

Apcotex Industries Limited
December 2023 Results Discussion Conference Call
January 24, 2024

Moderator: Ladies and gentlemen, good day and welcome to Apcotex Industries Limited December 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 conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Purvangi Jain from Valorem. 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 3rd Quarter and nine months 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 risk and uncertainty, 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.

I would like to introduce you to the management participating with us in today's earnings call and hand it over to them for their 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. Thank you, and over to you, sir.

Sachin Karwa: Thank you, Purvangi. Good afternoon, everybody. It is a pleasure to welcome you all to the Earnings Conference Call for the 3rd Quarter and nine months of Financial Year 2024. I hope

you had an opportunity to review the “Financial Statements and Earnings Presentations” which have been circulated and uploaded on the website and the stock exchanges.

Let me provide you with a “Brief Overview of the Financial Performance” for the 3rd Quarter ended 31st December 2023:

The operating income for the 3rd Quarter was Rs. 257 crores, which grew by around 10% year-on-year with the increased volume year-on-year. This was in spite of challenging market conditions.

This quarter, we had the highest quarterly export volume growth of 98% year-on-year, led by Nitrile Latex, Carpet and Construction.

The EBITDA was reported at around Rs. 25 crores, which declined by 17% year-on-year, driven by lower margins in NBR, XNB and Paper. The EBITDA margin for the quarter stood at 9.88%. The net profit after tax was Rs. 11 crores, which decreased by 46% year-on-year due to increased depreciation and interest costs from new expansion projects, and PAT margins were reported at 4.32%.

Now coming to the financial performance for the nine months ended for the Financial Year 2024:

Revenues stood at Rs. 8.4 crores, representing a marginal 1% decline on year-on-year. The operating EBITDA was Rs. 83 crores, which declined around 34% year-on-year, while margins stood at 10.16%. The PAT was reported at 39 crores, which declined by 64% on year-on-year, representing PAT margins of 4.7%.

For nine months, volume growth was 26% year-on-year. Export volume grew by 107% year-on-year. The revenue growth was flat year-on-year due to changes in product mix, declining raw market prices leading to lower realization of finished goods.

With this, I open the floor to question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mr. Aditya Khetan from SMIFS Institutional Equity. Please go ahead.

Aditya Khetan: Sir, my first question was on the Nitrile Latex side. Sir, what was the utilization for this business in H1 as compared to this quarter Q3? And secondly, sir, I was also looking at the prices of Nitrile Latex. They have again started to decline from October. So, what is the current status and how is the demand outlook globally?

Abhiraj Choksey: Thank you, Aditya, for your question. So, look, I think Nitrile Latex has been challenging. There is no question about it. Our first half, we were at about 25% capacity utilization. In Q3, gone up

slightly to about 30%. It's definitely under what we would have liked. Q4, we expect it to be about maybe 35% to 40%. I am not sure exactly, but January looks good. Yes, I mean, prices have declined, but so have raw material costs. Overall, there has not been much improvement in margin, which was given the current situation, the glove industry.

But very recently, we are seeing a turn in the glove industry, I would say in the last one, one-and-a-half months, where finally some of the old sort of some capacities have been shut down. So, there is a better supply-demand balance in the glove industry. That is still to translate in the latex industry where there is still a supply-demand mismatch. China has sort of gone ahead and expanded during the COVID years for both gloves and latex capacity.

So, I think we are seeing after a long time, maybe after a year-and-a-half, we are seeing a little bit of an uptick in prices, as well as margins, as well as a little bit of pull from customers. So, I would say that's where we are today.

Aditya Khetan: Sir, any specific reason why the prices have started to decline from October? And now, you are witnessing that is going up because of how better demand supply?

Abhiraj Choksey: Two reasons where the prices started declining, because the raw material costs were also declining. So, we had to I think globally, all suppliers had to pass along that cost decrease. Now, it's increasing, I would say in the last maybe five, six weeks is because of, again, raw material price is strengthening. And I think supply demand at least, it's too early to say, but at least in the last month, it seems a little bit more balanced. So, both reasons why prices are going up now. We have to wait give it enough time you have at least three to six months here to see what happens.

Aditya Khetan: Sir, on the NBR side, any specific reason there was a volume decline in NBR and HSR in this quarter?

Abhiraj Choksey: So, for HSR, there is a very small part of our business. So, I mean, while there was a volume decline slightly, I think for the whole year, sometimes that does happen. So, HSR, I am not worried at all. NBR, yes, there were, I mean, significant imports that came in. And so, there was, again, the same supply demand issue. So, there was a supply demand mismatch in India, especially, but even in China and globally, as a result of which volumes for us came down this in the last quarter. Again, we are seeing a pretty smart uptick starting from January. So, that quarter-on-quarter does happen. In fact, compared to Q2, the reason why our Q3 EBITDA is down is mainly because of NBR, NBR volumes and margins. So, that quarter-on-quarter sometimes does happen. And I think hopefully this quarter should be a little better for NBR.

