



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

**Apcotex Industries Limited**  
**Earnings Conference Call**  
**27<sup>th</sup> January 2023**

---

**Moderator:** Ladies and gentlemen, Good morning and welcome to the Q3 FY23 Earnings Conference Call of Apcotex Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing “\* then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Mr. Sonpal.

**Anuj Sonpal:** Thank you Michelle. Good morning everybody and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of Apcotex Industries Limited. On behalf of the company, let me thank you all for participating in the company’s earnings call for the third quarter and 9 months ended of financial year 2023.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today’s earnings call may be forward looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions.

The purpose of today’s earnings call is purely to educate and bring awareness about the company’s fundamental business and financial quarter under review. Let me now introduce you to the management participating with us 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 much delay, I request Mr. Sachin Karwa to start with his opening remarks. Thank you and over to you, Sir.

**Sachin Karwa:** Thank you Anuj. Good morning and welcome everybody to today’s earnings conference call for the third quarter and 9 months ended of financial year 2023. I hope you had an opportunity to review the financial statements and earnings presentation which have been circulated and uploaded on the website and the stock exchanges. We will brief you on the financial performance for the third quarter of the financial year 2023. The revenue from operations



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

were reported at Rs. 234 crores which declined by about 7% on year-on-year basis. The operating EBITDA stood at Rs. 30.6 crores with EBITDA margins reported at 13.07%.

The net profit stood at Rs. 20.4 crore and PAT margins stood at 8.71%. For 9 months of FY23 the revenue from operation stood at around Rs. 824 crores which grew by roughly 21% year-on-year basis. Operating EBITDA stood at Rs. 124 crore a growth of around 22% on year-on-year with EBITDA margin standing at 15.1%. The net profit was around Rs. 85 crore a growth of approximately 25% on a year-on-year basis. The PAT margin stood at 10.28%. During the quarter volumes was flat with 1% growth on a year-on-year basis as we were running at full capacity utilization. EBITDA margins were lower due to inventory losses in Q3 with respect to raw material and finished goods which was impacted primarily by supply chain constraints and price decrease in raw materials. Lower Margins were also seen in some product categories partly due to fall in the ocean freight costs benefiting imported competition and fall in XNB margins due to market conditions. On the capex front, Both the projects in Taloja and Valia are expected to be completed in Q4 of financial year 2023, the delay in projects is due to supply of key equipments.

Additionally, I am pleased to announce that we have declared an interim dividend of Rs. 2 per equity share and 7th February 2023 has been fixed as a record date by the board. With this, I would like to open the call for question and answer session. Thank you.

**Moderator:**

Thank you very much sir. We will now begin the question and answer session. We have the first question from the line of Dhiral from Phillip Capital. Please go ahead. As the current participant is not answering we will move on to the next participant. The question is from the line of Ankit Kanodia of Smart Sync Services. Please go ahead.

**Ankit Kanodia:**

Sir my first question is related to I think slide number 6 on your presentation where you mentioned that EBITDA decline has been primarily due to raw material and chemicals inventory losses, so just wanted to have more color on this in terms of say 6 months down the line or one year slightly longer term how do you look at these raw material prices moving forward and how will that impact our performance and how we are geared up for that?

**Abhiraj Choksey:**

So, as in most of the quarterly concall I have been saying that our nature of our business is that there are times when we benefit from prices going up and frankly the last four, five quarters previous four, five quarters that has been the case we definitely have benefitted now, things have turned since petrochemical prices started sort of falling steeply and that is obviously partly impacted our margins that was not the only reason, but that is one of the main reasons why that has impacted our margins for this quarter and likely to continue into Q4 mainly because we are dependent on a lot of imported raw materials and given the uncertainties in supply chain over the last two years and I think to some extent uncertainties continue in China



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

and in Europe. We had increased our inventory days and we continue to do so. So, while we benefitted when things were rising obviously this was expected, but we have no choice it is part of sort of this business and in the long term to answer your question it is hard to say, but obviously **we feel the prices have now almost bottomed out** so things should start rising from maybe the next quarter or end of this quarter onwards as well.

**Ankit Kanodia:**

And my second point was related to again the same slide where you mentioned about fall in ocean freight cost benefitting imported competition, in our last call you mentioned that we get the benefitting in terms of exports in Middle East and South East Asia where freight cost is not a very large percentage of total cost of the product, so how do we see that as a percentage of our total exports or total sales, so assuming that the price of or the ocean freight remaining at this stage for some time how are we positioned?

**Abhiraj Choksey:**

I think it is a two part question so for imports because for about **40%, 45% of our products we are the only manufacturer in India**. So, for the Indian domestic market obviously the other our only competition is imports now what happened over the last two years I would say pre **September, October is that ocean freights have been obviously very high** as we all know and that is **benefitted us for the Indian market** and that of course that **onetime benefit that we had for a few quarters is now almost back to pre-pandemic** kind of ocean freight levels in most cases. So, that onetime benefit is sort of gone now and as far as exports is concerned of course those because most of our exports are in countries close by they had a big impact obviously those rates have also come down substantially and that benefitting us for exports.

**Ankit Kanodia:**

And my last question is relative in the last call we mentioned about **excess capacity** being there throughout the world in terms of the **glove manufacturing**, any update on that, do we see any changes or it remains to be like that?

