation in finance costs going forward. Simple reason is that we have commissioned two projects worth about more than 200 crores in the month of March or around Feb, March in Q4 of last year and therefore, the depreciation of those projects and the loan that was taken to partly finance those projects, all those start hitting the P&L from Q1 of this year. So, you can expect depreciation and interest going forward for the next few years, next few quarters to be at these levels. Of course, as we repay the loan from next year, interest amount will come down, but depreciation will be high for a few quarters.

Tej Kumar Pandya: But this should help you in increasing your turnover from 1,000 crore a year to something about 1,500 crore. Is that a fair guess?

Abhiraj Choksey: Absolutely, but our turnover as I explained to one of the previous callers, that our volumes have gone up by 22%, but as a result of the decline in raw material prices, overall our realizations have come down by 30%. Therefore, it looks like our turnover has come down by 9%, which is true, but please don't look at our turnover only in terms, you know, that will correct depending on our raw material prices and business that we are in where there is a huge volatility and turnover.

Tej Kumar Pandya: Thank you so much, but I hope that turnover and top Line and bottom line will increase and help your shareholders will gain from it, from all your…

Abhiraj Choksey: Yes. Our endeavor is always to increase our bottom line. Top line will depend on what's happening with the raw material prices and oil prices, but…

Tej Kumar Pandya: Bottom line is more important. Bottom line is more important so that based on that we get our dividend.

Abhiraj Choksey: Absolutely, Mr. Pandya.

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

Aditya: So, in March quarter, we had a revenue of 255 crore, which was coming from our old facility. So, considering average 15% realization, we would have done 220 crore from old facility. So, would that mean we would have done around 55 to 60 crores coming from our new facility? Would that be a current understanding?

Abhiraj Choksey: Sorry, but I don't have the Q4 versus Q1 numbers with me right now, but yes, it will be very similar, Aditya, because from what I recall, our volumes across the last are pretty much flat because we were running at 100% capacity utilization for all of last year, so between Q1 and Q4 of FY '23. Now in Q1 of FY '24, we have gone up by 22% volume terms compared to Q1 of last year, corresponding quarter of last year. Sachin, would you have this number with you? What's our percentage growth compared to Q4? But I mean, I would assume it's about the same. Maybe a little higher or 24%, 25%. What's the increase in terms of volume compared to Q4?

Sachin Karwa: It's in the same range.

Abhiraj Choksey: Same range. Yes. That's what I thought.

Sachin Karwa: Yes. It's in the same range.

Aditya: So, what I was trying to get at was the revenue from our new facility is around 55 to 60 crore in this quarter.

Abhiraj Choksey: Let's talk in percentage. As we said, it's about the same. I don't have the numbers in front of me and sorry about that. But I know it's 22%, 20%, 25% growth in volumes.

Aditya: And sir, the new facility in Taloja where our capacity was 30,000, we could have expanded that capacity, but we are waiting for some environmental clearance. So, have we received the same? Our Taloja facility, our capacity was 30,000 metric ton for the nitrile latex, but we converted it to synthetic latex, but we could have expanded that capacity by I think around 20,000 to 25,000 tons, but we are waiting for some environmental clearance for the same.

Abhiraj Choksey: No, no, no, so it was about 10,000. Initially when we invested, it was 10,000 tons of nitrile latex. Then when we realized latex market was going to be challenging for a few quarters and the demand for our current product really took off by surprise, especially export. Therefore, we converted that facility while we were investing in the project last year to also manufacture our current products of styrene butadiene latex, styrene acrylic latex and our capacity of about 35,000 ton. So, 10,000 became 35,000 ton and you were right. We had permission to make up to 10,000 ton, which is what we have done in Q1. Now we expect the final to go above 10,000 tons. We expect that to happen in the next couple of months. So, we have been running that at about 10,000 tons full capacity, which is about 25% to 30% capacity utilization, which is what we mentioned in the earlier too. Is that clear?

Moderator: Thank you. The next question is from the line of Atman Shah, an individual investor. Please go ahead.

Atman Shah: My question is related to investments of shares which you have in your portfolio. Now isn't it the right time to really keep selling everything with the market also at its all-time high and we can use the money to reduce the debt or use it for more strategic purpose? So, my question was related to the investments of shares which we have in your portfolio, in the balance sheet. Now with the stock market also at its all-time high and isn't it a good time to maybe gradually reduce the portfolio and use the money for your next leg of expansion as well as use it to reduce the debt?

Abhiraj Choksey: Yes. Look, we debate this very often as well. There are a couple of ways to look at it. So, way we have looked at it is number one, we don't find the market. I mean, we never know. So, our treasury is something that we keep on the side and invested about 70%, 75% is equity and about 25% to 30% is debt depending on, you know, obviously, recently, there's been a run up.

So, equity percentage has gone up. So, we will keep making those tweaks in terms of debt equity ratio for our treasury, but we have specifically taken a call to keep some amount interest. Today, the value of our treasury is 100 crore against the term loan that we have of about 125. We can immediately make the term loan close to zero and use the entire treasury.

