Apcotex Industries Limited
Q2 FY24 Earnings Conference Call
October 27, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Apcotex Industries Limited, September 2023 Results discussion Conference Call. 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 call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now 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 second quarter of the financial year 2024.

Before we begin, a quick cautionary statement. Some of the statements made in today's concall 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 and 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. Good afternoon everyone and welcome to our earning call for the second quarter and first half of financial year 2024. I hope you had an opportunity to review the financial statement and earning presentation which have been circulated and uploaded on the website and the Stock Exchange. First, let me brief you on the financial performance for the second quarter of the financial year 2024. For Q2 FY24 the revenue from operations stood at INR 279 crore which witnessed a slight decline of around 1.4% on year-on-year basis and increased marginally by 0.5% on quarter-on-quarter basis. EBITDA for the quarter was INR 32 crore, which declined by about 30% on your year-on-year basis and increased by about 24% on quarter-on-quarter basis. The EBITDA margin stood at around 11.3% and net profit margin stood at INR 15 crore which declined by about 50% on year-on-year basis and increased by about 26% on quarter-on-quarter basis with PAT margins stood at 5.4%.

In Q2 FY24 we witnessed highest ever quarterly volume and export volume growth of 35% and 114% year-on-year basis respectively. Revenue growth was flat, even though volume increased. With a sharp fall in the raw material prices and lower realization of finished goods. EBITDA margins were affected with the lower margins in NBR, XNB and paper due to pressure on demand. There is no significant inventory loss or gain in this quarter. Furthermore, PAT margins declined due to the increase in depreciation and interest costs, due to new expansion project.

If you take the first half of financial year 2024, the revenue from operation decreased by 5.5% year-on-year to INR 557 crore. EBITDA was INR 57.1 crore which de-grew by 39% as compared to INR 93.7 crore during the first half of last year. EBITDA margin stood at 10.25% while PAT margin is INR 27.4 crore. In H1 FY24 we witnessed volume and export volume growth of 38% and 120% year-on-year growth respectively. Revenue decreased by 5.5% compared to volume increase of 35%. This was due to sharp fall in raw material prices and low realization of finished goods. Capacity utilization from new project stood at 25% to 30% approximately.

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

Moderator: Thank you so much sir. We will now begin the question-and-answer session. The first question is from the line of Mr. Aditya from Securities Investment Management Co. Please go ahead.

Aditya: So, in the last quarter concall you had mentioned that you were expecting some inventory losses in the current quarter as well. But in our presentation, we have mentioned that there were no inventory losses. So if you could just explain what happened, did the prices spike up in this quarter leading to some inventory gains?

Abhiraj Choksey: Yes, exactly. When we met in July, if the prices were still going down, so if you are looking at month-on-month, July, we had sort of some inventory losses, but then August and September sort of things corrected. So whatever the losses were there, they were pretty much made up. So therefore, as mentioned by Sachin in the opening remarks, there was no significant gains or losses this quarter.

Aditya: Got it sir. Sir and now if I have to understand our raw material prices. So are the prices now at pre-COVID levels or are they still below average levels. And how do you see them going forward?

Abhiraj Choksey: Very hard to predict as far as material prices, they are probably around pre-COVID levels, I have not checked exactly. Recently, and as I said, we have four or five key raw materials so I'll have to check for each of them. Going forward have to say frankly, there's just so much uncertainty. So we don't really are not in the business of predicting what happens, we try and estimate short term what's going to happen in the next month or two and then accordingly build some inventory strategy but, we have to have certain inventories, a lot of them are imported so you have to have a couple of months, one or two months of inventories to cater to our customers. So it's very difficult to predict is a short answer, I guess.

Aditya: Got it sir. No, so what I was trying to understand was, if we have to look at our raw material basket so, are they still at below pre-COVID levels where there is lesser chances of reducing further, on they are back to average levels?

Abhiraj Choksey: Sachin do you have this data pre-COVID or maybe can we dig it up quickly to answer the question maybe at the end of the call if you don't have it. And if we can't do it quickly, then I request Aditya to send a quick email to us and we will reply to you.

Aditya: Sure, sir.

Abhiraj Choksey: Sorry, I don't have the data from pre-COVID levels for raw materials.

Aditya: Got it. Sir my next question was regarding our end product prices so are we having to, are we reducing our prices to sell our products due to insufficient demand with the markets, so the reason I'm asking this question is because Top Gloves in your presentation, they expect the latex prices to drop further due to lower demand. So are we seeing a similar situation for our other products as well?