**Abhiraj Choksey:**

The downturn of the glove industry still continues it started sometime last year in 22 and that continues and that has been one of the reasons of our lower margins also while it is a small percentage of our **total sales XNB latex for gloves** around maybe **less than 10%** so far. We enjoy extreme high margins in 2021 in early parts of 22 and obviously those have kept coming down and they are really compared to the pre pandemic average much lower that is expected to continue for the next couple of quarters one or two quarters at least, from all industry reports we have been touch with customers they feel that once the old inventory is used up that will certainly help, some of the excess capacity has been recently created, those companies are obviously not doing with high investments maybe there will be some consolidation. So, we think it will be the second half of this calendar year when things should change.

**Moderator:**

Thank you. We have the next question from the line of Aditya Khetan from SMIFS Institutional. Please go ahead.



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

**Aditya Khetan:** Sir my first question is on the Nitrile Latex side on to the channel inventory now what we are witnessing so that is at the minimum level into Nitrile Latex, so how you see the demand right now and we note that the Nitrile Latex prices also so they are at the lowest levels, so what should be the trigger for prices and demand going ahead?

**Abhiraj Choksey:** For us we are currently **selling only 10% of our sales is Nitrile Latex** so less than 10% also. Obviously they are coming up with a **50,000 ton plant for Nitrile Latex in Valia** which is still a small percentage of the global market. So, selling 50,000 tons is not so much of a challenge. The issue will be of course given that the current there is not much pull from the market, it is a lot of relationship building and pushing that we are doing. So, it may take a little longer to get to full capacity for 50,000 tons maybe a year or so. We were early expecting 6 months, but now we think it maybe a year or so and as far as margins are concerned look that is a anybody guess, but we think as I said I mentioned to the previous caller that we think in 6 months the market should turn, but it is certainly going through its deepest downturn the glove market and therefore the raw material they are being supplied to the glove market going through the deepest downturn that it ever has, but in the long term we are quite bullish that with the growth in healthcare requirements across the globe we believe it is a high growth market for Nitrile Latex as well as shift from natural latex glove to Nitrile Latex glove and we are well positioned in terms of geography, raw material pricing everything and new plants at a reasonable CAPEX compared to most of our competitors. So, all good things in the long run we are quite bullish and of course we are entering the market at a time when there is a downturn so that is the reality.

**Aditya Khetan:** Sir you said to take the market to u-turn it will take 6 months, so from May or June we can expect pickup in demand?

**Abhiraj Choksey:** From all industry discussions we have had they have been saying second half of the year.

**Aditya Khetan:** Second question on to the benefit of the realizations which we have got in the last three quarters so wherein we had made around 45 crore of EBITDA now we are down to around 30 crore of EBITDA in this quarter, so how you see these things to improve or maintain at these levels at least for the next two quarters?

**Abhiraj Choksey:** This quarter again the same challenges will remain I am talking about Q4 and then as a new capacities kick in we expect EBITDA to improve if there is no other major issue or change because raw material prices will also bottom out in this quarter. So, at least this quarter we do not expect the major improvements, but hopefully from Q1 of the next financial year there should be some improvements.

**Aditya Khetan:** Sir just one last question you have mentioned so YoY volume growth of 1%, so similar on quarter-on-quarter basis how much was the decline in volume?



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

- Abhiraj Choksey:** There was no decline.
- Aditya Khetan:** So, 17% decline in revenue that was primarily led by realizations?
- Abhiraj Choksey:** That is right. That is a good point so I just clarified because I am sure we have been running at full capacity and we continue to run at full capacities in Q3, we focused on total volumes, holding market share and yes to some extent the margins have come down in some of our product categories, but we have had to deal with that.
- Aditya Khetan:** Sir just one last question from my side sir one more question sir are we witnessing any increase in imports since you have also mentioned that the freight rates have gone down, so imports might have increased so competitive intensity will have also increase, is this also one of the reasons which is leading to decline in realization?
- Abhiraj Choksey:** Absolutely that is one of the reasons, but as I said we will hold on to our volumes in market share and we have to correct our prices in some of the products where we face intense import competition. I think one of the other reasons have also been overall slowdown in China over the last few months and a lot of imports have been directed towards India because India is one of the few shining spots in the world today where demand overall has not been affected. So, if you see our India demand the demand has not been affected it is a question of raw material pricing, little bit higher intensity in competition in some product categories that is what it caused reduction in EBITDA quarter-on-quarter.
- Aditya Khetan:** And sir this expansion which we were planning this was supposed to start in Q3, sir any reason why this has been shifted to Q4?
- Abhiraj Choksey:** Yeah I mean look the main reason has been a lot of delay in semiconductor wherever equipments where we were buying that used semiconductor were incredible delayed and that will I guess the main reason, but now everything is in place. We have got everything, we are in the mechanical completion stage in fact the plant is ready and most plants are ready and we are already doing water trials and we will be we expect by the end of next month so about in a month from today to start the product trials as well.
- Moderator:** Thank you. We have the next question from the line of Aditya from Securities Investment Management Company. Please go ahead.
- Aditya:** So, just wanted to get a better understanding of a synthetic latex business excluding the Nitrile Latex for gloves, so now what are the market dynamics over there, so do we face competition mainly from domestic players or are there imports as well and I believe since we are a market leaders in most of these products, so are we facing margin pressure over here or are we able to pass on the price increase, decrease over here?