Aditya Khetan: And sir, these imports you mentioned of NBR, so particularly from which also geography we are witnessing huge imports in India.

Abhiraj Choksey: Look, the regular ones most, I would say most of the imports come from Korea. So, that continues. Again, there is data that's available for everyone. So, I am sure you can look it up.

Aditya Khetan: So, for the last two to three quarters, we are mentioning in our Investor Presentation that paper sector is weak. But, sir, when we look at the paper sector company's commentary, they are not indicating that weakness. But you mention that the paper segment is a laggard. And in this quarter also, you mentioned that reason as one of the EBITDA decline.

Abhiraj Choksey: From a margin perspective, not from a volume perspective. So, overall, as Sachin mentioned, for the first nine months, we saw 26% growth in volumes. So, as a company, our strategy has been to push volumes across all segments, including paper. So, from a volume perspective, there is no problem. But again, because we have expanded capacity, our competitor has expanded capacity all in the last one year or 9, 10 months, this has resulted in some kind of excess supply as a result of which margins are under pressure in the paper industry, not so much the volumes. So, overall, as you said, the paper industry is doing very well because raw material suppliers like us are being squeezed on margins, but in terms of volumes and their results, I think they are doing well.

Aditya Khetan: Sir, just one last question. So, earlier we used to share some guidance onto the top line and EBITDA. So, what is our projection, like, for the next two years in terms of the revenue growth, EBITDA growth? And what could be the sustainable EBITDA per kilo for the next two years?

Abhiraj Choksey: Actually, Aditya, we never give specific guidance for quarterly or yearly. We broadly talk, or on EBITDA either, we broadly talk about where we see the company going and there are certain things that have gone really well for the company since our expansion. For example, our expansion in Taloja has gone exceedingly well. And for the new plant there, we are at 40% capacity utilization within the first nine months, which was better than what we expected, frankly. And over the next one year, we hope to be closer to 70, 80% capacity utilization.

Nitrile Latex, honestly, capacity utilization is not that big a challenge. We can increase it overnight, but the margins are so low. It's really we don't want to sell at negative contribution levels. So, our strategy has been to increase sales and breadth of customers, wherever we are getting at least positive contribution, but EBITDA is, and you know, at least EBITDA break even. We don't want to go negative EBITDA as far as possible. So, that's pulling it down.

So, overall the growth strategy continues. The Nitrile Latex has been a little bit of a downer, I guess, for us. But the rest of the business is on track. And NBR margins go up and down as we have mentioned many times in previous ConCalls. So, that continues to happen.

Aditya Khetan: Just a follow up on this. Sir, what is the breakeven prices of Nitrile Latex or the utilization wherein we should start to see a positive contribution margin from this business?

Abhiraj Choksey: I am sorry. I didn't understand the question. Are you asking me when?

Aditya Khetan: Sir, what would be the prices range or you can say a price figure for Nitrile Latex or a utilization figure from which exceeding that, so we should start to see a positive contribution margin?

Abhiraj Choksey: I would say, look, it's very hard. It's not about a price. It's also linked to raw materials, right? So, it's about contribution margin. So, we do need a certain contribution margin and a certain volume of capacity utilization. These are numbers we don't share outside. These are specific numbers that we would like to keep to ourselves for now.

Aditya Khetan: 40% today, so we are making money on that business or not?

Abhiraj Choksey: Nitrile Latex is 30% and we are not making money.

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

Tej Kumar Pandya: First thing, I would like to give you an idea that profit margin reduced from 5.4% in September 23rd quarter to 4.3 in December 23 quarter. Second point, considering nine months of 2022 and nine months of 2023, the finance cost increased from 1,403 lakhs to 4,807 lakhs, an increase of 242%. Depreciation and amortization cost increased from 113 lakhs to 1,175 lakhs and an increase of 939%. Other expenses increased from 374 lakhs to 2,341 lakhs, an increase of 525%. Sir, during the nine months of '22 versus nine months of '23, there has been a slight decline of turnover. If the costs increase in this way without increasing in turnover, company may have a difficult financial problem. So, how do you plan to maintain your profit margins?

Abhiraj Choksey: Yes, as I mentioned to the previous caller, certainly profit margins have been lower this year, EBITDA margins. Let's talk about EBITDA first. EBITDA margins have been lower this year in the first nine months compared to the last nine months. And the reasons I have just given, one is Nitrile Latex, the margins that we were expected are definitely not there. NBR margins have declined compared to the first nine months of last year. And we have also had a considerable amount of stock loss this year compared to last year for the first nine months. I would say that itself would make a difference of maybe 1.5% to 2% is only because of the stock loss this year compared to stock gain of last year.

