

Apcotex Industries Limited
Q4 FY17 Earnings Conference Call
May 9, 2017

Moderator: Ladies and gentlemen, good day and welcome to Apcotex Industries Limited Q4 FY17 Earnings conference call. As a reminder, all participant's lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '**' then '0' on your Touchtone phone. I now hand the conference over to Mr. Pranav Khandwala from Valorem Advisors. Thank you and over to you, sir.

Pranav Khandwala: Good evening everyone and a warm welcome to you all. My name is Pranav Khandwala of Valorem Advisors. We represent the investor relations of Apcotex Industries Limited. On behalf of the company and Valorem Advisors, I would like to thank you all for participating in the company's earnings conference call for Q4 & FY17.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's conference call may be forward-looking in nature such forward-looking statements are subject to risks and uncertainties which would cause the actual results to defer from those anticipated. Such statements are based on management's belief as well as assumptions made by an information currently available to management.

Audience are cautioned not to place undue reliance on these forward-looking statements in making any investment decision. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamentals business and financial quarter under review. I would now like to introduce you to the management of Apcotex Industries Limited participating in today's call.

We have with us Mr. Abhiraj Choksey – Managing Director and Mr. Anand V. Kumashi – Company Secretary of Apcotex. Without much adieu I request Mr. Anand Kumashi to give the opening statements. Thank you and over to you, sir.

Anand Kumashi: Thank you. Good evening and welcome to this earnings conference call for Q4 and year ended 31 March 2017. Today in the earning call I have our managing director Mr. Abhiraj Choksey and Pranav Khandwala of Valorem Advisors; our investor relation advisors.

I hope you had an opportunity to look at the company's Q4 FY17 results as well as the earning presentation which has been circulated and uploaded on our website and the stock exchange as well. As you are aware that the workers in at Taloja plant were on strike due to which the

company incurred a gross sale loss of about Rs. 26 crores to Rs. 30 crores in Q4 FY17 for a period of 51 days from 9 January 2017 to 2 March 2017. The management has reached a settlement with the workmen union amicably, normalcy was restored in March 2017 and production now running smoothly.

The company has benefited with a better margin in Q4 due to efficient raw material buying. The value in paper, paperboard industry were lower due to temporary shutdown of one of our largest customer. Beside this the company restarted the HSR production at Taloja plant from April 2017 after almost after almost a year which will lead to margin improvement due to lower operating cost at Taloja plant.

Our order pipeline for export is strong for Q1 FY18. The management expect the paper, paperboard volumes also to improve in Q1 FY18. The management expect to further expand the synergy from the acquisition, amalgamation and reduce the cost in FY17-18. A new supplier's key raw material that is butadiene has started the production in Gujarat leading to more options, better buying. GST will also have an overall positive impact on to the company.

The management expect that the business from one of the largest customers may remain uncertain is the temporary shutdown **extends** for a longer period. Dumping of cheap imports especially in our NPR business can also affect the company's business. A crash in the new raw material prices in Q1 FY18 could lead to some pressure on the margins in the short term.

The company plans to incur a CAPEX of about Rs. 25 crores to Rs. 30 crores in FY18. Moving on to the financial performance for the quarter and for the year ended 31st March 2017, for Q4 FY17 we had a turnover of about Rs. 87 crores against Rs. 58 crores in Q4 FY16, a growth of about 28% and EBITDA stood at Rs. 8 crores as compared to Rs. 9 crores in Q4 FY16. The EBITDA margin showed 8.6% for Q4 FY17.

The PAT for Q4 FY17 was at around Rs. 4 crores as against Rs. 9 crores in Q4 FY16 with a PAT margin of 4.13% for Q4 FY17. For the full year ended 31 March 2017 the revenue stood at Rs. 390 crores against Rs. 268 crores, a growth of about 45%.

The EBITDA for the period stood at Rs. 29 crores as compared to Rs. 38 crores with an EBITDA margin of 7.43% for FY17. The PAT for the full year ended 31 March 2017 was around Rs. 19 crores against Rs. 25 crores with PAT margin of Rs. 4.9 crores for FY17.

With this I would like to open the call for the question-answers. Thank you.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session.

We take the first question from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

Vikrant Kashyap: We have seen post acquisition of Omnova Solution, we have undergone several changes and some strike took place in our Taloja plant that has caused us many problems. So post this acquisition and all the structural changes that we have done in FY17 do we see the worst is over and we can grow from here?

Abhiraj Choksey: Yes, I think look this year has been challenging. We had an acquisition that was new for us, so therefore there is a lot of changes on that front. We had one of our largest customers from our Taloja plant that we cater to on our latex business that has run into some financial troubles and therefore their off take has been patchy. And of course the strike that was in Q4. So certainly a lot of the things, a lot of the hard work, a lot of the cost that were to be reduced because of the Omnova acquisition. They have been implemented, we still continue to implement many changes including large CAPEX portion that is going to happen over the next year or two. And of course the strike is behind us as Anand mentioning in his opening statement. So that was a major issue this year.

The one or two risks that Anand has again mentioned in his opening statement that are still there is as he mentioned one of the largest customers is still not out of the woods and there are some issues with them so the offtake is patchy. Other than that, I think a lot of the other things are behind us and I think we can look forward to a more positive year than one last year has been.

Vikrant Kashyap: So now just we have moved our production to Taloja facilities where we had?

Abhiraj Choksey: That is only our high styrene rubber production so we make latex and high styrene rubber in Taloja now and we make NBR and related products, NBR which is nitrile butadiene rubber powder and nitrile poly blends in Valia.

Vikrant Kashyap: So just to have some clarification on that earlier we have moved to Latex and HSR from Taloja to our other facility. That has led to some trace around margin. So coming back to?