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

**Abhiraj Choksey:** So, here I would say we have mostly domestic competition there is some import competition, but the margins have been fairly good I would say for **synthetic latex outside of Nitrile Latex and we mainly have domestic competition one major domestic competitor** for this and there have been by and large okay, but obviously the higher cost raw material that we have had to import I am sure they have as well, but the market corrected quickly in terms of finished goods pricing. So, to some extent there has been some reduction, but not major reduction in margins in those products.

**Aditya:** So, just to follow up so what is the pricing policy for the company for the synthetic latex business, so what is the frequency of the price that we have with our customers or do we book raw materials on a back-to-back basis to protect us from inventory losses?

**Abhiraj Choksey:** There are couple of pricing models we have. One is we are formula pricing for some large customers who are willing to commit volumes and the rest of them are on spot basis. So, I would say wherever we were on formula basis. So, I would say wherever we were on formula basis we obviously lose out when we were buying, formula is based on some published raw material rates and our actual rates of buying are obviously different and when prices are going up we benefit when prices are coming down it is a disadvantage to us. With spot of course we are quicker at sort of passing along the price increases or decreases, but sometimes when you are stuck with a lot of high cost inventory maybe there is some pressure in the short term to reduce prices when prices are coming down because they do get prices what the imported prices are. So, even though imports may only be 15%, 20% of the total markets it still impacts the entire market in terms of pricing.

**Aditya:** And what will be the proportion of the formula-based pricing and spot pricing?

**Abhiraj Choksey:** Totally as a company I think it is about can I come back to you on that, but it is still a smaller percentage I think maybe about **25% or so would be formula pricing** and the **rest would be spot as a company** as a whole I am saying.

**Aditya:** If I look at the margin profile of the company pre **2016, 2017 we used to make around 8% to 10%**, but now we are guiding for around **13% to 16%**, so just wanted to know what has changed **for the company in this year which has led to the increase in margins**, is it just scale or are there any other factors which has helped us achieve such margins because when I look at the product profile of the company we have added Nitrile Latex, but it is currently constituting in single digit revenue and we have added NBR which also makes company level margins only. So, margin accretion would not have come from a change in product mix, so what has led to the increase in our base level and profitability?

**Abhiraj Choksey:** I mean couple of reasons one is of course as **economies of scale** kick in as we get growing. The second is our customer profile, our product profile we have **moved into some speciality grades**



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

also which are much higher margin obviously lower volume. So, all combinations of reasons have helped overall margin and of course as you grow the **ability to buy at a lower rate**, better procurement buying I mean multiple reasons I would say four or five different reasons.

**Aditya:** With the change in product mix would have led to increase in margins because the products have remained more or less the same?

**Abhiraj Choksey:** No, but within the product as I said this customer mix as well. So, earlier, for example, I mean if I have to give a specific example in the paper industry there was a large focus on or large percentage of our sales were two or three large customers. So, as we have grown and as the industry has grown now there are a bunch of middle and in smaller level customers where the margins are better. So, we have not grown because volume has been capped, we have purposely sort of focused on customers which are higher margins. Similarly on exports as well initially while we were getting in the approval phase we had to give pricing at a much lower level to break in and now that we have broken in and proven to be a consistent and good quality supplier to our export customers we have been able to increase margins overtime. So, these are just couple of examples I am giving you.

**Aditya:** And what is the CAPEX guidance for next year and what kind of maintenance CAPEX is required in our business?

**Abhiraj Choksey:** So, as of now after this **CAPEX is done which is around 200 crores this year** we have not taken a call on further major CAPEX and we expect a **maintenance CAPEX of about somewhere between 15 to 18** crores per year and that also includes improving some of those projects are not necessarily maintenance, some maybe debottlenecking, some maybe cost reduction. So, some of them will benefit and some are pure maintenance which is just replacement of materials. So, we have some small projects which also help in overall margin improvement because of revenue increase or cost decrease I am talking about in general that we see over the last three, four years and we expect that to continue in the next year.

**Aditya:** And what percentage of our power requirement are met through captive sources since power cost is a big cost for us?

**Abhiraj Choksey:** So, in our **Valia plant I think the entire power comes from captive power plant**. We have a co-gen power plant which manufactures steam as well as power for us and in **Taloja we are dependent on MSCB**, we do have some **small percentage of wind and solar power**, but it is a very small percentage of our Taloja requirement.