Abhiraj Choksey: No, not for other products and even the nitrile latex products, I don't know if the prices will drop any further, it's all related to raw materials, beyond a point or other manufacturers of nitrile latex for gloves, it's as it is at a level where we are pretty much as low as we can get because we are kind of EBITDA breakeven on that product so far, I don't think we can afford to reduce it any further. And I don't think anybody else can either. So, I don't think the prices will reduce but certainly it's a most challenging market in terms of margin right now. For other products as I said we are by and large passing along increases or decreases to our customers. Obviously, there has been a little bit of challenge not so much on demand so far, but more on supply because we have added capacity for example our other latex, the multipurpose latex plant that we have set up, so we have added capacity, our competitor has added capacity in the last year. So obviously there is a little bit of market share and everyone wants to maintain and grow their market share. So, the supply is the issue not so much the demand so far.

Aditya: Got it sir. And sir now what would be the current domestic and export mix for first half?

Abhiraj Choksey: Sachin what is it, It's about 70:30 right, 70 domestic 30?

Sachin Karwa: Yes.

Abhiraj Choksey: 30% export.

Aditya: This is in volume terms right?

Abhiraj Choksey: In volume terms and value, volume and value right Sachin.

Sachin Karwa: Yes, volume and value.

Aditya: Okay. And sir what will be the end user industry mix for the first half just a rough range?

Abhiraj Choksey: Sachin do we have this data?

Sachin Karwa: Sorry, just missed the question.

Aditya: End user industry mix.

Sachin Karwa: End user industry mix, so basically exports have gone to more, to the CAPEX, XNB, gloves constructions…

Abhiraj Choksey: Let me just try and find first half data, we'll have to come back to you on this but by and large latex is probably around 55% now, (+55%) overall revenue and rubber would be 45%, high styrene rubber, nitrile rubber, nitrile polyblend, within that 55% I do not have the percentages, but again, paper, paperboard would be the largest, construction would be second, followed by carpet and then nitrile latex and then tyre cord and so on. So, we will get back to you on the percentages as well. But, if I were to venture a guess, it will be about 15% to 20% paperboard, about 15% construction, 10% carpet, 10% XNB latex and a few others.

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

Aditya Khetan: Sir, if you can highlight what is the sequential volume growth for our company in this quarter?

Abhiraj Choksey: Sachin can you answer this please?

Sachin Karwa: Yes. So volume growth compared to Q1, we are at around 5%.

Aditya Khetan: And sir this would be largely from the nitrile latex business only?

Sachin Karwa: No, it's across the board the 5%, overall.

Aditya Khetan: It's overall.

Sachin Karwa: It's not that nitrile latex has grown too disproportionately.

Aditya Khetan: Okay. But sir what I believe so, other businesses whether it is NBR, or HSR they are nearly operating at peak levels or peak utilization levels. So the only room where we have added the capacity so then it will be like there were some room for volume improvement?

Abhiraj Choksey: No, we did grow in NBR as well, we had automatically some capacity of NBR was freed up because we were making nitrile latex in the NBR product line. You're right HSR has not grown. But that's a small, that's only about 10% to 15% of our business. The rest of it is all grown NBR is also grown. Our volumes for SB latex and Styrene, Acrylics have grown and nitrile latex has grown Q-on-Q as well.

Aditya Khetan: Okay. And sir if it is possible so for full year FY24 and 25 and 26 what would be our full year volume guidance growth for the next three years?

Abhiraj Choksey: As per policy we don't give volume guidance. But obviously our intention would be to utilize the plant capacities within the three years so you can calculate that yourself the plant capacities and so on are our public information.

Aditya Khetan: Okay. Sir globally into the nitrile latex front, how is the export demand right now shaping up, we believe sir we were stating earlier six months back that demand would start to pick up from second half. So we are nearly standing at that level. So, how you see that, we can see a jump into demand and consequently ramp up in utilization, or still there is time of around three to six months considering demand is not picking up globally?

Abhiraj Choksey: Frankly, for us for this 50,000 tonne plan demand is not so much of an issue its margins that is issue as I mentioned earlier EBITDA margins are not great at all, in fact close to break even. And so therefore, we don't for us doing the volume is not the issue, it's the margin that's the issue and yes as of now the margins have not improved either because of the supply, demand mismatch is excess supply and less demand. So that's the issue.

Aditya Khetan: Okay. So sir this could be resolved by the second half and we can like operate at much higher level so we can actually see breakeven and also make some profits from this business?

Abhiraj Choksey: We hope so, at some point that will turn. We don't know when that is, there are lots of reports available for large companies online and lots of predictions from six months, two years, we've heard several numbers, difficult to predict frankly. As of today we are not seeing any significant improvement.

Aditya Khetan: Okay. Sir, is there any new product which we are planning to develop, like this product of nitrile latex, developed in-house. So, is there any other plan of new products which are being so developing right now and which could like come out in the market in the next one year and that would like give a very good boost to our turnover, is there anything something going into the R&D part which can fructify into sales?

