



# “Apcotex Industries Limited Q1 FY2018 Results Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY2018 Results Conference Call of Apcotex Industries hosted by Emkay Global Financial Services. We have with us today Mr. Abhiraj Choksey - Managing Director and Mr. Anand V. Kumashi - Company Secretary. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference to Mr. Amar Mourya of Emkay Global. Thank you and over to you Sir!

**Amar Mourya:** Good morning everyone. I would like to welcome the management and thanking them for giving us the opportunity. I would now hand over the call to Mr. Choksey for giving opening remarks. Over to you Sir!

**Abhiraj Choksey:** Actually Anand Kumashi is going to give the opening remarks so Anand I will hand over to you.

**Anand Kumashi:** Good evening and welcome to everyone to this earning conference call for Q1 FY2018 under review. Along with me today's earning I have our managing director Mr. Abhiraj Choksey and Pranav Khandwala - Valorem Advisors, our Investor Relation Advisors.

I hope you had an opportunity to look at company's Q1 FY2018 results. As well as the earnings presentation which has been circulated and uploaded on our website and stock exchange as well.

The following are the some of the highlights of the quarter. During this quarter the union agreement was settled and full normalcy in the production was restored from April 2017. We have witnessed strong export orders in Q1 FY2018.

Due to strike many of our customers imported or made other arrangements because of which our sales were affected till April 2017. Due to the falling raw material prices in Q1 FY2018, we were stuck with some high cost raw materials resulting in depressed margin in the current quarter.

One of the largest customer's volume and collections still remain uncertain. Looking forward we expect strong demand in the rest of the year, now that GST has been implemented, overall we expect GST to be a strong positive for the company.

As mentioned earlier we have initiated the first phase of capex amounting to approximately Rs.30 Crores to reduce the operating cost and improve the quality at our Valia plant. Most of these projects will be completed by March 2018, but main project, which will constitute about 70% of the total capex plan, will be completed by Q3 of FY2018. We have also started work on debottlenecking and increasing the capacity at Valia plant to around 21000 metric tonnes from 16000 metric tonnes. In the long-term we have plans to double our NBR\_capacity and also increase the latex capacity but investment and timelines are still being worked out.

Moving onto the financial performance for quarter in Q1 FY2018, we had a turnover of about Rs.132 Crores against Rs.117 Crores in Q1 FY2017 a growth of about 13% and EBITDA stood at Rs.9 Crores as compared to Rs.11 Crores in Q1 FY2017. The EBITDA margins were 6.5% for Q1 FY2018. The PAT for Q1 2018 was reported at around Rs.5 Crores as against Rs.8 Crores in Q1 FY2017 with PAT margin of 3.9% for Q1 FY2018.

With this I would like to open the call for question and answer. Thank you.

**Moderator:**

Thank you very much Sir. Ladies and gentlemen, we will now begin with the question-and-answer session. First question is from the line of Farokh Pandole from Avestha Funds. Please go ahead.

**Farokh Pandole:**

I just had a couple of questions. Firstly the Rs.30 Crores capex that we had mentioned is that the sort of total capex that will bring the Valia plant up to speed with what we have at Talaja and also is it fair to say that the ROCE profile of the company is now at a lower plateau than maybe where we were a few years ago with the acquisition of Omnova?

**Abhiraj Choksey:**

The first question is as far as the first phase of the 30 Crores investment that is already underway. Most of the projects will be completed by March 2018 but the major project, which is the power plant, will be completed in December 2018. So we do expect over time and starting from January 2019 certainly this will reduce operating cost and therefore improve margins, whether or not they will reach Talaja's figures that is something that we want to still continue to see our Talaja's traditional figure that we have been used to 13%, 14% EBITDA margin, but yes that is certainly our endeavor within next two to three years to get to 13%, 14% as a company overall, does that answer your question.

**Farokh Pandole:**

Yes and the ROCE profile going forward.

**Abhiraj Choksey:**

It is similar we do want to increase ROCE to sort of earlier profile that we had earlier as well.

**Farokh Pandole:** If I could ask another question, before I ask you other question – so this these projects that you are referring to, brings would not in terms of necessarily financials but in terms of technological specs and in terms of your ability to produce output from both plants that should be no different after this expense has been incurred during the course of this year from a sort of technology or operation standpoint rather than a financial standpoint.

**Abhiraj Choksey:** No it will help on the financial standpoint as well because cost comes down so from a bottomline perspective will certainly help from a contribution in bottomline perspective but yes not from a topline or expansion. It is not an expansion project the first phase.

**Farokh Pandole:** Also could you comment on the inorganic opportunities that you guys might see and if at all you would look at something like that post maybe this year and is that part of the strategy longer-term?

**Abhiraj Choksey:** Look, we have said it before as well even before the Omnova acquisition way before that we are open to inorganic opportunities. Our balance sheet is quite strong to handle certain size inorganic opportunities and for example the Omnova thing fit in quite well, but the same time it has to be a synergistic fit to our current business just as Omnova. We are very much open to acquisition opportunities as long as they make sense for the business and for the company.