**Moderator:** Thank you. We have the next question from the line of Nagesh Jain from NB Investments. Please go ahead.



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

- Nagesh Jain:** First of all regarding the inventory loss that you have mentioned, is it possible to quantify how much was it in the last quarter?
- Abhiraj Choksey:** It is possible, but we are not revealing those kinds of numbers, but I would say at least I mean it would have made an impact of at least the couple one or two percentage of EBITDA.
- Nagesh Jain:** So, what is there in Q2 of this current year?
- Abhiraj Choksey:** Q2 was the benefit as I mentioned to the previous callers that the previous three, four quarters we had a benefit of inventory gains rather than inventory losses.
- Nagesh Jain:** And you are saying that this loss maybe there even in the current quarter Q4?
- Abhiraj Choksey:** Yes.
- Nagesh Jain:** My second question is regarding the NBR project I know to the previous caller you said that there is no significant CAPEX for the next year, so does it indirectly mentions that you still not taken any decision on expanding the CAPEX of NBR latex?
- Abhiraj Choksey:** Yes that is correct we have not taken any decision. We are in the middle of completing our sort of detailed engineering for that project, but the final call will take place because you want to ensure that our balance sheet numbers are also healthy and we are not taking too much of a risk on that. So, we have not taken a call on that yet.
- Nagesh Jain:** So, this latex gloves part you said it will take more than 6 months to ramp up to the full capacity, but at the same time the margin expectation also will be low from that product?
- Abhiraj Choksey:** Yes exactly and it will take longer than 6 months we think maybe up to a year now it would take too ramp up the full capacity.
- Moderator:** Thank you. We have the next question from the line of Farokh Pandole from Avestha Fund Management LLP. Please go ahead.
- Farokh Pandole:** Just wanted to check have we started manufacturing from Valia and if so what is our utilization at this stage and is any of this capacity given the issues that you have highlighted, is any of it sort of swing wherein you can maybe divert some of it to other segments?
- Abhiraj Choksey:** No, we have not started manufacturing and as we mentioned in the opening remarks as well as to previous callers there has been a further delay I know earlier it was supposed to be September, October and December, but because of some delays in semiconductor a lot of our automation equipment was delayed by huge sort of a month of time. Now everything has come of course we have received everything and we have installed everything, we are in the middle





**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

of final testing and final approvals the CTO as I call it content to operate for our plans in Talaja and Valia. To answer both will start up by the end of February, early March with trial runs and of course rampup over the next 6 months to 1 year. Earlier the plan was to make Nitrile Latex in both plants here 50,000 tons we had in Valia and 10,000 tons in Talaja. Last time I mentioned that the Talaja plant was a swing plant so we have made some additional investments to make it a swing plant because we believe that in our current set of products in LB latex there has been a lot of pull and demand and therefore what we have done is converted that plant to be able to manufacture any products so that is the full swing plant and ready to go from next month. The good thing was that we have now while we are 50,000 tons of Nitrile Latex we can make up to 35,000 tons of SB latex in Talaja. So, totally in terms of revenue it would amount to about current price is about 600 to 700 crores in some of the earlier I had mentioned 450 crores to 500 crores I believe was the thing. So, with the current 200 crore investment we should get about 600 to 700 crores. So, this is how we are looking in the next couple of years that we would have Nitrile Latex coming from Valia and other latex is from Talaja where obviously the margin profile in the current context are better and tomorrow or a year later if the margins in nitrile become better we can always switch. So, that is the kind of provision we have left for Talaja. In Valia, unfortunately unable to do that and so it will be a Nitrile Latex plant only for now. In the long run if we want to make some additional investments and we have some options where we have to have additional investments made to do that. We still believe the Nitrile Latex will be a good market in the long run obviously in the current context last 6 months in the coming 6 months the margin profile is quite poor, glove industry is not doing so well, but in the long run I think we strongly believe that things will turn especially it is a 10% to 15% growth market so I think that will turn. So, overall the way we are looking at our projects is at disinvestment of about 200 crores will give us revenue of about 600 to 700 crores in addition to the 1,000 odd crores that we already have plus we have left provision for additional investments at a very low cost I mean I want to say maybe around additional 30 crores, 35 crores will give us additional revenue of 300 crores. So, we have build the companies or build these projects to ensure that we can get to 2,000 crores without any significant investments. So, I know it is a long answer, but I hope it answer all your questions.

**Farokh Pandole:**

Also can we get some idea of the level or profitability in Nitrile Latex today versus maybe 6 or 12 months ago as in what has been the dilution in profit because of inventory issues and the other things that you mentioned?

**Abhiraj Choksey:**

XNB latex is not because of inventory issues that has been mainly because of overall market being sort of very weak, the inventory of gloves you are right because of high inventory of gloves. So, I mean margins have pretty much crashed from let me put it this way if there were 100 pre COVID or pre pandemic they went to almost 300 and now they are down to less than 50. So, it is half of what they were pre pandemic, less than half over they were pre pandemic.



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

**Moderator:** Thank you. We have the next question from the line of Dhiral from PhillipCapital. Please go ahead.

**Dhiral:** Sir I missed that part as you said that from the incremental CAPEX of 200 crore now you are looking at a revenue of 600 to 700 crore, so just wanted to recheck so what kind of change in the product mix we are looking at sorry I missed that part?

**Abhiraj Choksey:** What I mentioned is that as far as our Taloja plant is concerned it will be we will be focusing on our existing latex product **Styrene Butadiene latex, Styrene Acrylic latex, VP latex** and so on from that swing capacity and because the cycle times for those products are lower than Nitrile Latex we are able to make about **35,000 tons against 10,000 tons** and in Valia it will be **50,000 tons of Nitrile latex. So, totally 85,000 tons of latex which amounts to about 600 to 700 crores at current prices.**

**Dhiral:** And sir what kind of utilization we expect from the Nitrile Latex in FY24 as you are expecting some change in situation from H2 FY24?

**Sachin Karwa:** Obviously in the first few months it will be very low and then ramp up slowly. We hope that by the end of the year we will be at in the last couple of months of the financial year we would be at full capacity and for the year we may be less than may be 40% because obviously the first few months will be at very low-capacity utilization because we will still be going through the re-approval state because it is a new plant for customers require has to sent some small amount of material and then ramp up slowly. So, maybe 40% for the year.

**Dhiral:** And lastly because of the fall in the realization in the margins at what utilization has been breakeven?

**Abhiraj Choksey:** See operating cost volumes are breakeven overall there is hardly any increase in fixed cost. So, we would be breaking even at a very low-capacity utilization.