So, there are various reasons. However, the silver lining is, look, our growth has been fantastic in terms of volumes. We have grown at 26% for the first nine months in terms of volumes. Yes, the revenue has not grown. It's flat. That's because of raw material prices. And our focus this year has been to grow volumes and will continue to be for the next couple of quarters. And then hopefully the margins will also correct itself and come back for most of them. And we can go back to about 14, 15, 16% margins that were our targets that have been our targets.

Tej Kumar Pandya: No, that is very good, sir. But this 14 to 16% profit margin is when do you expect it? Is this a near future or will it take time?

Abhiraj Choksey: It's difficult to predict, sir.

Tej Kumar Pandya: Okay. I hope you will all make an effort so that profit margins are not lower because, as a shareholder, that is very important for us, profit margins. Your turn over. So, our dividend and all that is not decreased. Your dividend has decreased this time also. Earlier you gave an interim dividend of Rs. 3 per share. Now this time you have Rs. 2 per share.

Abhiraj Choksey: No, I think the interim dividend was Rs. 2 a share. We have kept it at Rs. 2. So, that has not decreased.

Tej Kumar Pandya: But the profits have decreased. Okay, so if you don't want to give any timeline, but I hope you are working in that way that the profit margins are maintained at between 10 to 14 or 15%.

Abhiraj Choksey: Certainly, and we have taken up a lot of cost-cutting measures also and investing some funds to reduce costs further. So, hopefully some of those investments will start accruing again next year, in the next financial year is what we hope.

Tej Kumar Pandya: So, could you throw some light-wide depreciation in nine months of 22 was 13 lakhs and increased to 11.75. Have you discarded most of your machineries or why has this depreciation gone so high?

Abhiraj Choksey: If you were following the last few Con Calls and you have been following the company, we had investments of over 200 crores that were capitalized in March-April of this year, earlier March-April '23. So, because of that capitalization, the depreciation for those projects has now hit the P&L in the year '23-24.

Tej Kumar Pandya: But suppose you have taken such high depreciation for your capital expenditure, next year will it be expected to remain this high, or it will be reduced?

Abhiraj Choksey: The way depreciation works is that once new projects are capitalized, obviously there is a one-time huge increase in depreciation and over time it keeps reducing.

Tej Kumar Pandya: So, that means profit margins may likely go up?

Abhiraj Choksey: Slowly, yes. Same with interest.

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

Ankit Kanodia: In your presentation, we mentioned that highest quarterly export growth is led by Nitrile Latex, carpet and construction.

Abhiraj Choksey: Yes.

Ankit Kanodia: Is it possible to give any ballpark numbers as to percentage-wise, how much it is due to Nitrile Latex and how much due to carpet?

Abhiraj Choksey: I don't have the numbers in front of me percentagewise, but I would say Nitrile and carpet have both grown by 100% is what I recall. Sachin, would you have these numbers handy? Maybe we can give percentage numbers for this export. But it's pretty much proportional, right, from what I recall. Sachin, do you have these numbers segment-wise export?

Sachin Karwa: Segments we have grown in carpet more than 100%.

Abhiraj Choksey: Industry-wise, sorry, not segment. Industry-wise.

Sachin Karwa: Yes, industry-wise. Carpet we have grown more than 100%. Nitrile, gloves also we have grown by almost 30-40%. Then in the case of Tyre Cord, we have grown by almost 100% plus. And construction.

Ankit Kanodia: So, if I got it correctly, Nitrile has the least growth among the three, right?

Abhiraj Choksey: No, I think for the 9 months, Sachin, I think there is some mistake. It's 100% growth. We are looking at almost 100% growth for Nitrile compared to last year's first 9 months.

Sachin Karwa: I am giving quarterly growth right now. It's not for 9 months.

Abhiraj Choksey: Maybe quarter, yes.

Sachin Karwa: Yes, 9 months, in 9 months we have grown more than 100%.

Abhiraj Choksey: Yes, that's what I thought.

Ankit Kanodia: So, as we mentioned in our earlier, it could answer to some of our earlier participants where we said that we are not making any money on Nitrile Latex at the moment. And if we continue to grow the volume in such a scenario and we continue like this, how confident you are that the demand supply mix will get sorted in the coming quarters and we will be back to profitable there?

Abhiraj Choksey: You know, the Nitrile market, of course, a lot of capacity has been created over through COVID, obviously excess capacity, which is causing both gloves and Nitrile Latex margins to be quite suppressed. We believe that it's a growth industry. The industry is still growing at double digits.

And some of these capacities are being rationalized. Some of these capacities are now no longer viable. So, they have shut down. Some of the old players have shut down some of the old capacities. Some new players that came in have not been able to be financially viable. So, they are shut down or postponing the projects or volumes.

So I think in the long run, we still believe it's a great business. There are a few companies in the world that manufacture Nitrile Latex. The same companies have expanded over the last few, over the last couple of years, including us. So, it will correct itself very, it's been hard to predict when it will happen. We are seeing some early signs now, finally, after a year-and-a-half, as I mentioned to the previous caller, of some uptick in margins and pull from the market, which was not there for the last year-and-a-half. So, we will have to wait and watch whether it's just a short-term phenomenon, but hopefully we will know in the next three to six months.