Abhiraj Choksey: Yes, absolutely. Look within the SBR latex product range, we are developing new products for new applications. So that we can utilize, that would help with quicker utilization of our capacity in Taloja. There are other products that are in the works, but that would require investment, as of now given the current balance sheet we have not taken any decision of investing any larger amount for new plants as of right now.

Aditya Khetan: So, what would be the CAPEX plan for the next two to three years?

Abhiraj Choksey: Sorry?

Aditya Khetan: So what would be the CAPEX figure for the next three years then?

Abhiraj Choksey: As of now, it's only maintenance CAPEX that we're looking at. So, we have not made any decision on future major CAPEX plans. One thing that is on the cards is of course, the NBR second line, which we plan to add about 15,000 tonnes capacity. Everything is ready on paper, including the designing of the plant and so on, but we are holding off on that investment as of now, given the overall uncertainty in the world and also want to manage a balance sheet. So, as of now no decision is taken for future major CAPEX.

Aditya Khetan: But for NBR I believe almost so, 30% output goes to automotive and also like to some of the construction segments. So, globally the demand is not that bad into these segments. So what is still like holding up on taking the call on NBR?

Abhiraj Choksey: It's the margins which have been going up and down and also, we are waiting and watching to see what happens a little bit in auto segment with EVs coming in. So, that is the one uncertainty because NBR goes into traditional ICE cars. So, that would be one issue, but sort of major issue I would say, we are still quite bullish on the Indian market, which is 30% in auto remaining is of course in various other applications like rice roll applications, hoses and so on, industrial application which we expect to grow in the long term. The question is obviously, our internal balance sheet also that we want to ensure that we are comfortable with taking that kind of investment of about 200 crores which is what our team has worked out now.

Aditya Khetan: So sir this NBR doesn't goes into EV?

Abhiraj Choksey: Much less quantity.

Aditya Khetan: Okay, so considering over the next four, five years so the world is transitioning towards EV only so you think that NBR output also can decline drastically the demands in Indian?

Abhiraj Choksey: Look, I don't think it's going to be overnight because of course EVs are coming but hybrid cars require NBR also. So it just depends how fast the next 10 years at least in India, which is our primary market for NBR. We see overall it should increase but as I said, we are waiting and watching for a couple of months more before taking any final call.

Aditya Khetan: Got it. Sir just one last question sir, we had made an investment of 200 crores into the nitrile latex. So we are holding on to our guidance of 600 crore top line?

Sachin Karwa: Say again?

Aditya Khetan: Sir the 200 crore capital expenditure so 600 crore top line so we are holding on to our guidance?

Sachin Karwa: Yes, absolutely that's true we have made a 200 odd crore investment in two plants both put together nitrile latex as well as the multipurpose latex plant in Taloja. Those put together is a little over 200 crores and that we expect to add about 700 crores to our top line and the capacities are fully utilized.

Aditya Khetan: And sir what would be the EBITDA margins on to this, 600, 700 crore?

Sachin Karwa: On the normal circumstances, as we had predicted the EBITDA margins would be similar to what we had earlier a little bit better, our overall company EBITDA margins would even go up a little bit. But given what's happening with the nitrile latex market as of today, it's pulling down our overall EBITDA.

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

Bhavya Sonawala: Sir just a couple of questions. The first question was with respect to the export market, where we've seen great volume growth. Just wanted to understand the volume growth has it coming across the board or any particular region that we're seeing some good growth coming and that can continue?

Abhiraj Choksey: Look, one is of course with nitrile latex coming in it's largely exports to Southeast Asia. So obviously, that has helped with export volumes. But other than that carpet and construction, emulsions have also been very strong for us in the last six months. Overall, we have seen more than 100% growth across overall in exports. I don't have the breakup of exact increase over each section, but these are the three largely that are leading the exports.

Sachin Karwa: Yes, these are the large product segments.

Bhavya Sonawala: Okay, but going forward any particular region that you think you're excited about where you can see some considerable growth coming up?

Abhiraj Choksey: So, we continue to focus on our regions of Southeast Asia, Middle East we have seen good traction in Africa. We have also seen good traction in Russia, and the Middle East region Egypt, or Middle East North Africa is Egypt, and Turkey as well. So these are some of the other markets and customers that we have developed over the last six months.

Bhavya Sonawala: Okay, understood. Just one more question very similar to the previous participant in terms of new products, just trying to understand in terms of the whole industry worldwide. Have you seen any newer innovations coming up that you think that make sense for us to venture into, you spoke about something that might require some investment, but I'm just trying to understand the industry. Have there been some new products that is exciting that you think we can be a part of going forward?