Abhiraj Choksey: Only HSR we moved there, latex we could not move there because they do not have the facility to make the type of latex that we make in Taloja, that Valia does not have it. So we only moved HSR and therefore during the strike period the main sale loss that we incurred was on the latex business.

Vikrant Kashyap: On the latex side, that is right. So after all these restructurings what kind of growth are we expecting in say FY18, FY19 or two three years? What will be our strategy to grow from here?

Abhiraj Choksey: Right so there are few ways that we are going to grow, one is the NBR business, we have a low market share in India, we are the only manufacture, there is a potential to grow there. There is a new product line that we are working on. There is also the export business that we are working on. So all these three are the major focus for growth. As far as giving estimates as a policy we do not really give numbers on future growth sort of targets or anything these are all internal numbers.

Vikrant Kashyap: You have also outlined Rs. 25 crores to Rs. 30 crores of CAPEX plan for FY18, so where it will go like the new production line you are working on or kind of improving the facility?

Abhiraj Choksey: It is more to the first stage is not for expansion it is more to reduce operating cost and upgrading some facility. So this Rs. 25 crores to Rs. 30 crores is mostly for reduction of cost and improving margins.

Vikrant Kashyap: Right and sir earlier just one large client this is on Paper and paper Board Industry if I recall well. So you said that we have ongoing talks with them and they will come up with their regular demands. So it took so long, is that talk is going on or the company is still?

Abhiraj Choksey: No, look the company is buying from us off and on, but of course they were our largest customer before the acquisition took over and before we took over Omnova and continue to be one of our largest customers and it is not that they are not buying from us. They are buying from us but it is as I said it is patchy. They have run into some financial troubles so they are able to buy as and when they have cash.

Moderator: Thank you. We take the next question from the line of Amar Maurya from Emkay Global. Please go ahead.

Amar Maurya: So Abhiraj, if you can just give me a color of this 31% growth rate how much is organic and how much is inorganic and if basically in the organic business which were the businesses actually fired in terms of the volume growth and I know paper has been muted but other than that what was the basic volume growth in the overall latex business and what is the organic piece and what is the inorganic piece in this?

Abhiraj Choksey: Sure. I mean I can broadly tell you that most of this has been in organic, I do not have the exact numbers with me because in fact we have had a degrowth in the paper and paper board for again the reason I mentioned that one of our largest customers that used to buy a very large quantity from us in FY16 and prior to that, in FY17 has been at maybe 30% of their volume. So that has caused the degrowth in paper and paper board. As far as the rest of the industries that we cater to there has been a reasonable growth anywhere ranging from 7% to 15%, 20% depending on the industry the exports have also grown reasonably well. Of course the other big factor this year has been the strike and because of the strike unfortunately we lost two months of sales. So those two months of sales happened the growth would have been fairly

good but overall I would say as far as the organic growth is concerned this year because of the strike mainly we have not seen much organic growth. But had the strike not been there, we would have seen anywhere between 5% to 15%, 20%.

Amar Maurya: So basically what you are saying here is that if I see the overall run rate of around Rs. 60 crores, so how much was the revenue loss primarily because of the strike?

Abhiraj Choksey: Sorry what is Rs. 60 crores?

Amar Maurya: I mean if I see the organic growth overall top line on a quarter-over-quarter basis is around ranging between Rs. 65 crores to Rs. 70 crores right, so I mean to say what was the loss primarily coming from the?

Abhiraj Choksey: Revenue loss was about Rs. 26 crores to Rs. 30 crores.

Amar Maurya: Okay, in the quarter?

Abhiraj Choksey: Yeah, in the quarter.

Amar Maurya: And Abhiraj, if you can just give me one flavor like if I see in last five years what would be the overall volume growth for the latex in CAGR terms?

Abhiraj Choksey: Last five years, Anand do you have these numbers but I think it would be close to about 18% 19%, Anand, if I am not mistaken?

Amar Maurya: In volumes term, right?

Abhiraj Choksey: I think so, yeah.

Amar Maurya: Okay and the rest is basically I mean whatever the growth has basically value so in terms of this kind of growth rate 18%, 19% kind of volume growth rate in a base business, so do you expect this kind of growth rate to continue going forward given that the paper is looking a little bit weak and lumpy?

Abhiraj Choksey: Yeah, definitely harder because in the last few years we have gained market share in India and we have increased the export business. So as far as market share in India is concerned you are right, there is the kind of growth that we have had in the past is difficult to maintain going forward. As far as exports is concerned there are a lot of opportunities and therefore it is in the current businesses for Latex at least that does look difficult. However, that is why NBR that is the reason why acquisition of Omnova was compelling to help us with our growth plus the growth rate in NBR business is possible because our market share is quite low. And we are looking at new product ranges in latex which will help in the growth. But the industries that we

are catering to like paper, paper board, carpet, construction we have a fairly high market share already. So we will be growing with the market, there is not much headroom for market share.

Amar Maurya: So not even in the construction?

Abhiraj Choksey: No, look overall if the industry is growing, yes, we will grow with it.

Amar Maurya: Yeah because why I am saying is that I think there is a huge scope still remaining in the construction and in your tyre latex because there at least I mean in terms of the overall if I see the average market share you broadly enjoy a market share of 40%, 45%. So in these two verticals at least you have a lower market share relative to the overall market share on an average. So do you see that?

Abhiraj Choksey: Certainly there are opportunities but as I said since you are comparing to the last five years it is not as easy to grow overall especially with paper paperboard being our largest industry that we cater to.