Ankit Kanodia: That was very helpful. So, if I get it correctly, is it fair to assume that we are not going to see the kind of margins in Nitrile Latex which we saw just after COVID in the year 2021 and 2022?

Abhiraj Choksey: Those were certainly unusually high margins. That's not going to come back, and the project was never all our projections were based on pre-COVID margin levels. The problem is even compared to pre-COVID margin levels, we are much, much lower. So, we are hoping to go back to pre-COVID margin levels, in which case our returns and IRRs will be pretty good.

Ankit Kanodia: So, currently, the margins which we have, right now, it is only because of NBR, right? Because Nitrile Latex, you are saying that you are not making any margins, I mean, you are not making any profit as of now.

Abhiraj Choksey: So, what's your question?

Ankit Kanodia: So, whatever profit which we are getting right now, is it majorly contributed by NBR?

Abhiraj Choksey: No, no, as you know, we have seven or eight different ranges of products. One is Nitrile Latex. The other is NBR. The third is styrene butadiene latex for paper, carpet, construction, styrene acrylics for paper, carpet, construction and textiles, vinyl pyridine latex for the tire industry, high styrene rubber for the footwear industry. So, that way, we are well-diversified. So, obviously, the profits are coming from the other segments. In fact, NBR has also been challenging this year, this quarter, in terms of margins and volumes.

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

Jatin Chawla: So, my first question is that on Nitrile Latex, China, it seems was a smaller part of the industry or global industry capacity and demand before COVID and post COVID China's share has gone

up significantly because of the large capacity expansions that happened during the COVID phase. Could that kind of change the longer-term dynamics for history in your view?

Abhiraj Choksey: I think so. I think China is here to stay. You know, in the past Malaysia, Thailand had the majority of the share. They still do. But China has certainly taken over a large chunk of the share. But I think this, I mean, Malaysia still remains the number one glove producer. And from our point of view ApcoTex is looking at a very small volume compared to the entire global volume of Nitrile Latex consumption. So, it does, in fact, and we would also take this as an opportunity. And we have actually made our first supply to China in the month of December. So, we are looking at China as a market as well, because they are a net importer of Nitrile Latex as of now. So, we can look at opportunities in pockets in China as well, which we frankly had not done earlier.

Jatin Chawla: The second question is on NBR. Now imports have continued to be challenge on and off in this segment. And as the world kind of move towards EVs, it seems globally this extra capacity challenge will be there. How do we propose to offset this?

Abhiraj Choksey: Well, it's a little early to say. In fact, we have seen a very good growth in NBR for the India market overall, I would say. This year, when we look at the total market, it is actually grown within India. And for India, EVs or auto anyway, the smaller component, 25 to 30% of the total NBR consumption in India is auto. There are many other segments. China, of course, the large consumption is for auto, from what I understand.

So, it's a little early to say, I would say, but yes, that is definitely certainly a threat. And I think before it affects us, it will affect some of the larger players in Europe and East Asia because we have a smaller capacity in any case. So, as a result of which we are quite confident of eating our volume sales, especially since India is a strategic market for NBR. In terms of margins, yes, in the long run, there can be some issues depending on how quickly electrification happens. But I think it will automatically mean some supply adjustment automatically will happen at some point, if that happens, if there is a decline. But as I said, in India, we are seeing a growth.

Jatin Chawla: Yes, my question was on global, right? Because globally, there is idle capacity that will result in higher imports in India. They will want to push it.

Abhiraj Choksey: Yes. And that's the reason why we have not yet, although we have the entire project plan and detailed engineering ready for the expansion of NBR plant. And it's not really a massive expansion. Honestly, it's expanding by another 70, 80%. We are just doing debottlenecking and carrying on for now and we are able to still do that to some extent even this year. So, we have not taken the decision on NBR for that exact reason.

Jatin Chawla: My last question is on exports. We are seeing very solid traction on that front. Are we benefiting at all from the fact that some of the European players are struggling, and once they kind of come back some of these export volumes might come under pressure?

Abhiraj Choksey: I will answer the question, though, and then we can move on to the next caller. So, I would say yes. I mean, look, European suppliers, I think the entire cost structure has changed in Europe. I don't think it is just a war. All the people are being blaming the war for a while now. It's been two years. And in Europe, manufacturing from every angle, whether it's CAPEX, raw material costs, energy costs, labor costs have significantly changed. So, unless there is something that a European manufacturer brings to the table, which is highly premium of all others in our industry, at least I see going forward, we would see more and more European manufacturers in chemicals becoming unviable. That's my view.

I don't think it has anything to do temporarily with the war or anything of that sort. But certainly, that's that we have benefited for two reasons. One is external environment. Certainly, energy prices have been higher because of the war. But even if that is correct, I think we have taken strides in terms of our products, in terms of the specific products that we have developed for the carpet industry.