Abhiraj Choksey: Yes for example, there are a few that we are in the middle of developing, we don't exactly know how much it will pan out and what it is, but we are definitely developing a few products on the SBR side, because they would need a water based emulsion. So there are a lot more environmentally friendly than solvent based emulsion. So for example, one of the products is for, EV batteries that we are developing. We don't know how much volume eventually will turn out. So we're working with some battery companies that are putting up capacity here in India and jointly developing some products. So, for sure there are examples like that. One example that we've been successful in again converting solvent based products emulsion is geotextiles, that we have mentioned that in one of our previous concalls. And so that's something we're looking at growing because our products provide extra reinforcement for geotextiles which is used in infrastructure. So again, these are new applications obviously, the recipes and some of the things change but the basic chemistry remains the same. So that's what we're looking at a few other products along those lines, and these will not require a significant investment. So that's one part of the products that R&D is working on. And then R&D team is also working on. Additional, more value-added products is what we're looking at where there is fewer competition around the globe, no one manufacturing in India. And it's something that is an adjacency to us, specs similar to nitrile latex that we felt was a good adjacency for our business. So similar to that, we are looking at a few other products but that will require investment. And no decision has been taken at the right time when that does happen we will of course inform you.

Bhavya Sonawala: Understood, that was helpful. Just one last question from my side is.

Abhiraj Choksey: I suggest that Mr. Sonawala finishes because it's his last question let him finish and then we'll move on.

Bhavya Sonawala: So basically just on ApcoBuild, I understand that we have just started out with our new capacities and lot of investment has gone in and the situation is also not favorable. But, do you think that you will be doing more in terms of ApcoBuild going forward, would we be more aggressive in terms of trying to build a dealer network or improving our reach. Making this a larger portion?

Abhiraj Choksey: I don't know why you think, we have frankly have not invested a lot of money in ApcoBuild. We have been growing it over the last few years, slowly it's a small part of our business, but it's been growing at somewhere between 18% to 30% year-on-year depending on the year. So we are actively growing it in terms of distribution network, number of people on the ground, and teams becoming larger, we are hiring more people, we are hiring, we are spending more on branding. So that is definitely happening absolutely. And that doesn't require any capital investments, because we're using our current plans to do the same. And for some products to finish the product range we are outsourcing some as well, for some product.

Bhavya Sonawala: Okay. Thank you so much, that was really helpful. Just a suggestion if you can just put ApcoBuild something, some details of this in the presentation. So, it just makes it easy for us. Thank you so much.

Moderator: Thank you. The next question is from the line of Saurabh Shroff from QRC Investment Advisors LLP. Please go ahead.

Saurabh Shroff: Abhiraj a couple of questions. One is given that we have this new project, this is a question and a suggestion if you could, the NBR and the multipurpose latex if you could maybe just qualitatively help us understand how the margin stack up, let's say for our legacy old business versus the new one, you did mention that the NB is barely breaking even. But, something in terms of the volume or capital utilization levels, just so that we get a sense for what the underlying business is doing right, because what is happening to the glove market is outside of your control, but at least from our end, how the business is shaping up that would help, if there is something that you could share with us?

Abhiraj Choksey: I'm not sure if I've understood the question correctly, but I'll try and answer and see if that answers your question. So obviously, the nitrile latex, we've been in this business for the last few years, we've been using our current plant capacities that now we've obviously given back to NBR, and our traditional SB latex and other Styrene Acrylic and those products. So obviously the new plant, its a new technology, it's a new way of manufacturing. So the approval process is going on. Obviously, given the current market, the approval process is taking a longer time because then we anticipated, because there's really no pull from the market because of the excess supply. However, due to our relationship we are pushing that along. Overall, I would say we're at about 25%, 30% capacity utilization in the first six months. Unfortunately, the EBITDA margins are what they are, that's the problem. Other than that, we just have to, we will continue to push to get to a 100% capacity utilization level, as soon as possible it is going to take a few more quarters, we were hoping by the end of the year, but I'm not sure whether that would happen. And as far as the other multipurpose latex plant, that's also at almost 1/3 capacity utilization and so, we're quite happy with the progress there. We had a lot of demand from export customers, as well as some of our domestic customers that we hadn't been able to cater to in the last two years because of our capacity. So there, there is no major issue, cycles will continue, there will be a few quarters where demand may be a little relaxed, nowadays for example, I'll tell you one big problem is in countries like Egypt and the rest of Africa, there is demand, but they don't have the dollars to pay us. So, we are wary of that we don't allow sort of credit to, that way we are conservative so we do give credit on LC terms only, not open credit for those reasons. So, sometimes they even want to pay us in advance but they don't have enough dollars. So those kinds of issues will continue going forward. And we'll have cycles but we are quite happy with the progress on the Taloja expansion and the way we have been able to grow business there.