Amar Maurya: Okay and in terms of the export, basically latex do have limitations because of the water content in the overall chemical? So like in terms of the export also how the growth is going to come if you see the mix between the latex and the NBR business, is the NBR going to fire from here on or latex is actually going to drive the export growth?

Abhiraj Choksey: As of now I think latex for the next year or two I think we still expect latex to drive the export growth. Yes, the opportunities of NBR are there, but we are first going to exploit the Indian market. We are going to get our products right, our costs right and then only and our technical service is right before actively and aggressively going out for NBR in the export market but certainly there are opportunities for NBR as well.

Amar Maurya: Okay but then export will grow at the same pace as it is growing now currently?

Abhiraj Choksey: I think so, yeah. I mean there are still opportunities there and so we expect good growth from exports.

Amar Maurya: So what was the export contribution during this particular year in case if you have the number handy?

Abhiraj Choksey: I do not have it and even if I did we would not give this bifurcation.

Amar Maurya: Okay but then what was the growth in general, if you can give me the growth number?

Abhiraj Choksey: You know because of the strike I mean I do not think there was much growth in exports because we lost about two, two and a half months of sale. Had we not lost that sale it would have been

a reasonably good growth rate of at least I mean up to Q3 I think we were at about 25% if you compare the first nine months numbers.

Amar Maurya: Okay and I believe the overall contribution for total revenue today is something around 15%, right?

Abhiraj Choksey: Yes, it should be now with the acquisition in the new company it would probably be lower maybe closer to 10%, 12%. I do not have the exact number with me. Anand, do you have that exact number?

Anand Kumashi: I do not have at the moment, I will share with Amar.

Abhiraj Choksey: It is around 10% or so, 10%, 11%.

Amar Maurya: Okay and secondly in this particular quarter there was a margin improvement of around 200 basis points so what was because of this? It is because of the revenue mix changing or primarily the benefits of the internal restructuring coming into play?

Abhiraj Choksey: Actually neither. We have had a very good quarter in terms of our raw material prices really have a shooting up through the quarter. And we were able to secure some raw materials at lower prices and that is one of the reasons for a good margin improvement. In fact, the margin improvement had the strike not been there the margin improvement would have been extremely good in Q4.

Amar Maurya: Okay so basically what you are saying is the 200 basis points margin improvement which we had seen is basically a temporary and it is a raw material benefit?

Abhiraj Choksey: Well it happens every year on an average there are some quarters and if you see our quarter-on-quarter results there are some blips where we have had fairly high margins compared to average of one or two quarters and vice versa as well. Because of the volatility of this business in terms of raw material pricing which is linked to oil, we have seen revenue and margins both very quite significantly depending on the quarter.

Amar Maurya: Okay but then the base margin of I mean my worry here why I am just going a little bit deep in the margin because my worry here is that even the base business margin was depleting I mean I can understand that Omnova was a low margin business but if I see the base business margin was around 5% if I am not wrong in the Q2. So I mean what was happening over that side it does not cover the scale declining for a paper business, is this the only reason or there are something else playing into the business?

Abhiraj Choksey: No, that is one of the main reasons.

Moderator: Thank you. We take the next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Yeah sure. Just wanted to get your thoughts on the consolidation on the acquisition which would have been done, are there any one off operational related cost which sit in the FY17 P&L on account of this Omnova acquisition which will not reoccur in FY18? And my second question is what kind of normalized margins do you look forward in both the Omnova business and our base business considering the opening comments which were made with respect to a higher raw material price and maybe some incremental pressure on margins?

Abhiraj Choksey: So you know, yes, there were in the last couple of years in fact there has been one time cost related to the Omnova acquisition which again I am not able to give too many details on. But yes, certainly there will be some expenses and cost that would not reoccur. As far as your question on margins is concerned you know increasingly it is becoming a we are consolidating the business and we have also moved some products around. So I would say that our overall target is to improve margins for both factories. Now it is not Omnova business and Apcotex business, now it is one business with two factories that have a lot of synergies as far as raw material is concerned, costs are concerned, we are continuing to reorganize as well to have a common management across both factories.

So there is a lot of integration that happened in the last year so it is very difficult now to separate out, I do not want to call it the Omnova business anymore I would call it the Valia business with the Taloja business, Valia is the plant that we acquired. And so but overall I would say look our endeavor is to get back to the 13%, 14% margins that we had for a couple of years in FY15 and FY16 overall. And I think we should be able to achieve that in the next couple of years and that is what I mentioned in the last few con calls as well that we have a three-year target to do that and we are done with one year so far.

Pritesh Chheda: With combined scale of operations now is it possible that directionally the margins can be higher than what you have earned in the past, so it is not let us say 13%, 14% range but it can be higher considering the scale and size of the business and better utilization of the assets. Is there a scope for it?

Abhiraj Choksey: As of now our target is to just get back to those margin levels after that we will see how it goes. But I think we are far away from, I mean we are not too close to that yet. So our first endeavor is to get to the original margin levels for the whole business.

Pritesh Chheda: Okay, so is the quarter 4 or let us say the FY17 the base has formed for your operations?

Abhiraj Choksey: FY17 was a funny year because of a couple of reasons as I have already mentioned

5, one was there was a strike, so had the strike not happened the margin would have even been better right, because we lost two months of business in Taloja for the latex business. So that of course our margins were lower because of that. One of our largest customers if they turns around and things normalize there in the next six to nine months then that could also hugely help. We are implementing our CAPEX of Rs. 25 crores to Rs. 30 crores that will also improve margins. I would say that FY17 has been I would not call it a normal year because of all these reasons. So we expect better margins than FY17 in FY18 on an average if everything normalizes.

Pritesh Chheda: This loss, is it now a loss of business from the customer which has contributed about 7%, 8% of your revenue?