**Moderator:** We have the next question from the line of Romil Jain from Electrum PMF. Please go ahead.

**Romil Jain:** Sir I just want to understand the Taloja plant that you mentioned the on going CAPEX which will I think start next month, so 35,000 additional Nitrile Latex can be manufactured, but apart from that also we can manufacture other products which can give similar revenue just clarification on that front?

**Abhiraj Choksey:** I did not understand the question.

**Romil Jain:** No so I think as you mentioned 35,000 tons of additional Nitrile Latex can be manufactured at Taloja?



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

- Abhiraj Choksey:** SB latex at Taloja Styrene Butadiene latex, Styrene Acrylic and other products.
- Romil Jain:** But we can also manufacture the Nitrile Latex is what the new CAPEX is?
- Abhiraj Choksey:** We could also do that yes.
- Romil Jain:** And still make similar revenue?
- Abhiraj Choksey:** Earlier the plan was to make only Nitrile Latex because the margins are very strong so the earlier revenue was lower earlier the plan was totally 50 and 10,000 tons so totally 60,000 tons 50,000 at Valia and 10,000 tons in Taloja for Taloja for XNB latex with a revenue of about 450 crores to 500 crores. Now that has changed because we are able to make much more other kinds of latex through the same plant. So, now the revised revenue that we will generate from these plants will be 600 to 700 crores with an option of sort of marginal investment to get another 300 crores from there.
- Romil Jain:** And sir second question is the current margins that we have reported I think on the EBITDA side about 31%, so this is with the pressure on the Nitrile Latex part of it which is less than 10% revenue, so I am assuming that the other part of the business that is broadly still stable and still sustainable in terms of margins?
- Abhiraj Choksey:** Yes as I said broadly yes, but in the short term because of some high cost raw materials we have had an issue and also in some pockets, some product categories where we get a lot of import competition, for example, some of our synthetic rubber we have seen margins also drop due to market condition, but we believe those are sort of temporary phenomena and part of the business cycles it happens for a couple of quarters and goes back up, but by and large yes the other part of the business is okay.
- Romil Jain:** So, that means as you mentioned that maybe in the next 6 months to 9 months I think as things stabilize on the Nitrile Latex front also utilization increases these margins maybe broadly bottom margins and there maybe swing towards better margin strategy is what I am trying to understand?
- Abhiraj Choksey:** We hope so yes we think so. Look overall the two or three things that we are quite bullish on. One is that look the company is now well positioned with very minimal investment to get to 2,000 crores over the next maybe 4 years to 5 years so there is no additional major investments required. Number two our return on capital even as these margins return on capital, return on networth is quite healthy and number three we feel that we are quite well diversified company and one of the things that COVID has taught us to be more flexible and now our plants are much more flexible. So, in case there is a downturn in one industry we can always make it up with some other products. So, to some extent we are able to do that not 100% as I mentioned



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

to the previous caller for our new Nitrile Latex plant as of today the 50,000 tons is only built for Nitrile Latex and the whole plant is built for Nitrile Latex.

**Moderator:** Thank you. We have the next question from the line of Nikhil from Simple. Please go ahead.

**Nikhil:** Just three questions one is sir you mentioned in 40%, 45% of our business where the dynamics are driven by imports even after the price drop, would you say our volume share in the industry are sustained, so we are maintaining our market share even though imports are increased, would that be a right assumption?

**Abhiraj Choksey:** Absolutely 100% right assumption that as I mentioned again earlier that we are running at 100% capacity utilization and even we continue to do this quarter as well in Q3 prices fell overall and obviously we had to correct our prices, but we held on to the volumes in the market share.

**Nikhil:** Now second on the glove latex I understand so two questions one is in the previous calls you had mentioned that even though the industry dynamics have gone bad we would still be able to maintain our ROCE on the CAPEX say 20% plus, the conditions which you mentioned that pre COVID if we were at 100 today we are at 50 would you say if this sustained for some time that 18%, 20% ROCE is still sustainable for our new CAPEX or would it be dilutive to some extent?

**Abhiraj Choksey:** So, I think of course when I was talking about 20%, 25% ROCE as we were looking at the next five years and obviously the expectation was that margins would improve that they would not remain at these levels and they would at least improve to pre pandemic levels, but as I said even at pre pandemic levels ROCE would be even better, but even if we have to sustain one year of low margins for example and then margins improve after a one year we would still that is what I meant that over a five year period we are still confident that at least the 20%, 25% ROCE on this new project would also be possible.

**Nikhil:** And just last question on the glove latex we understand that there is a lot of capacity which came in from the glove manufacture, but how is the capacity addition which has happened at the latex side, so has the latex side capacity addition been in line with the glove manufacture capacity addition?

**Abhiraj Choksey:** No, I do not think it will be as much as because you know the glove capacity is easy to add quickly. As far as latex for glove is concerned the current players largely the current players are the ones that have increased capacity. So, some capacities were already in the work like ours for example we had already started in that thing and some were announced. So, I believe the ones that were announced and no money was put in have all been put on hold. So, our view is that the latex capacities is not obviously gone up as much as the overall gloves capacity in both



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

China and South East Asia and it is more the glove capacity that is an issue and the glove manufacturing that happened over the last couple of years which cause a lot of excess inventory. So, once those things correct I think overtime in market which is growing at 10% to 12% minimum if not 15% thing should correct itself in a couple of years.