But what we have found in the past is, you know, having some amount of treasury fund is important because there are times when, you know, even let's say if you want to expand immediately into some other area, banks will fund us only to a certain percentage. Some of the others had from our internal accruals and our savings and so for that reason or sometimes with there is an acquisition opportunity where you really have to put the money down on the table immediately. So, as a result of which, 100 crore in our current context of the company's total market capitalization, total revenue is we feel a fair amount. At the right time, if we feel the treasury amount is much more than we would need, then we will tweak it. And we did in the last few quarters, some of the treasury for some of our CapEx investments, but largely, we want to keep that strategically and since we are long-term investors, we are not touching it. We try and maintain this ratio of about, you know, 70-30 equity and debt.

Atman Shah: That's been the philosophy.

Abhiraj Choksey: And we don't time the market. We don't try and get in when the…

Atman Shah: No, my question was not about, more about timing. I am saying like now that you have done this CapEx.

Abhiraj Choksey: I am sorry to interrupt. Markets are looking good. Why don't you come out of it? This is timing, right?

Atman Shah: No, not that way. Now that you have like you have a major CapEx done and you have debt also and you spoke about next leg of expansion also, right, three or four areas, so that money not invested in the shares and just keep it liquid, of course, repay a little bit debt will be more strategic and will be more helpful, right?

Abhiraj Choksey: There are different views. As I said, that's been our philosophy, but yes, at the right time as and when required, we will do that. Absolutely. If we require it, if we decide to go ahead with expansion or if there is an acquisition opportunity, we will use this cash immediately for it. And I have also given an example. I don't know if you were there in my previous Con Calls. One of the reasons why we, seven years ago when we acquired this plant or this company, one of the reasons was the company that was selling wanted to see if we had cash in hand. And we said we did and we literally closed the deal in two weeks because of that opportunity and some of the other people who are eyeing that business could not because of that reason. So, there are strategic advantages which are hard to quantify in a year-on-year basis, but if you look at a long-term basis now that investment has given us, you know, multiples of return. And we could only do that because we had the treasury at that time.

Moderator: Thank you. The next question is from the line of Nirav Jimudia from Anvil. Please go ahead.

Nirav Jimudia: Sir, just wanted understand like you mentioned that exports from 31% of our total sales in 1Q, if you can disclose the volume terms, like in terms of volumes, how it was? So, the break up in terms of our domestic volumes as well as the export volumes in Q1.

Abhiraj Choksey: So, domestic and export volume, so export volumes overall, so we don't give volume numbers as I have said many times. Yes. So, export volumes have grown by 110%. I think mentioned that in his opening remarks as well.

Nirav Jimudia: That's fine. That I understand, but in terms of our overall mix, so let's say if we have sold 100 tons in Q1, which forms 278 crore of sales, how was the volume break up in terms of the export as well as the domestic? So, was export 20%, 22% in terms of the overall volumes which contributed 31% of the…?

Abhiraj Choksey: So, we have given 21% as a, 31% is in value terms. You want it in volume terms what is the… got it.

Nirav Jimudia: What is it in terms of volume terms, percentage of revenue?

Abhiraj Choksey: Or percentage of total volume. Sorry, not percentage of revenue. I can tell you actually. Hang on. It's about one second. Sachin, you have that number? But I think it's about 35 million. Is it?

Sachin Karwa: Yes.

Abhiraj Choksey: Yes. In volume terms, it's a little higher. 34%, 35%.

Nirav Jimudia: And if you can share for FY '23 as a whole, that would be very helpful, sir.

Abhiraj Choksey: You are asking difficult questions. I have all these numbers. FY '23 would have been about 23. I mean, I think from what I recall, value terms, it was about 20%, 21%. The volume terms would have been 2%, 3%, 4% higher, 2%, 3% higher, 24, 25. Again, I am mentioning a guess, but this is what I get. Do you have the numbers, Sachin?

Nirav Jimudia: Just a rough figure.

Abhiraj Choksey: Yes. It's a rough figure because the volume is a little bit higher than the value. Let's put it that way generally, because of the product mix.

Nirav Jimudia: Why I ask is, let's say, if our volumes also are going in the export market with some higher realizations, that would probably take us our overall sales to 40%, 45% at that point of time because then realizations depends upon our raw material prices also. So, it's better to track volumes rather than percentage sales at that point of time.

Abhiraj Choksey: Sure.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for any closing remarks.

Abhiraj Choksey: Thank you everyone for joining the Q1 conference call of Apcotex Industries Limited. We look forward to again seeing you in Q2. Just to summarize, I want to mention, it's been a difficult quarter for us on two, three front. Raw material price falling sharply resulting in inventory losses, margins in some of our products also falling sharply irrespective of the raw material prices coming down, in general, it's been difficult, especially in NBR and to some extent in the paper industry as well where we supply our binders or polymers there. In the long term, we continue to walk on the charted plan and our target. The silver lining is, of course, the 22% growth in volume. So, we are focusing on volumes and market share and increasing our geographic breadth and depth with each customer and we look forward to seeing you again in Q2 now. Thank you.

Moderator: Thank you very much. On behalf of Apcotex Industries Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.