And the other part we are really happy about is also NBR. While there was a little dip in margins in between for a couple of months, we do as I mentioned before that we are only about 30% of the India market share. And so with some capacity being freed up for NBR we've been able to also run our plant at almost full 100% capacity with the additional about 15%, 20% that is freed up because of the XNB plant. So, overall qualitatively SB latex and NBR doing very well as per expectation, XNB it's a margin issue with the full demand issue you are right, pull from the market issue so approvals are a little slower than we expected. I hope that answers your question.

Saurabh Shroff: So just one follow up on that, actually. So you obviously been telling us now for a while that percentage margins swing also because of the raw material and end product pricings moving up and down. But on an EBITDA per tonne basis, are you sort of happy with where the rest of the business is and is it where you would think on a steady state basis or is there room for either improvement, or you are seeing some budding signs there?

Abhiraj Choksey: So, look NBR I'll speak about the NBR business first, we did have a little bit of benefit for about two years when shipping rates were high, given that our imports of NBR was more expensive because of the higher shipping rates. So that gone, and now it's normalized. And now the margins of NBR are as normal as they can get right now. Of course we are as you know as an anti-dumping case that's going on in the court. Not sure how it will pan out. So that's one thing that we definitely are looking for some help from the government. But nonetheless we are competing and we are okay with the margins that are currently there in the NBR and we are competing. The second is on SB latex front, Yes currently, the margins are a little lower than what we've seen in the last couple of years. Partly because of the supply that's come in from us as well as our competitor, main competitor in this business. So over time that will improve as capacity utilizations go up again for us and our competitor with market growth.

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

Ankit Kanodia: So my first question is related to the divergence of volume growth and margin compression. So do we have any history in the past where we have seen something like this or how do we look, based on the current scenario in terms of all time high growth in volumes and probably all-time low, or near term low in terms of margins?

Abhiraj Choksey: Yes look, one big reason is the nitrile latex gloves, obviously that's something new for the company. So yes, we have not seen this before. We came up with a new plant, we are pushing to sell more material, but we're selling it at very low margin, close to zero as I said. So obviously that's pulling the average down, the rest of it I've mentioned this before, if you remove the nitrile latex chunk you will see some ups and downs in cycles that we have couple of lower quarters, couple of higher quarter on average, we are confident of doing at 14%, 15% in fact even nitrile latex, pre-COVID, the little that we have started selling was at margins were better than 14%, 15%. They were closer to 20% so we were quite excited about this business, unfortunately the market has turned at the time when we entered the business with larger capacities and obviously in the last couple of years when demand for gloves was very high margins were high as high 35%, 40% as well, of course the volumes were much lower at that point. And the rest of the business is kind of cyclical, we're okay with it, no major change.

Ankit Kanodia: Got it. My next question is related to the CAPEX and debt. So, last quarter also, we mentioned that we are done with CAPEX and right now we are stabilizing and same is your commentary in this quarter as well. But I see debt rising every quarter so Q1 also the debt was sharply and so is the Q2 debt numbers. So what is our view on the CAPEX going forward and the debt level from here?

Abhiraj Choksey: What do you mean Q1 debt rose sharply versus Q2, where did you see those numbers?

Ankit Kanodia: Sorry, not Q1, compared to March, that is what I meant.

Abhiraj Choksey: Yes, compared to march for sure, because out of the CAPEX that we had done obviously, a large chunk of the payments that were required and therefore we had raised debt term loan of about 125 crores. So a large chunk was taken in the last quarter of half of last year I would say, and so therefore the debt has gone up, but we are quite comfortable with it. We have 125 crore long term debt. Obviously, with the volume growth some amount of working capital has also gone up. But we also have about 100 crores of cash on the books, investment that we have kept for potential opportunities, whether acquisition or even investment in the future. So we do like keeping a little bit of cash. So we think 100 crore is about one month revenue.

Ankit Kanodia: Okay. And my last question is related to ApcoBuild, any new geographies we have entered recently or let say for old geographies we are in?

Abhiraj Choksey: No, we are in a couple of new geographies within the same state. And we are going further South as well a little bit in Karnataka, Goa, Maharashtra, Gujarat, MP. These are the four or five states that we're focusing on, but we are doing some business in other states as well. But so far investing more in tier two cities of these states.

Ankit Kanodia: And what has been the volume, the performance for this quarter in ApcoBuild?

Abhiraj Choksey: We don't give specific numbers.

Ankit Kanodia: I am not talking about numbers, in general the growth rates of ApcoBuild compared to last year, and last quarter?