**Nikhil:** And just one last question if you permit if we look at most of the suppliers in this industry the latex manufacturers are backward integrated with a petrochemical channels, petrochemical backward integration or based out of Malaysia while we have to import a lot of RM or we do not have such a strong backward integration advantage, so if we have to understand our advantage in market share gain is it more on incremental market share gains or is it more on we are replacing someone else with our new capacities in the glove latex side, so how are we gaining market share there and what is the advantage we enjoy?

**Abhiraj Choksey:** Please understand that it is not necessarily true that they are all backward integrated. There are a couple of competitors they are not completely backward integrated and even a few of them that are there many other products. So, the **two main raw materials** for this latex is **Butadiene and acrylonitrile**. Now **Butadiene we have sources that are very close to our plant** and that is true of some of our competitors as well. In fact some competitors in Korea are importing Butadiene into we are not importing we are hardly importing any Butadiene. So, that is an advantage to us and **acrylonitrile I do not think anybody is backward integrated**, they are all buying from the market. Yes, in some cases acrylonitrile is available in the same country. So, to that extent freight, raw material price volatility all that is avoided, but we believe that we are not at our major disadvantage because **large quantities of acrylonitrile are also imported into India at pretty competitive prices** and we are able to get those. So, we feel in terms of raw material pricing when anyways we are not in any way the disadvantage to any of our competitors.

**Moderator:** Thank you. We have the next question is from the line of Saurabh Shroff from QRC Investment. Please go ahead.

**Saurabh Shroff:** First question on the balance sheet so as of September we were at about 145 odd crores of debt, should this peak out at about 200 crores by the end of March once the plant gets commissioned?

**Abhiraj Choksey:** **Sachin, can you answer this question, Are you there?**

**Sachin Karwa:** Yes it will be.

**Abhiraj Choksey:** So, what I understand currently because prices are coming down even working capital requirements have come down to some extent that helped us and I think when you are counting that I think you are looking at overall long-term debt as well as working capital.



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

- Abhiraj Choksey:** I do not think it will even get to 200 crores Sachin what do you think maybe 160, 170 because large chunk was already done?
- Sachin Karwa:** I think we have almost utilized and we should be in that range and this should include the additional working capital debt also that you will need once the plant is up and running \_.
- Saurabh Shroff:** I think you had mentioned maybe it was a few quarters ago is there any sort of work by any of these measures that acrylonitrile could start becoming available locally I am guessing it is a couple of years away?
- Abhiraj Choksey:** There has been some talk, but I do not think there is anything that hit the ground as far as I know.
- Saurabh Shroff:** So, no progress has been made on that front?
- Abhiraj Choksey:** As far as I know in the last three, four months I do not think it has.
- Saurabh Shroff:** And finally on the last question these new CAPEX sort of Valia or Taloja the new plants are they any more or less sort of labor intensive or more automated and hence the confidence that with a very little fixed cost days you are sort of breakeven, is that the understanding?
- Abhiraj Choksey:** It is literally I was firstly surprised with the level of automation that they have been able to pull through and so just to give you an example in our Taloja plant 35,000 tons which will give us at least 200 crores, 250 crores of revenue we need an additional maybe 6 people, 8 people per shift just that is it. So, it is highly automated everything is run from automated DCF system and of course some amount you do require physical manpower for packing and such, but a lot of it is automated much more than our current plant.
- Moderator:** Thank you. We have the next question from the line of Vishwa Shah from Samuhara Investment. Please go ahead.
- Vishwa Shah:** Sir, I just wanted to get an understanding on the raw material pricing that you said affected us because petrochemicals prices have gone down, so what I wanted to understand is because we have stocked upon inventory during lockdown at a very high price is why we are being affected by the steep crush in the raw material right now that is question one and secondly I wanted to know about what happened with the anti-dumping duty case that we had filed with CSAT, so if you could throw light on both of them?
- Abhiraj Choksey:** Over the last two years we had continuously had to have higher amounts of raw material inventory just because of the uncertainties around import. So, even domestic raw material inventory we also increase some of our inventory days because some of our domestic suppliers



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

were also dependent on imported raw materials. So, we wanted to ensure that we did not want to have this false sense of comfort because we are buying from a domestic so everything will be okay. So, as a result of this overall inventory days have gone up and we continue to maintain those maybe in the next three months we may reevaluate three to six months, but as of now we continue to maintain those. So, while we had that benefit while prices were going up for three or four, five quarters I would say obviously from this Q3 onwards that has reversed. So, that has been part of the reason why our margins have been lower not the full reason, but part of the reason and your second question on anti-dumping duty absolutely we have appealed for anti-dumping, we have got some favorable sort of judgment in our favor as well, but nothing has come out of it as of yet. I think it is still in the course because the appeals and all are going in I mean going on the side, but it is something that it does not affect our day-to-day business right now.

**Vishwa Shah:** And sir just last question the borrowings that has increased from March 22 to up till now that was mainly for the two CAPEX that we have incurred in the two plans?

**Abhiraj Choksey:** That is the only reason yes absolutely.

**Vishwa Shah:** So, in the last call you had mentioned that it is 50% internal accrual and 50% debt, so that is the case?

**Abhiraj Choksey:** Approximately you are right I mean it maybe 55% I have to work out the exact numbers finally, but Sachin what do you think 55%, 60% debt?