For example, Nitrile Latex doesn't change that Southeast Asia, we are not competing against European suppliers. Even carpet, we are somewhat competing with the European suppliers, but there is one other Asian supplier that we have competed with effectively as well. And in construction we have very specific niche products that we have developed for the export industry or for the export market. So, I think there is something we have done internally which is very sticky. And certainly, we have taken advantage of the external situation over the last couple of years.

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

Aditya Khetan: Sir, on to the export side, so since the start of the Nitrile Latex business, we have started to see that our exports have gone up. Any rough figures, sir? Is it possible to share a ballpark figure of exports and domestic volumes?

Abhiraj Choksey: We will talk, yes, I mean, I will give you the percentage. We are at about, Sachin, you can correct me, but for the quarter, about 33% of our sales are from exports, right? And for the first nine months, about 30%.

Sachin Karwa: Yes, 30%.

Abhiraj Choksey: Yes, and volumes would be similar, I think, right, Sachin?

Sachin Karwa: Yes. So, these numbers at the base, these are the volume numbers.

Abhiraj Choksey: Oh, these are volume, okay. Value? Similar, right, though? Around 30, 33% is broadly the export figure.

Aditya Khetan: Sir, on to the raw material side, so when we were looking at the price trend, so butadiene prices on quarter-on-quarter basis have seen a jump, whereas the styrene prices have declined. Is there any specific reason why these two numbers are behaving? Butadiene is going up and styrene is going down.

Abhiraj Choksey: First of all, I don't think butadiene has gone up between sort of September and December. I think it's gone down a little, if I'm not mistaken. But, I mean, the bigger picture is, yes, I mean, no one knows, right? Suddenly, we are expecting it to go down and it did go down for a while and suddenly, now in January, we are seeing a huge uptick in butadiene prices. It's, look, every petrochemical, every monomer has its own supply, demand dynamics and it's very hard to predict like currently we are seeing styrene is also going up substantially because of couple of reasons. Maybe one large supplier is down or not supplying as much as they should and suddenly, there is a shortage in the market for a few weeks, so it suddenly goes up. So, very, very hard to predict. So, we have chosen not to look at long-term predictions for these monomers. We look at the short-term and we try and manage our short-term inventories and short-term requirements and accordingly manage the our buy.

Moderator: Thank you. The next question is from the line of Jagdeep Walia from Clockwise. Please go ahead.

Jagdeep Walia: Sir, some of my queries have been answered. So, my first question is that what percentage of consumption in China in Nitrile Latex happens through imports?

Abhiraj Choksey: I don't have the exact data, honestly, but I do know that a large percentage of the factoring that happens in Japan and Korea is largely exported into Malaysia and now I believe into China, but I do not have the exact data.

Jagdeep Walia: And sir, are there realizations for Nitrile Latex in China lower than elsewhere, let's say in Malaysia?

Abhiraj Choksey: I think if the freight component is higher, the pricing is about the same, if you look at the FOB pricing, but we have to provide them with sort of CIS pricing. So, yes, we have to adjust the FOB pricing for the higher freight component, but it is not significantly higher. So, I would say it is maybe marginally lower as of now, and as I said, this is the first time we have done business in China in the month of December. We will have to see how it plays out over the next few months and really also gain experience of doing business in China, because that's something that we never envisaged that we would do, and we didn't make efforts over the last couple of

years since we have been building the business, because we thought there is enough, and there is, we frankly think there is enough volume between India, Sri Lanka, Southeast Asia, but we still do want to keep that option open and diversify ourselves to China if possible. I think over time, we will see similar margins between China and Southeast Asia. Maybe marginally lower, but as I said, a little early to tell, and we still have to learn.

Jagdeep Walia: Sir, last question from my side. Sir, you mentioned in the call earlier that you have seen better than expected utilization in your new capacity at Taloja, for XSB Latex products I guess. So, now it seems like you will soon reach optimum capacity utilization, maybe in the next one year or so. So, any thoughts on expanding capacity in that segment?

Abhiraj Choksey: Yes, absolutely. We have already started thinking about, we actually initially thought we would be okay for three years, but the way it is going, we may be by the end of financial year 25, we will hit max capacity there. So, maybe a year before we thought we would. Of course, we still have to see how it plays out, but that's our current initial estimate. So, we will see how it plays out. But yes, one option is, look, if the Nitrile Latex business doesn't improve when we want to kind of convert some of that capacity by investing some more money in Valia, we have the EC in place and we have all the permissions in place. All we need to do is invest a little bit and convert some of our capacity there into SB Latex. A little early to say we do not want to do that because we are committed to the Nitrile Latex business and perhaps growing it as well. So, we don't want a knee jerk reaction, but yes, I mean, that's certainly an option to do more capacities in Valia. We also have the option of de-bottlenecking a little bit and trying to increase capacity to some extent in Taloja, which we are working on as well, and I think over the next six to nine months we will have some clarity on those projects.