Abhiraj Choksey: We're very happy, we are at double digit growth in ApcoBuild for the first half.

Moderator: Thank you. The next participant is from the line of Piyush Agarwal from SOIC LLP. Please go ahead.

Piyush Agarwal: Sir one question was, can you please give us the numbers what was the margins in nitrile latex pre COVID?

Abhiraj Choksey: Sorry, say that again, margins in nitrile latex?

Piyush Agarwal: Pre-COVID.

Abhiraj Choksey: Pre-COVID also they were at about 20% EBITDA margin.

Piyush Agarwal: And sir what is our current capacity utilization in nitrile latex?

Abhiraj Choksey: It is around between 25% to 30%.

Piyush Agarwal: And sir last question. Latex chemistry is like a vast chemistry and it's like a multibillion dollar market. Do we plan to enter any other products and also who will be our pier in the domestic landscape, not in NBR but in the other type of latex product that we are selling right now?

Abhiraj Choksey: Look, I don't want to take names of other competitors this is easily available you can search it on Google. So I'll leave it at that. And what was your first question, sorry?

Piyush Agarwal: So, do we plan to enter any new product in plant x chemistry?

Abhiraj Choksey: I answered that question. There are a couple of applications that we're working on. One is geotextiles, where we've already made some headway. There is batteries, EV batteries that perhaps need some amount of the kinds of products that we make, of course some changes have to be required, so we are developing those kinds of products. So different applications, new applications for our products. As I mentioned, there are a lot of applications that are moving to water based technology. So that's been, one advantage for us. And so we're trying to see if we can take advantage of that situation as well. So really opening up markets that were not traditionally there for us. So that kind of R&D work is going on. And then of course, new products that will require a reasonable amount of investment that's been worked on as well and at the right time when we are ready we will announce it.

Moderator: Thank you so much. The next question is from the line of Karan Sharma from Credent. Please go ahead.

Karan Sharma: I have two questions for you. The first one is that, incrementally over the next five years the multiple growth is going to come from this nitrile latex which will be for gloves. And primarily this is for the export industry. Now, right now you are 70:30 in terms of domestic revenue and exports. And this will shift materially to at least 50% or more around exports. And I just wanted to know that currently.

Abhiraj Choksey: Not 50% because the rest of the market will grow as well. But, somewhere between 40%, 45% is what we reckon at full capacity of everything.

Karan Sharma: Yes, so till that domestic market, you are either number one or number two for most of the products, but in this product you would have a very low market share in the global industry. So, I wanted to know that would our working capital changed materially like margins were already mentioned these were 20% pre-COVID. But in terms of working capital, would it be better than what we have currently or is it worse, since it's an export product?

Abhiraj Choksey: No, so of course during COVID was much better because payments were pretty much advance. But obviously, now we have to give credit to our customers. The nature of the industry has changed and so it would be in-line with the rest of our industry, with the rest of the sort of.

Karan Sharma: And the second question is, if it's possible for you to answer how much was the exact CAPEX only for the Valia capacity which was added 50,000 tonne out of these 200 crores?

Abhiraj Choksey: It was about 150 to 160 crores for Valia and another 50 crores or so a little less than 50 crores for Taloja.

Moderator: Thank you so much. The next question is from Tej Kumar Pandya from Ganesh Stocks. Please go ahead.

Tej Kumar Pandya: My first question is on the trade outstanding from March 2023 to September 2023, it has an outstanding increase from 137 to 174 crores, so what is this due to. You are not pursuing your customers for payment?

Abhiraj Choksey: One reason as I just mentioned to the previous caller, for nitrile latex we used to get advance payment earlier till last year, but now we have to give that on credit so that is one increase and because of volume growth we have to give a bit more in the last one quarter. But it's not a big issue as such.

Tej Kumar Pandya: Sir, we think that your net profit margin, in 2023 it was around 10% and now in June & September quarter that NPM has come down by 50% to 5%.

Abhiraj Choksey: But the main for that is, this is a small reason of debtors the main reason is the investment we did of 200 crore was capitalized in March so we have a big hit of depreciation which might be 2% to 3% in that, and the term loan which we have taken of 125 crore that interest is hitting the P&L. So, those two are the main issues.

Tej Kumar Pandya: So, can we expect that in 2024-25 the expenditure will finish and your profit margin would be 10% plus can we expect this?

Abhiraj Choksey: I hope so, that's the endeavor, that is what we are trying.

Moderator: Thank you so much. The next question is from the line of Jatin Chawala from RTL Investments. Please go ahead.

Jatin Chawala: Two, three questions from my side. First one is on the MDR side, you talked about this EV transition. Now, while I understand that in India the transition will happen gradually. But globally, also if the transition happens, and since this is a product which unlike some of your other products kind of travels easily. Will that not impact overall demand supply dynamics for this product?