Abhiraj Choksey: I am sorry I did not understand the question?

Pritesh Chheda: Is it a loss of business from the customer or on and off business from the customer contributed about 7%, 8% of your revenues in FY?

Abhiraj Choksey: I would yeah, I mean I think it would be more than that probably.

Pritesh Chheda: More than that at console or now the?

Abhiraj Choksey: Oh yeah at consolidated levels around let us say it would be about I guess about 7%.

Pritesh Chheda: It is no more there right, one off means it is miniscule versus what it was?

Abhiraj Choksey: Not miniscule I would say, I mean 6% to 8% is still a fairly large number for a company of our size.

Pritesh Chheda: It contributes 6% to 8% now or it is lower than 6% to 8%?

Abhiraj Choksey: No, it is lower by 6% to 8%.

Pritesh Chheda: Okay it is lower. And lastly, I just want to check on the new product development when at what stage do these products come and start contributing to your performance? Can you give us some idea whether it is one a year or it can be more and possibly size of business and when you were talking about Rs. 25 crores CAPEX and which is basically not meant for capacity expansion but it is meant for process improvement and odd. So what is the payback of that Rs. 25 crores, Rs. 30 crores CAPEX or what is the IRR of that Rs. 25 crores, Rs. 30 crores CAPEX?

Abhiraj Choksey: So as far as the new products is concerned I think we are looking at the next year or two for it to come on stream and well some of it is already on stream but it is at a much lower volume right now so it does not have a significant impact that will also require some investments we believe. So we are working through that right now with the acquisition. As far as the CAPEX is concerned, as a company thumb rule again I do not want to get into the details of this because

of proprietary reasons but typically we do not work with more than a three-year payback. So we are looking at a three year payback if you do the backward calculation.

Pritesh Chheda: So let us say the entire CAPEX is for process improvement or let us say most of the CAPEX is for process improvement not for capacity expansion. One can look at about Rs. 8 crores, Rs. 10 crores improvement in the EBITDA which is a 3% or a 2% margin swing?

Abhiraj Choksey: That is the plan, yes.

Moderator: Thank you. We take the next question from the line of Sharath Sharma an individual investor. Please go ahead.

Sharath Sharma: Just a few quick questions. One is that you said a 14% normalized run rate over two years going forward. Given what you have got let us say deferred tax asset from the acquisition, given that you participate Rs. 35 crores or Rs. 30 crores CAPEX and EBITDA can we assume 8% to 10% PAT margins given the limited tax and everything?

Abhiraj Choksey: Well, honestly I think the tax part I think PAT margins we have not sort of worked out so I think we will have to get back to you on that number. But certainly if EBITDA margins improve we do expect PAT margins to improve and as far as this unabsorbed depreciation in tax benefits are concerned I think a lot of these have been accounted for and would have been accounted for in FY17 and FY18, right?

Anand Kumashi: Most of it.

Sharath Sharma: And Abhiraj, how does the rupee play out in so rupee is strengthening how does it play out on your bottom-line?

Abhiraj Choksey: You know honestly, we are quite neutral to the rupee I mean in the sense that we are unfortunately be able to pass along our cost increases and as and when the cost decreases we are also forced to pass them along to our customers because of competitive pressures eventually. So what we have found or what we have seen last even whether the rupee depreciates or appreciates, you know it is not a huge impact on us. Because of course if it appreciates the import prices and cost of imports come down. At the same time, we also export a reasonable amount so we are quite neutral to the rupee.

Sharath Sharma: Even like a crude price right crude and rupee you are saying?

Abhiraj Choksey: Similar yeah, I guess crude is similar in that sense. Of course, there is always time lags.

Sharath Sharma: Abhiraj, any prospect of trying to increase liquidity of the shares or something at a bonus split or something?

Abhiraj Choksey: We are already in the last few years done a split and a bonus. I cannot recall the year of the split but the bonus was just last year so.

Sharath Sharma: Sure, no plans in FY18, right?

Abhiraj Choksey: Not as of now, I mean we have not discussed at the Board level so.

Moderator: Thank you. We take the next question from the line of Kalpesh Gothi from Veda Investments. Please go ahead.

Kalpesh Gothi: Sir, want to know your paper business, is its growth slowing down?

Abhiraj Choksey: I am sorry, say that again?

Kalpesh Gothi: Your paper business degrowth we have seen in the last six months is it slowing down now?

Abhiraj Choksey: As I said, the degrowth in the paper business is largely because of one customer and as I mentioned in the presentation that we had almost zero business with this customer in Q4 and very little in the last six months so from that point of view yeah, we are pretty much at the bottom and we are seeing some positive signs but I think we will have to wait and watch as far as that customer is concerned. Otherwise other than that there have been some new investments in the paper, paper board industry in the last year or two in the chemicals that we supply to in coated paper. So the rest of the industry is growing, it is just that the largest customer in this industry is facing trouble so all chemical suppliers to the paper industry has faced the same.

Kalpesh Gothi: And coming to your construction materials business what is the outlook for the future?

Abhiraj Choksey: I think we are quite positive about construction, I mean it goes through phases where some quarters we see some slowdown but overall, we have seen that the construction business in the last five, seven years has been the largest when I say construction latex that we supply to the construction industry has been the largest growth contributor in terms of percentage and that continues to be for an average. So, we are quite positive on the construction industry.

Kalpesh Gothi: So the growth in that particular category was higher among the others?

Abhiraj Choksey: On an average over the last few years, yes.

Kalpesh Gothi: And coming to your export how much export contribute to your revenue in FY17?

Abhiraj Choksey: As I said I think it is about 10% or so, 10%, 11% I do not have the exact number with me but about 10%.