Moderator: Thank you. The next question is from the line of Farokh Pandole from Avestha Fund Management LLP. Please go ahead.

Farokh Pandole: Hi, Abhiraj. I just firstly wanted to ask if you could tell us a little bit about ApcoBuild and how that's doing and how the growth rate is sustaining. I would think in this environment with real estate sort of picking up over the last 12, 18 months, definitely that should be a sort of good growth area for you.

Abhiraj Choksey: Yes, absolutely. And as I said, it's much smaller, as we have always talked about it, it's a much smaller part of our business in terms of revenue, but we have seen double digit growth for the last four, three, four, five years now. And even for the first nine months of this year, overall, I think growth has been about 18 to 20%, if I am not mistaken. So, yes, we continue to expand geographies and increase product range as well. We have also expanded the team, adding a few more people. So, that is going as per plan, yes.

Farokh Pandole: Excellent. Just a couple of clarifications. Wanted to ask about whether the anti-dumping duty is something that we are still pursuing. And also, secondly, unrelated to that, in the statement

of results item number six, what exactly is the item that will not be reclassified to profit and loss? If you could just explain what that line is?

Abhiraj Choksey: I didn't understand your last question, but I will just answer your first question, anti-dumping. So, the two things happening with anti-dumping. One is us and a lot of other companies who are in the same board have filed appeals, of course, or filed cases and it's going to the high court system. Delhi High Court. Nonetheless we have also been advised to file new anti-dumping petitions. We haven't taken a decision on whether to do it just yet, given what happened last time. We are not clear on the Finance Ministry rejected it last time. We don't know if they will reject it again. So, right now there are some rumors that the Finance Ministry is accepting a majority of the cases. Suddenly there was a rethinking. If that does happen, then we have to restart the process and redo it again all the way from scratch, but then it will take another six to nine months. So, that's where we want anti-dumping. We are not relying on it, but it's something that we are watching and keeping a watch on it. And sorry, what was item number six again?

Farokh Pandole: So in the profit and loss, there is an item that will not be reclassified to the statement of profit and loss. For this particular quarter, it was a 7.5 crores. So, I just wanted to know what that pertains to.

Sachin Karwa: So, I will answer it, Abhiraj, this one.

Abhiraj Choksey: Yes, go ahead, Sachin.

Sachin Karwa: So, this is nothing but an M2M profit that we make on investments that we have in the box. So, this is a long-term investment, and they won't get classified as profit basically through the P&L account. That's number one. And the second is also basically these are a gravity or long-term liability that have got a period exposure to it they get pre-classified below in the OCI. So, they don't get classified in the P&L.

Farokh Pandole: Also, what is our net debt at this point? What is our current net debt?

Abhiraj Choksey: Net debt, you mean long-term minus cash?

Sachin Karwa: You want to know minus investment?

Farokh Pandole: Yes.

Sachin Karwa: So, that would be around 70.

Abhiraj Choksey: 70 crores, but this includes working capital lines as well, right?

Sachin Karwa: Working capital and term loan. Yes, both.

Abhiraj Choksey: So, just to re-clarify, Farokh, we have about 125 crores of long-term debt, which we had taken for the projects. Against that, I think we have currently sort of investments in the books for about 110 crores. And then the rest of it, maybe about, Sachin, what, about 40, 50 crores is working capital line, right?

Sachin Karwa: Yes. Around it.

Moderator: Thank you. Next question is from the line of Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: The first one was, could you help with the mix of revenue between NBR, Nitrile Latex, HSR, et cetera?

Abhiraj Choksey: Great question. That's one thing I am glad you asked because that's one thing that's significantly changed compared to last year. You know, earlier our rubber business or solid polymer business was about 45% and latex or liquid polymer was 55%. That's significantly changed this year because all the growth has happened on the liquid side, on the latex side. So, now we are at about 65, 35. So, 65 latex, 35 rubber overall in terms of percentage sales. In terms of breakup segment wise, I would say, and Sachin, these are, these are broad numbers. So, don't quote me to it. But I think 25% is NBR and allied products, 10% in HSR. The remaining 65% I would say is fairly evenly split between all the other industries. So, paper would be the largest. Actually, it's not. Now paper and carpet are both quite, paper and construction are both equally large, about 15 to 20%. The carpet and textiles we put together is another 15 to 20%. Then Nitrile Latex would be another 15% or so. Maybe some specialty is 5%. So, I hope that answers your question broadly.

Naysar Parikh: Yes, it does.

Abhiraj Choksey: But very, I mean, very well diversified and split now, I would say. Not one industry or your area is more than 25%.

Naysar Parikh: Is it possible to put this in the presentation every time? It just helps to track.

Abhiraj Choksey: Sure, that's a good idea. Sachin, can we do this volume wise? We will decide that. I think that's very good.