**Farokh Pandole:** I saw that the margins in this quarter were obviously very weak in toll gate some reasons for that witness, but what is a sort of trajectory going forward for this year and of course you mentioned that longer-term you want to get back to that 14% level but for this year sort of what do you feel as a level that we could hope to achieve is it where we were last year as a whole or maybe we can do better than that probably given that we would not have the issues we had in the fourth quarter last year repeat themselves.

**Abhiraj Choksey:** Exactly so I think look in this kind of business from time-to-time quarter-to-quarter there are major issues. There can be major issues as far as margins are concerned last quarter for example and Q1 for example we had an issue where month-on-month for about four months the raw material prices crashed and not just crashed but by large amount significant amount. So in this kind of businesses sometimes it we had price commitments to our customers that we had to uphold to our suppliers so we had to take certain products at even a higher price but we were forced to pass along the decrease faster to the customer. So therefore margins were affected. We do not give specific guidance I think our internal target would be to definitely be better margins on an average for the year better than what we had last year definitely better than what we had last year whether we will do 12% to 14% this year is unlikely because of obviously the Omnova acquisition some of the investments we still have to complete so, but certainly better than last year.

**Farokh Pandole:** As revenue sort of long-term revenue expectation would 15% which is may be marginally ahead of where you are this quarter would 15% be a fair number to work with or could you sort of could we enhance that given the rollout of some of the new products over the next three years?

**Abhiraj Choksey:** On an average yes our endeavor is to grow double digits. As I mentioned in previous calls that we have had in some of the industries that we cater to we are already at a fairly high market share where we will grow along with the market whether that it is 9% to 10% in case of paper board 5% to 6% in paper and different industries have different market growth rate. So those we will grow along and of course new products, new geographies we are also looking at as Anand mentioned in his opening remarks we are looking at expanding further in the NBR business where we have low market share so that will require some investments so given all that over a period of three years yes we do hope to have double digits at least 14%, 15% in growth.

**Farokh Pandole:** I think you had a broad guidance of a Rs.1000 Crores revenue at some point.

**Abhiraj Choksey:** We do have a broad guidance yes we still hold that if the first quarter is there any indication we are looking at 600 odd Crores this year as a target and this is without of course one of our major customers is still having problem so even without that we have been able to do that, otherwise you would have been even higher that includes of course one of the assumption there is an inorganic growth opportunity that we can hopefully bring about in the next three, four years also.

**Farokh Pandole:** So on the NBR side can you share some figures like what is the production what is the utilization and assuming that obviously some this is an import substitute that you have the capability of scaling it up quite dramatically in the foreseeable future.

**Abhiraj Choksey:** Actually the opportunity is quite high and when we acquired Omnova that is one of the things we saw into the market we are now even catering to 20% of the market I think our market share is 17% to 18% at our current production levels. There are many things we have done right to improve quality, we continue to reduce cost structures, we continue to invest also to reduce cost structures then improve quality so lot of those that work has been going on, our total NBR and when I say NBR our NBR and allied products capacity right now in Valia is 16000 tonnes. I must qualify that by saying look a lot depends on the product mix. So a lot of times we may choose to have products which are low productivity so actually capacity is lower than 16000 tonnes but by and large we have gone with that number of 16000 tonne and we want to increase at to what 20000, 21000 tonnes which is going to be another Rs.30 Crores investment not the first 30 Crores which is already

underway this is the next phase which is under planning and that will improve capacity by around the 5000 tonnes at least. So again there is a possibility of growth there.

**Farokh Pandole:** Right but that will be post 2018.

**Abhiraj Choksey:** That will be post 2018.

**Farokh Pandole:** Thanks a lot for the opportunity.

**Moderator:** Thank you so much. Next question is from the line of Umesh Patel from TCG Asset Management. Please go ahead.

**Umesh Patel:** Good evening. Thanks for giving me the opportunity. Sir I missed earlier remark regarding your comment on raw material cost. Just wanted to know why the raw material was significantly higher in the first quarter?

**Abhiraj Choksey:** It happened in the business it is petrochemical related so most of our products as you know are petrochemicals and most of them started crashing from March onwards and that continued till July and so we were stuck with some amount of higher cost raw materials which we got in March and April and then of course costs kept coming down. We were forced to reduce our prices where we still stuck with the higher cost material, which is what has caused pressure on the margins coupled with the fact that we are not at least the Taloja plant was on strike till March. We started production of course in March but a lot of our customers had in that panic when we were shut for two months they had imported some of the materials because we could not supply or make the arrangements otherwise. So of course April was not good in terms of sales either, even despite that we have grown at 13% so I would say it is satisfactory performance.

**Umesh Patel:** Yes but the demand that was muted in April would not have any impact on your material cost if I look at it?

**Abhiraj Choksey:** No I think material cost is also higher because of higher cost raw materials.

**Umesh Patel:** Yes, so what proportion of your inventory was carrying higher cost of inventory?

**Abhiraj Choksey:** I do not have the exact number in terms of what proportion of increase but obviously significant amount because that affected our margins.