Kalpesh Gothi: What was the export growth this year?

Abhiraj Choksey: As I said it would have been upwards of 20% but had it not been for this strike but because of losing orders for two months, a lot of our export customers had to place orders elsewhere. But had it not been for that we would have seen the (+20%) growth in exports, had it not been for the strikes the slowdown. Because most of our exports happen from the Taloja plant.

Kalpesh Gothi: Right. So coming to your working capital, was the plan on reducing our working capital is coming back to our previous levels?

Abhiraj Choksey: Yeah, certainly I mean we have working capital on two fronts we have worked down which is inventory and debtor days and both we have already achieved fairly good results on. As far as debtors is concerned we were able to for the Omnova business reduced debtors from almost 85, 90 days to 60, 65 days, 64 days if I am not mistaken. So as a result of which lot of working capital was freed up.

Moderator: Thank you. We take the next question from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: Sir, just wanted to understand you said Rs. 25 crores, Rs. 30 crores CAPEX for the current year. Any timeline when we will see that start fructifying?

Abhiraj Choksey: It will be sometime in FY18 actually one of the things that we are, the reason why it is being delayed we had actually wanted to start it in FY17 because of the lot of the permissions and consents that are required to start this kind of project especially with the name changes and it has been a little complex. So I think it will be completed in the next financial year.

Kamlesh Kotak: So it will start accruing in terms of the overall benefits also from the second half of the next year maybe FY18?

Abhiraj Choksey: Second half of next financial year, that is correct.

Kamlesh Kotak: That is FY18, right?

Abhiraj Choksey: FY19.

Kamlesh Kotak: FY19, okay.

Abhiraj Choksey: At least because it is a 15 to 18 months project.

Kamlesh Kotak: Okay. Secondly sir, could you help us with the overall sales indication in terms of NBR, HSR and Latex, how has been the broader split if you can just get some indication?

Abhiraj Choksey: We are approximately as of now 50% is synthetic rubber, 50% is synthetic latex. So and out of this 50% synthetic rubber I think maybe about close to 35% to 40% would be NBR and related products and when I say NBR it includes NBR powder and Nitrile Poly blends as well all the Nitrile and the remaining 10% to 15% is high styrene rubber.

Kamlesh Kotak: So that is 35% of 50% right you said?

Abhiraj Choksey: No.

Kamlesh Kotak: 35% and 15% okay of the overall revenue.

Abhiraj Choksey: Yeah, on the 50%. I am giving a range 35% to 40% and then 10% to 15%, I do not have the exact breakup but it would vary and it sometimes varies on pricing and all that also. So 35% to 40% is what I would take for NBR business and 10% to 15% for HSR out of the 50%. The remaining 50% is latex which includes paper, paper board being the large one and construction, carpet, tyre cord, specialty all those entities.

Kamlesh Kotak: So if we keep out say paper because of the abnormal reasons other than that which industries are showing major traction in the latex business out of the rest of them?

Abhiraj Choksey: I think all of them you know all the rest of them had it not been for the strike we would have seen good growth because we lost two months of sale which is one sixth of the year. So we would have seen overall good growth across all the rest and including carpet where we saw good and especially in the second half we saw some and continue into Q1 we saw some very good orders, construction is doing well, other specialty grades are doing well. So I think overall we would have seen growth everywhere for the year on an average had it not been for the strike.

Kamlesh Kotak: Okay. And about the NBR can you touch upon in terms of which industries we are catering to, how is the demand outlook and the competitive landscape there?

Abhiraj Choksey: Yeah sure. NBR as you know we are the only manufacturer of NBR in India. We have less than a 20% market share and the main industries are automotive, varied rubber in applications and lot of industrial rubber applications, rice roll, de husking, all kinds of rubber roles, hoses, pipes so you know it is a varied sort of application in NBR and its allied products. As far as the growth is concerned automotive being the main driver in the last few years it has seen some very good growth close to 10% or even higher and I think that will continue in India overall as an industry. But I think for us from the business point of view at such a low market share that and we being the only producer we have a lot of opportunity and if we get our quality and our costs right, we should be able to get 50%, 60% market share, no problem. And of course but we will have to expand our facilities to be able to cater to that as well.

Kamlesh Kotak: Okay but you see some initial work that has been done over the last one, one and a half year you could see a result in terms of we are gaining the traction in that business in terms of getting market share?

Abhiraj Choksey: Absolutely yeah, absolutely. We have really done a lot of work and we have worked with customers to because one of the reasons when we took over one of the things that was happening in the market is that the brand name of NBR domestic NBR was not good because of various qualities. So it has taken us one year to just or we are still working at it with some customers to get full approval etcetera. So we have gained a lot of traction and we have seen good positive feedback from the market.

Kamlesh Kotak: Okay that will be our key growth driver right going forward?

Abhiraj Choksey: It would be one of the key growth drivers.

Kamlesh Kotak: Okay. And could you just share what is your thoughts on the raw material price trend, how it is bearing now and what is your own sense in terms of the overall trend?

Abhiraj Choksey: I will tell you, it is very difficult to predict honestly you know as I mentioned earlier we had a huge bull run for the last three, four months till about March and since then we have seen all the petrochemical prices that we buy at least all are crashing. So it is difficult to predict as I said as a business we are used to this volatility, there can be short term impacts both positive and negative. As I said Q4 was quite positive for us. So but on an average we are able to pass along the increase with some time lag and similarly if there is a crash and we are forced to pass along that decrease also with some time lag. So that is the scenario as far as raw material prices are concerned, it is hard to predict.