Naysar Parikh: And the second question was on Nitrile Latex, right? You did give some color. But just from a supply demand perspective, what do you think is the proportion of oversupply today? And how much do you think is the time will take to actually get there? And is our cost of production very different from some of the larger players who are going to supply and who are dominating the market?

Abhiraj Choksey: I don't have the exact numbers with me right now in terms of supply demand sort of capacity utilization. Typically, we see that once any industry that, at least in B2B chemicals I can speak

for, goes to about 80-85% capacity utilization, anywhere beyond 75 to 80 also sort of margins become fair and viable. Clearly, we are not at that with Nitrile Latex is probably under 70%, but certainly better than where we were six months ago. So, I would say we are getting there but we are not at 75-80%. So, best guess would be under 70% somewhere between 65-70%. But I don't have the exact numbers because it's also dynamic, right? A lot of things change literally on a monthly basis, like we just heard some just a few weeks ago one of the other suppliers of Nitrile Latex has shut down one line. I don't know when that's going to come about or when it happened or whether it will happen in a month or two. So, there are all kinds of announcements made every month in such a dynamic market right now. So, it is difficult to predict or difficult to know the exact data, but this is my best guess. What was your second question again?

Naysar Parikh: On the cost of our unit cost of production.

Abhiraj Choksey: Yes, look our unit cost of production at this stage is obviously higher because they are very low capacity utilization, but as we go higher into capacity utilization, 50 to 80,000 tons obviously we have done a cost curve working us against our competitors. Some of our competitors are significantly larger will continue to be significantly larger and have certain benefits that economies of scale do bring, but at the same time in this kind of business, there is not a major advantage to economies of scale. We have also done a few things differently because we are in terms of our cost of CAPEX is certainly per ton would be the lowest compared to our competitors, but in terms of raw materials we're quite competitive, I would say. So, I don't think that has a major impact. Mostly I would say yes, to some extent, some economies of scale on energy costs and all they may be better off. They are fairly competitive is what I would say.

Naysar Parikh: And just last on NBR. What percentage goes to auto for us?

Abhiraj Choksey: I think the market 25 to 30%, auto 25% probably.

Moderator: Thank you. The next question is from the line of Crook Nahar from Electron PMC. Please go ahead.

Crook Nahar: So, what I wanted was just the utilization level and the volume growth separately for the Latex division and the rubber division.

Abhiraj Choksey: Utilization, so, first of all, we don't give volume. Volume growth if you are asking for as most of the growth this year has come from our Latex business, which is carpet, VP Latex, Nitrile and construction, which is what Sachin mentioned earlier as well. So, the volume growth this year first nine months or even for the quarter has all whatever growth you had is on the latex side. And capacity utilization as I mentioned since we have different plants, hard to say. For NBR, we are at 90% capacity utilization, for example, and for the other two, we are obviously a lower capacity utilization, which I mentioned earlier.

Crook Nahar: On the margin side, the challenge that we are having right now in terms of realization, this is more prevalent on the NBR side, right, if I am not wrong?

Abhiraj Choksey: NBR and Nitrile Latex.

Crook Nahar: Yes, line Nitrile Latex. But you know, how is Jan progressing? I mean, do we see any incremental things there or it is similar to the quarter?

Abhiraj Choksey: Yes, I just said we are seeing a better pull from the market, but it is a little recent. So, we have to see. So, Jan is better than we expected. Let me put it that way.

Crook Nahar: So, on the NBR side, are we pricing, I mean, can we say that this is the worst that we are seeing in the last few years or how do you see that?

Abhiraj Choksey: So, I mean, we certainly have had bad quarters in NBR calendar year FY 20-21, 21-22 are very good for NBR, even going into 23 to some extent in 22-23. But we have certainly had four quarters for NBR, mostly around margins. We have kept our volume going, but mostly around margins, we have had four quarters in these as well in the past.

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

Nikhil: Abhiraj, on the three capacities, as you mentioned, NBR is at 90%, and on Nitrile and Latex, the utilizations are lower. One thing I wanted to understand, if we look at the capacity level, are those capacity breaking even, or some of these capacities are not breaking even? So, would volume utilization, if the pricing does not improve, be a major play for us for our margins to improve from what we are reporting as of now?

Abhiraj Choksey: I am not sure if I understand your question.

Nikhil: So, what I am trying to say is that, is the fixed cost for running these plants completely like covered at the current utilization levels, or is it like the pricing has to improve for that cost to be covered?

Abhiraj Choksey: Nitrile latex, yes, pricing needs to be improved for the cost to be covered. For the other two, of course, we are doing much better than breakeven at an EBITDA level, or even at a productivity level.

Nikhil: Secondly, you mentioned that there are some green shoots you are looking at in Jan. Is it more on volume? Because see, in the chemical industry, and for us also across all, you mentioned that the thing which we are seeing of falling prices and lower volume off-take from the end customers. Now, when you say there are improvement, is it more on the volume off-take from customer, or is it also followed up with pricing?