**Sachin Karwa:** 60% approximately would be terms and balance will be internal accruals.

**Moderator:** Thank you. We have the next question is from the line of Amar Mourya from Alfa Tech Advisors. Please go ahead.

**Amar Mourya:** So, wanted to understand like as you indicated that this quarter I mean EBITDA per Kg or realization were down because of the inventory loss, so is it like let us say by two quarters we will come to our historical average EBITDA kind of level and what was the freight cost, what was the higher freight cost which were pencil-in into the realization if you can indicate that?

**Abhiraj Choksey:** Difficult to exactly say how much freight cost look I look at it from a long-term point of view. Today we are a part of a 1,000, 1,100 crore company this year with an average EBITDA of about 15%. We feel fairly confident that in the long term to maintain these kind of EBITDA level and maybe even improved them as economies of scale kick in and when the margins return to normal pre pandemic levels etcetera. So, the way we are looking at it is that the CAPEX that we have made today will take up from 1,000 to 2,000 crore with some additional marginal CAPEX over the next three years and we want to maintain those EBITDA margins. Now, there could be



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

some quarters where the EBITDA margins are a little lower like this quarter we have had maybe it may go down further in some quarters. I have no idea maybe 11% I am not sure maybe we will do 17%, 18% in some quarters. So, that is the nature of this business that we have to live with these fluctuating EBITDA margins due to the raw material volatility and sometimes market dynamics in some of our product categories. The good thing is you have created a well diversified business were not only focused on one or two industries or those industries go down suddenly our margins will go to 5% you know those kinds of things which used to happen in the earlier days I do not see it will happen going forward and I think economies of scale will help as well. So, that is the way we are looking at the business, but quarter-on-quarter very difficult to predict.

**Amar Mourya:** And secondly the capitalization will happen in Q4 for both the asset the 200 crore CAPEX?

**Abhiraj Choksey:** Yeah that is right.

**Amar Mourya:** And for 200 crore CAPEX you indicated we took some 50% debt correct?

**Abhiraj Choksey:** Yes approximately I think 60% debt I mean 200 crore CAPEX was for these two projects plus we have other maintenance and other projects going on. So, for the year I would not say for the year, but for FY23 as well as part of FY22 total 20 crores to 30 crores was our total CAPEX and about 125 will come through long term debt.

**Moderator:** Thank you. We have the next question from the line of Rohit Balakrishnan from iThought PMS. Please go ahead.

**Rohit Balakrishnan:** So, just couple of questions so one was could you talked about being very diversified in terms of our industry mix, so can you broadly give the share of that you top five industries in terms of your revenue mix I could not find it in the I mean you mentioned the industry you just give a broad sense and if you could also give like what it was let us say five years back to now very broad numbers I do not need exact numbers?

**Abhiraj Choksey:** That is a good point I mentioned about 7 years ago before maybe acquisition of Omnova Solutions India before that I would say maybe 30% to 40% of our sale was to the footwear industry, 25-30% was to paper and the rest 10%, 15% to tyre, 10%, 15% to construction and so on. In the current context and I am talking about FY23 I would say about 15% to 20% would be paper and paper board, construction would be another close to 15%, carpet would be 10%, carpet textile put together would be 10%- 12%, tyre would be another 10% and Nitrile Latex is another less than 10% maybe 7% 8% and the rest is all rubber products which includes footwear, automotive, hoses, all different kinds of application from agriculture to auto to all different kinds of industrial hoses so many different applications. So, the final industry consumers are very varied now and no one industry has more than 20% and once the gloves





**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

market also starts kicking obviously gloves will become a larger chunk maybe 20% of our overall sales, but the others will grow as well.

**Rohit Balakrishnan:** You mentioned the next this CAPEX would help you to reach to about 2,000 crore with some more smaller investment I mean this is like over the next four, five years or earlier than that how do you see that?

**Abhiraj Choksey:** I mean our endeavor is next four years that would be three to four years that we should be able to get to 2,000 crores with this CAPEX and of course any additional CAPEX project that we may take, for example, as I have been saying additional NBR capacity is something that in the works that we are looking at plus some new projects potential inorganic growth opportunities as well so that is all additional to this, this is I am just talking about the investments already made.

**Rohit Balakrishnan:** And the peak debt you are saying is about 170 crores including working capital as I see?

**Abhiraj Choksey:** It depends on the working capital requirements and when prices go up because he signed it when suddenly prices shoot up obviously our working capital requirements goes up and when they come down, it comes down again, but I do not think it will cross 200 crores maybe 180 crores or so.

**Rohit Balakrishnan:** And last question sir I mean you talk about this diversification of product and industry so just from a slightly different question but in the same line is that so typically when the prices fluctuate let us say if I go down versus you also mentioned in the earlier call that like for example import prices now becomes competitive, so how frequently do your customer switch from let us say you versus somebody else and how fungible is that if you can just give some example I am sorry if you already answered in some of your previous concall?

**Abhiraj Choksey:** As long as by and large price competitive customers do not switch. So, obviously, for example, market falls by 20% and we do not decrease the price at all, customers would be unhappy and then are looking for an alternate options, generally they have two options, but given that one of the things Apcotex has done over the last 10 years is it becomes a strategic source of supply for most of our customers and most of our industries. We are major tyre chord manufacturer, all the major paper and paper board manufacturers, all the major construction, chemical companies I do not think any of them have had even one month where they had not bought anything from us. So, as long as we are price competitive and we assure them that we would be we have high amount of stickiness with our customers.