Abhiraj Choksey: Yes, of course that is a concern and therefore that's one of the concerns that we're waiting and watching of course, all the predictions are that it's not going to happen overnight. It will happen over 10, 15 years and especially with hybrid cars and they don't affect NBR demand for example. But wherever we are completely EV then that does impact. Look, it will impact our competitors first because they have much larger plants for the NBR and mostly catering to China is a large market. So there would be a correction in supply as well if that happened. In fact, two years ago one of our competitors did announced that they are one of the suppliers of NBR did announced they are coming out of the NBR market but then they chose to stay in it. For whatever reason I'm not sure why. So they retracted on it. So certainly supplies will correct as well, because for them if China is a large market, then in cars auto is much larger percentage in China of the NBR consumption. It is going to affect those markets first. And even though travel there, there is a cost to the travel anyway there's also duties, there is all that that's an extra cost at least for competing in India.

Jatin Chawala: Got it. In the last call you have also spoken about the fact that this multipurpose plant at Taloja, you had environmental clearance for 10,000 and that is why the capacity production was kind of limited to that number. Do you have all the clearances now to go to the enhanced capacity of 30,000?

Abhiraj Choksey: Yes, we do. I'm sorry we should have mentioned that in our opening statement. Thank you for reminding us. But yes, we have received the full consent to operate to go to the full capacity.

Jatin Chawala: And this came towards the end of the quarter, or was that capacity available in the quarter as well?

Abhiraj Choksey: No, very recently unfortunately.

Jatin Chawala: Okay. So we should, hopefully in the next two, three quarter see that kind of ramping up.

Abhiraj Choksey: That's the whole, but look in unlike nitrile latex new to the market in that one, I would say in the first six months getting to about 1/3rd capacity utilization itself has been a great achievement, we didn't expect that, we were expecting slowly ramping up over two to three years. And 1/3 is what we were expecting at the end of one year. So, that's going to ramp up slowly, because there we are quite cognizant of the fact that we don't want to flood the market just because we have the capacity, that will of course eventually affect margin. So we have to play that sort of scope of increasing volumes without affecting margins too much.

Jatin Chawala: Got it. You spoke about the fact that on the nitrile latex side, you are expecting a slightly slower ramp up and the 90% utilization that you had earlier thinking of by the end of the financial year now seems difficult. So what sort of ramp up should we now expect by the end of this financial year?

Abhiraj Choksey: Look we are still in, when I said 90% I meant like monthly for example by the end of March we were hoping to do at least 90% if not 100%. In context also our endeavor is that because this is like a jump, you get one or two large customers to approve your product and then the pricing is right and you could complete it in within one or two months, not at the end of six months. So it just depends on how fast customers approve our product, frankly but at these margin level some large customers asking for prices that are below EBITDA, and that's definitely not something we want to do below even sort of gross contribution, so that's the major issue more than anything else, so it will just depend on how we would rather not sell than sell at a loss that's the bottom line.

Jatin Chawala: Absolutely.

Abhiraj Choksey: So we are focusing on smaller markets, newer markets so we shifted on our strategy by focusing only on Malaysia and Thailand, we're looking at Vietnam, Turkey, India, a few plants have opened up in India in the last year. Sri Lanka, smaller companies in Thailand and Vietnam and Malaysia, Indonesia that we had not earlier looked at. So we're trying to do business where we are at least EBITDA breakeven. It's a combination of commercial and approval issues.

Moderator: Thanks so much. The next question is from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: Just two questions. One is, congrats for the very strong ramp up in the export volumes. But just to understand the context, see when we talk to other chemical companies across the board, they all complain about a significant inventory destocking and volumes not growing and volume going down significantly. What is helping us to get the volume growth of almost like 100% in export markets and connected question is, if we go through our presentation we have said 120% volume growth in exports, and the overall volume growth is 28%. And if last year the mix was of domestic and export was something like 80:20 or 75:25 it seems domestic volume growth is only single digit or probably flattish, is it a right interpretation?

Abhiraj Choksey: No, so last year it was around 80:20 was the growth. I am just trying to see if I have the breakup of domestic versus export, Sachin do you have the domestic growth versus export growth. I will answer your first part of the question, the export volume compared to other companies, look every company has a different context in our context there are two things, one is the nitrile latex, obviously the new plant that has come in, that has helped with the volume growth, and that is largely exports that's number one. And the second is look, the war in the Ukraine and Russia to some extent has, to a large extent has increased energy prices in Europe. And so what we are finding is some of our European competitors their cost have gone up significantly. And so we've seen a benefit of that, we've also seen in some markets the benefit of the China plus one strategy. So it's a combination of two or three things why our exports have gone up. I hope that answers your first question.