Kamlesh Kotak: Okay. And lastly any of these CAPEXes which you mentioned is lined up for the Talaja plant or most of it is in the Gujarat plant?

Abhiraj Choksey: There is some amount of sort of what we call maintenance CAPEX for the Talaja plant, because the Talaja plant is also 35 years old so from time to time we do need to renew some of our equipments and refurbish them. Yeah, some amount is Talaja but most of it is Valia.

Kamlesh Kotak: And the current year also FY17 whatever we spent that was largely because of the Talaja plant I mean Gujarat plant only in the previous year which you spent FY17?

Abhiraj Choksey: In the previous year, I mean more in the Valia plant but although we did not end up spending as much as we had hoped that we would be able to spend so I think a lot of it got postponed because of certain permissions and consents that were required that were delayed. So I think most of it would come in FY18.

Moderator: Thank you. We take the next question from the line of Umesh Patel from TCG Asset Management. Please go ahead.

Umesh Patel: Sir, a couple of questions. Just wanted to know the performance of Omnova in terms of revenue, EBITDA margin and PAT for FY16 and FY17?

Abhiraj Choksey: As I mentioned earlier now it is not Omnova anymore. It is now one integrated company and we would not be separating out the EBITDA margins or plan the factory separately. It has become more of an integrated business so it is hard to now separate that out and we have also moved products around.

Umesh Patel: Yeah sir, but if you can give some idea I mean what I understand is prior to acquisition it was a loss-making company so and bottom-line it has turned around or it is still at breakeven or making some losses?

Abhiraj Choksey: No, it is not making losses, in fact it is making some profits that I can tell you. However, we have a long way to go.

Umesh Patel: Okay and in terms of synergy and product mix where you see your margins post this consolidation of this entity in FY18 and FY19?

Abhiraj Choksey: Again, we do not give specific guidance on margins for a quarter or for a year but overall as I said our target is to get back within a couple of years where original margin was 13% to 14%. That is our first target and then we will see if we can expand that further but for now our main target is to get to that.

Umesh Patel: And what is the game plan to achieve that level of 13% to 14% of EBITDA margin from current level given the raw material prices which we I mean expect to remain at current level?

Abhiraj Choksey: A couple of things. So one is this investment that we are making should improve EBITDA margins considerably for the NBR business. The other thing is of course growth overall as far as latex is concerned if the customer that has been in trouble for the last year or so if they come back and are able to normalize their operations that should help as well. We are looking at exports, we are looking at new products all this should help in increasing margins because we would not be investing much to get these volumes. So as the volumes grow up EBITDA itself would grow, and the margins will grow as well.

Umesh Patel: Yeah so for FY17 what was the capacity utilization?

Abhiraj Choksey: As far as latex was concerned in Taloja it was of course lower because of this issue of with the one customer that we had probably 65% to 70% I would think for our latex business and as far as NBR is concerned of course there are opportunities to grow further, we have been figuring

out different product mixes etcetera but that would have been around 75%, 80%. Synthetic rubber would be around about 75%-80% and latex would be 65%, 70%.

Umesh Patel: Okay and once this facility would be fully operational, what would be the revenue potential?

Abhiraj Choksey: Which facility?

Umesh Patel: I mean all these on console level if assuming that Latex, NBR and synthetic rubber would be the utilization rate would be around 95% or 100% then what would be the revenue potential?

Abhiraj Choksey: I think at current raw material prices we could probably look at about Rs. 600 crores to Rs. 700 crores.

Umesh Patel: Okay. You do not expect any rise in the raw material prices in the near future, right?

Abhiraj Choksey: As I mentioned in the previous question it is really hard to predict, very hard to predict for anyone. It is like predicting oil or the rupee or you know it is very hard to predict, but we manage it either way, so we know how to now manage a volatile environment.

Umesh Patel: Right. Sir, in terms of raw material actually what I understand is I think Butadiene we are buying 40% raw material from domestic market and 60% from import, we are importing or Styrene is only the raw material that we are importing from Europe?

Abhiraj Choksey: For Styrene, there is no manufacturer in India so it is all imported. And Butadiene in fact there are three or four manufacturers in India so we have not felt the need to import so far. The other important raw material is acrylonitrile ACN that is again not manufactured in India so it is 100% imported.

Umesh Patel: So what is the proportion of raw material cost these three constitute to your overall raw material cost?

Abhiraj Choksey: Probably about 80%, 85%.

Umesh Patel: 80%, 85%, okay thank you.

Moderator: Thank you. We take the next question from the line of Amar Maurya from Emkay Global. Please go ahead.

Amar Maurya: Abhiraj, just one follow-up. Like in terms of the margin a target of around 13%, 14%, so we said that is three years, so I mean one year is already gone so are we saying that in two years we will be on the 13%,14% kind of margin?

Abhiraj Choksey: One as I said that is from investment plan which should help in improving margins. Plus with some growth in the latex business and the NBR business I think we could see an expansion of margins because in this kind of business fixed costs are fairly stable. And if we are able to grow the margins expand quite quickly. The third thing that happened is butadiene which is actually one of our most important raw materials, we have had a new supplier that has come in. So there also we expect some better buying which will help the margins. So all this will add up to the margin expansion over the next couple of years.

Amar Maurya: Okay so basically the FY19 would be the year where you can see a major swing because by that time this upgraded facility will be also ready?

Abhiraj Choksey: Yes, and we are working on many things on the NBR business not only that, but many other aspects of the NBR business to reduce costs which were not done by the company that we acquired or the earlier management that was acquired. So all these, you know three or four things put together will result in the margins.

Amar Maurya: So what I am trying to understand here is that if I see the current year closing margin, next year are we going to see some increase in the margin because of this cost restructuring?