**Moderator:** Thank you. We have the next question from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

- Karan Bhateli:** Sir, on the exports what was the contribution and the growth we have seen?
- Abhiraj Choksey:** For which period, but I have those numbers somewhere. So, overall, we have been at about **20% of our total sale is exports** and in terms of growth I have numbers for the first 9 months we have seen about **11% growth in exports this year compared to last year.**
- Karan Bhateli:** And sir you mentioned nothing probably could change in materially in terms of realizations and in terms of margins for the fourth quarter, so we will be running at peaks in volumes for the fourth quarter as well?
- Abhiraj Choksey:** Yes that we continue to do so we are running at full capacity even now.
- Karan Bhateli:** And the CAPEX outflow for FY23 could be?
- Abhiraj Choksey:** Around 200 crores.
- Moderator:** Thank you. We have the next question from the line of Anubhav Dahun from Infy Research. Please go ahead.
- Anubhav Dahun:** Most of my questions have been answered just one on the peak revenue guidance now given that the market conditions have changed and now that both the plants who essentially be targeting different set of products, so would it be possible for you to give a breakup between two plants in terms of investment and expected revenue I mean just give a breakup of 200 Cr investment and 600 to 700 Cr expected peak revenue?
- Abhiraj Choksey:** So, out of the total CAPEX of about **200 crores** I would say **70% is in Valia and 30% is in Taloja** between 70% and 75% in Valia and 30% in Taloja and in terms of revenue may be that will be a higher percentage for Taloja. So, maybe **40% Taloja and 60% Valia** going forward from the new plants.
- Anubhav Dahun:** I understand that the plant has already supposed to be filled up, but the change in strategies decided by both the reasons the change in dynamics for the latex gloves as well as strengthening the demand for the other latex products right?
- Abhiraj Choksey:** Yes that is correct.
- Anubhav Dahun:** And sir in that context could you also talk a little bit about the demand outlook for the non-auto and market like construction, paper and carpet?
- Abhiraj Choksey:** I think overall demand in India has been fantastic for these products that is all our customer in India as well as abroad both. I would say abroad mainly South East Asia wherever we are doing exports I mean the demand has been phenomenal **in fact we have not been able to cater to**



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

the demand because of our limited capacity and our team is quite confident that the next two to three years we will be able to utilize even the Taloja plant 35,000 tons extra that we have now invested in.

**Moderator:** Thank you. We have the next question from the line of Nikhil from Anand Rathi. Please go ahead.

**Nikhil:** Just one question on the glove latex industry now as we mentioned that the capacities have not come up to the extent the way glove manufacturing capacities have come, but what we understand is that gloves it is a very fragmented industry where there are many glove manufacturer, but on the latex side how is the industry structure, is it pretty consolidated and where I am coming from is that if the industry is consolidated and there are multiple glove manufacturers which are finding pressure on inventory and on demand, so is the pricing also been impacted on the latex side or is it more of the utilizations have dropped significantly which is cause of concern for the industry?

**Abhiraj Choksey:** So, to answer your question first obviously the latex industry is much more consolidated than the glove industry. The glove industry have guys from small \$2 million, \$3 million revenue to billions of dollars of revenue as well large manufacturers in Malaysia, Thailand, China and so on. So, it is fairly consolidated obviously as the demand has gone down utilization has come down because also all these current latex manufacturers also added capacity over the last couple of years and therefore when utilization is down there is automatically pressure on margins and that is what happening on both the gloves and the latex.

**Nikhil:** So, in a way if we look at the price fall if we commence, would we more commensurate with the RM fall, but not like a steep fall other than what the RM fall has happened, so it is not like some people are trying to get to market share as whatever price and the industry dynamics and interestingly the industry dynamics?

**Abhiraj Choksey:** No that is also change because even though there were new players the existing players plus us like we are relatively new player, we have come into the market that way there are one or two others also they are come into the market or I do not think they are coming in but will come in this year. So, as a result of which the current Nitrile Latex manufacturers they are trying to hold on to market share and it has become much more competitive it is not just raw materials.

**Nikhil:** And just one last question if you have any idea or what would be the utilization at which the industry would be working the latex industry would be working currently versus what it was pre COVID, any rough estimate just to get a sense?



**Apcotex Industries Limited**  
**27<sup>th</sup> January 2023**

- Abhiraj Choksey:** I do not have with me ready right now honestly I am not sure, but it was changing every month-on-month, things are improving now slowly, but difficult to give a exact number.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Abhiraj Choksey:** I would like to thank all of you for joining this Q3 Concall. Just to summarize while we are in a challenging phase and given the overall current macro economic environment plus some specific local industries issues like the glove industry etcetera we are quite bullish and confident of where the company's position currently, we were quite comfortable at much lower CAPEX than most people could do in the world, we have been able to generate this or we will be able to generate a revenue of 600 crores to 700 crores which can go up to 1,000 crores with the further minimal investment which we will come back to you of course in a year or two as and when we are ready to do that and while margins quarter-on-quarter can vary in this kind of business we are hopeful that we will stay in the mid-teens and yeah continue to grow the business in a healthy manner keeping in mind diverse product range, diverse customer range, diverse geographical reach and of course the healthy balance sheet. So, look forward to see you all in the next quarter. Thank you very much.
- Moderator:** Thank you. On behalf of Apcotex Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.