Abhiraj Choksey: So, look, I mean, again, every company in the chemical industry can't be painted with the same brush, so to speak. We feel for Apcotex, for the first nine months, we have had volume growth of 26%, as we have already mentioned already. January, specifically, the uptick I was talking about was for Nitrile Latex and NBR. The rest of the business, which is styrene butadiene latex, styrene acrylic latex, VP latex, and HSR is quite steady. There have been some, the only issue in that has been the paper margins in the paper industry, which is about 15% to 20% of our sales, overall sales. Their margins have certainly been suppressed. But where, really, why is the company's EBITDA margins have fallen to 10% is mainly because of NBR, margins being low, volumes are fine, and Nitrile latex, both volumes and margins being lower than what we expected. So, Nitrile Latex is really what is pulling us down. And for sure, there we need pricing to improve.

Nikhil: And last question. See, we have done very well on the export side, and the volume recovery has been very strong in a market where things are not playing out. So, is it like our focus was to cover the cost of operations and gain more and more volume shares in the market? So, if you have to intuitively think, what are volume shares at the industry level increase significantly versus other players?

Sachin Karwa: Yes.

Abhiraj Choksey: Think about it two ways. One is, as far as domestic industry is concerned, we have grown with the industry. So, we already had a high market share in most of the products that we are, in all the product ranges that we are in. So, on the domestic side, we did not push too much in terms of market share. Where we have gained market share has always been in the export industry, export market in different industries, whether it's in the glove industry or carpet or construction. That's where we have gone and been aggressive. Our strategy this year has been to push volumes, gain market share, increase the breadth of geographies and customers. And at some point, Nitrile Latex will turn. If it doesn't turn, we are making a Plan B, as we speak. NBR, we know quarter-on-quarter goes through ups and downs. That's just the nature of the business and the commodity. And Styrene Butadiene Latex has been largely, largely stable. Styrene Butadiene Latex and VP Latex and the other businesses have been largely stable. So, that's where we are at in terms of strategy and execution.

Moderator: Thank you. The next question is from the line of Shubham Upadhyay from the Microcap Minute. Please go ahead.

Shubham Upadhyay: I am Shubham Upadhyay from Microcap Minute. So, most of my questions have been answered. So, one of my quick questions is that the export volume for the first 9 months in FY '24 showed an 107% growth year-on-year. So, can you throw some light on the geographies from which the maximum growth has come for the company and whether these growth numbers are sustainable in the next nine months of the calendar year?

Abhiraj Choksey: Well, always hard to sustain something like 100% growth for the next 9 months. I think because the new capacities came on stream in April, we will still see that growth for Q4. Whether Q1 will continue to have 100% growth after we have already grown in Q1 of this year, I am not sure in terms of percentage. We will continue to grow of course, but I doubt with 100%. In terms of geographies, again, well diversified between Southeast Asia. As I said, we even did some business in China for Nitrile Latex. So, a large chunk of the Nitrile Latex has been going to Sri Lanka, Malaysia, Thailand, Indonesia, China, and a lot of our carpets have been going into Saudi, Egypt, UAE. Construction is all over, sort of all over these countries and some even Turkey is another one that we have developed. Of course, as I said, every business dynamic now we are finding, we did a fantastic job in developing Turkey customers, but now with the Red Sea issue freight is turning out to be a little bit of a downer there. So, we hope we can be competitive there given the current freight through the Red Sea and availability of freight, honestly, availability of shipping liners. So, all these, it's pretty well diversified. Sachin, correct me if I am wrong in terms of numbers.

Sachin Karwa: No, no, absolutely right.

Abhiraj Choksey: As a geography I missed?

Sachin Karwa: No, I don't think so. You have missed anything. We have grown in major of these.

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

Ankit Kanodia: Just a follow up question on one of the previous questions that you answered. So, as we mentioned that most of our capacity we have already put it up and no major CAPEX coming up in the coming quarters. Is it fair to assume that asset turn which is slightly down compared to our long-term averages, it should go up from here? So, it's about 3x last year and maybe about 3x only include this year as well? Is it fair to assume it is somewhere between 4 and 5 this year?

Abhiraj Choksey: Yes. I mean, look, I don't know how you are calculating asset turn, but I assume it's on revenue. Overall raw material prices have come down compared to last year. So, if you are comparing the base year as '22-23 and if you compare the same raw material prices you would have seen, if the prices have been the same, then the asset turn would have been higher. Of course, asset turn should go up, right, as we continue to grow our revenue and volumes.

Moderator: Thank you. Ladies and gentlemen, that was the last question of the day. I now hand the conference over to Mr. Sachin Karwa for closing comments.

Sachin Karwa: Thank you. Thank you everyone for joining the earning call for Apcotex Industries. We look forward to have a better quarter and we will keep on doing good. Until then, take care and bye.

Moderator:

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