Abhiraj Choksey: I mean one of the major issues this year has been the strike right, I mean the strike is not going to be there next year. So we have lost in the Taloja plant so that is definitely one issue that will help. Other than that, yes, there will be certain things that we are doing which obviously I cannot reveal too much.

Amar Maurya: But then obviously the margin looks northward?

Abhiraj Choksey: I think so, we are quite positive.

Moderator: Thank you. We take the follow up question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Small follow up. I just wanted to understand the product line that we have and being B2B are there any price escalations and how do you pass on or get back the raw material price increases if any? Is it cost plus percentage model or how does it work?

Abhiraj Choksey: So you know, yes, to some extent yes it is cost plus percentage we are able to pass along month on month because the prices are quite volatile. So we try and pass along the price increases as and when our cost increases to the price as and when we can and try and do it every month. In some customers, we do have a formula based pricing but for a large percentage it is just month-on-month negotiation that happens between our sales team and the customer team, procurement team.

Pritesh Chheda: Month-on-month, so at any point in time barring the inventory impact on margins, whatever you have other than that nothing should flow in. So it has to be more transient in nature, it cannot be at any point?

Abhiraj Choksey: It is generally transient but as I said this is theoretical sometimes if for example the cost goes up by x% we may not get the entire x% increase in one month you know. You might have to give x minus 1% in one month and in the second month we catch up, vice versa is also true. So sometimes we are able to get x% plus 3% so it just depends on comparative pressures as well, how well we have bought compared to competition. So but by and large as I said we are able to pass it along within a month or two.

Pritesh Chheda: So on an annual picture it should not be an issue?

Abhiraj Choksey: Typically it should not if the average is out.

Moderator: Thank you. We take the follow up question from the line of Sharath Sharma, an individual investor. Please go ahead.

Sharath Sharma: Abhiraj, it is a good thing I just overheard the GST would be positive for the company. Can you just explain details around that?

Abhiraj Choksey: Yeah, first of all GST the main aspect of GST is CST so for about 50% of our business we have no domestic competitor, they are only imports. So any business that we do outside our manufacturing state which is Gujarat and Maharashtra, our customer is forced to pay CST. Whereas if they import the same from anywhere Korea, China, Europe there is no CST. So that in itself is a huge help for the company or the company's customers where 2% cost on a Rs. 150 product or a Rs. 200 product is Rs. 3 to Rs. 4 per kg. So therefore there of course we become more competitive as far as, against imports.

Sharath Sharma: But does it a 2% versus the 5% let us say minimum threshold, would it not lead to an increase also for the customer or it is going to be a 0% minimum threshold? What is the **rate of GST** 5% or 5%, 12%, 18%?

Abhiraj Choksey: No, but they get complete credit for it, right? In CST you do not get credit.

Sharath Sharma: So it is a pass through okay got it.

Abhiraj Choksey: Yeah it is a pass through a complete pass through as far as GST is concerned it will be a complete pass through. So therefore, it is a huge advantage for us. Secondly from a sort of compliance after the initial, I am sure there will be initial challenges for the first three to six months but we expect compliance cost to also come down drastically. Today we have so many indirect costs and indirect taxes and so many audits and from a compliance point of view also it becomes easier.

Sharath Sharma: Abhiraj, may I request that from next quarter onwards in the presentation could you share some volume data because you know to eliminate the price impact in order for us to understand the two business dynamics?

Abhiraj Choksey: Unfortunately, we do not do volume data because of proprietary reasons and you would understand that is the reason we do not do volume data and we definitely do not give any bifurcations.

Sharath Sharma: Sure. And just a final related question. What is the thinking and the DNA behind the logo change and everything I mean your dynamism expect it or just?

Abhiraj Choksey: Yeah, we just thought this is a good time that our company is now about 25, 26 years old. We have had an acquisition and to denote the new sort of new structure and the new organization of the company we thought we would do a new logo and overall change in the design.

Sharath Sharma: Sure and is there any active participation by Mr. Atul Choksey or something or is more of a mentorship?

Abhiraj Choksey: I mean he is a non-Executive Chairman but of course he is involved in a lot of the strategic and investment decisions. As far as day-to-day management is concerned that is led by me with the completely professionally management team no one else from the promoter family is involved.

Moderator: Thank you. We take the next question from the line of Suvarna Joshi from SMC Global Securities. Please go ahead.

Suvarna Joshi: While most of my questions have been answered, I just had one question on the margin aspect. You mentioned about four factors that will lead to margin improvement going forward over the next couple of years to 13%, 14% of which you mentioned exports as well. So just wanted to understand is this a real differentiating factor between our export margins and domestic margins because I understand in either of the cases we will be passing on whatever is the increase, decrease in raw material cost. So that should not really be one of the factors I mean.

Could you just throw some light on that? That was the first question. And second question was on the asset turnover ratio in our presentation for FY17 we have clocked about 4.2 despite our capacity utilizations being around for synthetic latex it has been around 65, 70 and NBR being 75, 80 as of current basis. So do you expect this to go further upwards over the next few years or so?

Abhiraj Choksey: For your first question exports versus domestic margins, I think on an average what we have seen over the last few years is on an average the export in domestic margins are fairly they are pretty much the same, of course within that exports we do have certain customers just as we do in domestic as well, some customers that have higher margins some lower, some industries

have higher and some lower. So again I cannot reveal too much of that information but overall I would say export and domestic margins are similar.

I think some analyst had expectations that export margins will be much higher which is not the case on an average. As far as the asset turnover ratio is concerned I think one of the things the reason why this 4.2 is there of course with the acquisition, the Omnova plant is fairly old, the old Omnova plant is fairly written down and we are able to get good revenue from that written down plant. As we do as we invest more of course the asset size will increase especially with the next year and the turnover may not increase because the first phase is mostly to reduce operating cost.