Nikhil: Okay.

Abhiraj Choksey: Okay. And as I said every market is different, every company is different, every entity. The market looks at chemical companies in one broad stroke that's a pretty simplistic way of looking at it. There are many sub industries within the chemical company and as analysts and investors, I always encourage my investor friends to try and understand more about the chemical industry and see there's so many different pockets to it. And they may work very differently. There are some chemical companies that are doing fantastically well, and some that are making losses. So, I don't think it's fair to talk about it as one industry. As far as export and domestic volume growth is concerned, obviously the volume growth in exports has been much better. However, than the domestic, but the domestic has grown as well there's no question about it. But you are right, maybe in sort of single digits or, do we have that information Sachin?

Sachin Karwa: Yes, so approximately around 7% to 8% we have grown domestically in volume.

Abhiraj Choksey: Compared to Q2 last year in domestic?

Sachin Karwa: Yes, for half year.

Nikhil: Okay. Just two more questions. One is, if you look at the employee cost, there is a jump from that 14 crore run rate to almost 17.5, 17. Is it because of these two capacities coming up and is this the run rate which will sustain on the employee cost or is there any one off there?

Abhiraj Choksey: Yes you are right, there has been a bunch of hiring that we have done for the new plants. So obviously, that's one and I don't know where you are comparing, if you're comparing to last year.

Nikhil: Quarter-on-quarter, Q1 we were at 14 crore kind of a run rate which is now 17.5 kind of a run rate, so that is where I'm.

Abhiraj Choksey: Okay. It could be one is, our increment cycle sort of gets completed by June. So therefore, part of it could be the increment and then part of it is also more people that we have hired in the last six months for the new plant. Going forward this is going to be the steady state and I don't think we are planning to hire too many more people anymore.

Nikhil: Okay, and last question. This is more structural on the margin profile currently see, it seems we've been following you for last three, four quarters and you have been continuously mentioning that the glove capacity or the glove business is largely breaking even or probably making a single digit margin, X of that would it be right that the total comes, X of that, the rest of the businesses are operating in that 13% to 15% kind of a margin and for the company to move to that 15%, the glove business has to move to say a double digit margin or do you think without that also we can achieve that 15% margin profile?

Abhiraj Choksey: Well if you want to grow in the glove business and if we are willing to grow obviously more and more revenue comes from the glove business and we do need to decide if we make glove business zero today then tomorrow itself our margins will go up, obviously that's logical. However, we are strategically quite in the long term still bullish on this business. We are one of few companies in the world that make this product unfortunately the industry itself is going through a structural change. We have to wait till things kind of settle down. So to answer the question, yes we would need the glove industry to recover and glove business to go to double digit margins to go back to 15% level. Without that it will be difficult.

Moderator: Thank you so much. The next question is from the line of Puneet Patni from CED PMS. Please go ahead.

Puneet Patni: My first question is, can you tell me the impact of ethanol blended fuel on the NBR business?

Abhiraj Choksey: No, there is no impact on ethanol blended business because even with ethanol blending you still need NBR so there is no impact with that.

Puneet Patni: Because I was reading few studies that mentioned that NBR isn't compatible with high amount of ethanol blended fuels. Is it true or?

Abhiraj Choksey: As far as I know as of today, and I will look into it, but ethanol blending is up to 20% max so, I don't think that reach up to that level its a problem and I have not heard this frankly.

Puneet Patni: Okay. My next question is regarding the XNB latex business. So how do you compete with your larger peers in this segment? What is the USP of your product?

Abhiraj Choksey: Look we do have certain USPs is in our products. That's the technical sort of things that we have in our product that we have sold to our customers, but at the same time, that's not so much to not giving us premium pricing in the current context. We're also manufacturing it in a different way than our competitors. So, we have certain cost advantages when we get to full capacity level, obviously at these capacity levels they have not kicked in yet. So both in terms of process and product so in terms of cost and some product parameters, there are some advantages that we are giving customers, which is why we've decided to enter the business not completely just because on a meet to basis, but given the current industry structure it is a little difficult to get the pull from customers that in the current context.

Moderator: Thank you so much. Ladies and gentlemen, as that was the last question for the day. I will now hand the conference over to the management for the closing comments. Over to you.

Abhiraj Choksey: Thank you everyone, once again for joining the Q2 conference call of Apcotex Industries Limited, we look forward to seeing you in Q3 again. And in the meanwhile if there is any major announcement we would be doing so through the right channels to the Stock Exchanges. Thank you very much.

Moderator: Thank you very much, sir. On behalf of Apcotex Industries Limited this concludes this conference. Thank you for joining us and you may now disconnect your lines.