Suvarna Joshi: Right so it should be in the range that we have clocked for the last five years or so around that two times or should we?

Abhiraj Choksey: I think we are looking at about somewhere around 2.5 to 3.5 will be the average.

Moderator: Thank you. We take the next question from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

Vikrant Kashyap: I had just one clarity. The CAPEX amount we are spending about Rs. 25 crores, Rs. 30 crores, will it be internally funded or we are going to credit?

Abhiraj Choksey: Yes, mostly internally funding, we have no plans for borrowing.

Moderator: Thank you. We take the next question from the line of Abhijay Sethia from SJC Capital. Please go ahead.

Abhijay Sethia: Congrats on settling the labor issues obviously at the plant. Now without going into specifics should we expect any kind of employee cost pressure for FY18 versus FY17?

Abhiraj Choksey: Well, look every year the employee's cost pressure is always there, they are increasing as management we always trying to find ways to deploy manpower in such a way that the impact of the cost is minimal. Given the increment but having said that our workmen cost if you are talking about the strike specifically our workmen cost there is a percentage of the total cost especially in our Taloja plant is not very high. So yeah, there is not a major impact in terms of cost.

Abhijay Sethia: And just my second question. So if I go back to when the Omnova acquisition was made I think the EV for the transaction was Rs. 36 crores if I am not mistaken?

Abhiraj Choksey: That is right.

Abhijay Sethia: And I think your CAPEX plan for the plant as you said is about another Rs. 30 crores or so. So total of Rs. 56 crores we can think of as the investment for this?

Abhiraj Choksey: That is right for now I mean of course in the future there will be future investments involved.

Abhijay Sethia: Right, so I mean just looking at this investment from now and looking at what you said in terms of three year pay back for any kind of projects, did that still kind of hold that you think you can ease out Rs. 56 crores worth of EBITDA over the next three to four years?

Abhiraj Choksey: Absolutely in fact even in the first year as far as this plant is concerned I would think we have almost that the first Rs. 36 crores just from working capital from tax benefits and some turnaround in the profits that we have made from this plant we would have already it is not the entire amount at least 80%, 90% of it we would have already recovered of this Rs. 36 crores.

Abhijay Sethia: And I missed the part so you were talking about when this particular Rs. 30 crores will be done is that over FY18 and the benefits come in FY19?

Abhiraj Choksey: It will be completed in sometime in FY19, middle of FY19. So it would be actually second half of FY19 when the benefits will start coming in.

Moderator: Thank you. We take the follow up question from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: Hi Abhiraj, just a bookkeeping question. How would be your tax liability going forward are we fully got the credit for the deferred tax for the acquisition or?

Abhiraj Choksey: As far accounting of deferred tax as far as the accounting of the I think it is the unabsorbed depreciation from the acquisition that has been accounted for. But as far as we are currently paying only MAT as far as cash outflow is concerned we are only paying MAT so that will continue for some time. Anand may be a better, Anand, if you can may be throw some light on the tax calculations I do not answered that question properly?

Anand Kumashi: FY 2016-17 we were paying MAT hope same will continue for one more year i.e. 2017-18..

Kamlesh Kotak: Sorry one more year?

Abhiraj Choksey: Does me answered your question or is there anything more specific that you are asking?

Kamlesh Kotak: So one more year of MAT tax, is it?

Abhiraj Choksey: No, it may continue for a couple of years. Anand, what you think?

Anand Kumashi: One more year.

Moderator: Thank you. We take the next question from the line of Harish Ved, an individual investor. Please go ahead.

Harish Ved: My question is on your proposal for amalgamation of this Saldhar Investment Trading Company with your company. Any light on that, what is the logic behind it and what is the benefit to the company by this merger?

Kamlesh Kotak: No, actually there is no benefit to the company I mean there is no liability to the company for sure. Saldhar is an entity owned by the promoters and it was I guess Apcotex as a wholly owned subsidiary of Saldhar became a wholly owned subsidiary of Saldhar this year. This was more to just, Anand, if you can throw some more light on this. Anand knows the details better on the Saldhar merger.

Anand Kumashi: Saldhar was holding about 51% of the Apcotex Holdings. It has no liability at all. So whatever the Saldhar holding in Apcotex will be cancelled and that same number of shares will be issued to the promoters, that is the shareholders of SaldharInvestment. There is a MAT credit of about Rs. 6 crores lying in Saldhar Investment which will come to Apcotex post-merger. So that is benefit to Apcotex because of this merger. So the promoter's point of view it is just eliminates an extra entity.

Harish Yed: I think it is driven by the dividend tax?

Abhiraj Choksey: It is not dividend tax it will get merge with the holding of our subsidiary company only that is Apcotex Industries. So going forward there is no dividend or dividend tax issue.

Anand Kumashi: Yeah, whether Saldhar were existed or not there was no dividend tax issue because Apcotex is a wholly owned by Saldhar so the pass through is direct without paying the double dividend tax. But this was more from a cleanup perspective.

Abhiraj Choksey: One more thing all these expenses of this merger will be borne by Saldhar Investment, it is not by Apcotex.

Anand Kumashi: Nothing is borne by Apcotex and in fact there is a Rs. 6 crores MAT credit which will benefit Apcotex.

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

Anand Kumashi: Thank you. We thank everyone for participating in the Earnings Call. We have uploaded the investor presentation on the company's website. In case of further queries, you may get in touch with Valorem Advisors, our investor relation advisors or feel free to get in touch with us. Thank you very much for your participation.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Apcotex Industries Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.