**Umesh Patel:** So you generally keep the inventory for how many quarters or how many months?

**Abhiraj Choksey:** It is generally not more than a month.

- Umesh Patel:** Then I do not think so sir it should have significant.
- Abhiraj Choksey:** No but what happens is let us say for a month if we bought raw material in March and then in April suddenly there was a drop that we had to be do the volume we had to drop our prices but we were stuck with March the material similarly in April and we bought raw material that material was used to sell product in May, since we had a stock loss that time so over a period of every quarter we had some amount of stock loss.
- Umesh Patel:** So you mean to say that month-on-month basis whenever you are purchasing the raw material prices was going down and down so inventory cost was higher so as of now what we have Butadiene and Styrene is the major contributor to your raw material cost so what was the price in quarter one on an average basis and in previous quarter and what it is prevailing as of now.
- Abhiraj Choksey:** I do not have the exact numbers with me right now but I can just give you these are common rate so I can mention it for example in the month of March the price was in dollar terms more than – in rupee terms around we have given more than Rs. 200 per kg just for example or 200000 per tonne – Rs.200 per kg which in July we have bought as low as Rs.76 so the reduction in Butadiene for example was more than a 100% so that it was significant and of course since then in Q2 for example things has stabilized.
- Umesh Patel:** So as of now it is prevailing in the range of Rs.76 to Rs.80 only right.
- Abhiraj Choksey:** Yes.
- Umesh Patel:** So that the benefit will definitely are we passing the benefit of raw material immediately or it is generally a lag effect?
- Abhiraj Choksey:** There is a lag effect in both cases but when prices significantly come down like if cost significantly came down some times we are forced to pass it along because the market forces it.
- Umesh Patel:** Yes as of now it seems to be because of GST and just to retain our market share we are passing in the raw material prices 100% to our customers right as of now.
- Abhiraj Choksey:** We are able to either way whereas the price increases or a decrease to our raw material we are able to pass it along to our customers, sometimes there is a lag in both cases.
- Umesh Patel:** Sir you mentioned that we are putting inventory for one month only then every month even during the falling raw material prices are we keeping constantly buying the raw material on regular basis.

**Abhiraj Choksey:** You have to know some of it is imported, some of it we have contract so we need to cater to our customers we need to and a lot of times now in hindsight we know the prices fell at that time we are taking the buying decision it is not always clear that it will keep falling about two three four months so last quarter was definitely an anomaly that does not happen where prices not only fall constantly for four five months but they are also falling significantly every month-on-month by 30%, 40% which is very rare.

**Umesh Patel:** So as of now it is according to prices are stabilized right?

**Abhiraj Choksey:** Now it is stable again.

**Umesh Patel:** Second question was related to your Omnova, your new acquisition, what was the revenue contribution for this quarter in terms of revenue in EBITDA margin the company reported as well as PAT margin?

**Abhiraj Choksey:** We are not giving separately anymore because now Omnova does not exist we do not even have a subsidiary separately and now we cannot compare to Omnova because we have also made lot of changes, some products that we have moved from the Valia plants to Taloja plant some products we have moved from Taloja to Valia so now it is no longer comparable in that sense.

**Umesh Patel:** Sir you mentioned that your revenue target for this year is expected to be around Rs.600 Crores and in the first quarter you have reported Rs.130 Crores so what factors that will drive your revenue for FY2018 significantly from current level for the next remaining nine months?

**Abhiraj Choksey:** By and large on target as I said April was a slow month on account of coming out of strike but we should be able to if we continue this kind of trajectory we should be able to reach I am just saying close to Rs.600 Crores it is not yet gone.

**Umesh Patel:** Debottlenecking will increase your capacity by how much percentage overall?

**Abhiraj Choksey:** It was not overall but in the Valia plant we expect by about 20%, 25%.

**Umesh Patel:** Thank you.

**Moderator:** Thank you. Next question is from the line of Sagar Gandhi from ICICI Securities. Sagar Gandhi. Please go ahead.

**Sagar Gandhi:** Sir if you can give me some colour on the current capacity in the latex segment, high styrene synthetic rubber segment and utilization as on FY2017 or as on Q1 FY2018?

**Anand Kumashi:** Latex capacity is about 55000 tonnes. Our high styrene rubber capacity is about 7000 tonnes both of these products are made in Taloja. I do not give exact numbers of course it varies but on an average I would say both are somewhere between 70% and 80% capacity level.

**Sagar Gandhi:** But sir HSR is 7000 and nitrile rubber is?

**Anand Kumashi:** Nitrile rubber is in Valia that is about 16000 tonnes but again I want to qualify that by saying 16000 tonnes depends on a lot of things product mix is a big issue in Valia because depending on what products we choose to make capacity may vary anywhere between 12000 and 16000 tonnes sometimes we will make specialty products which are very low in productivity but high in margin. So it could vary from 12000 to 17000 tonnes depending on which product it chooses to make.

**Sagar Gandhi:** So by FY2019 we are only expecting capacity expansion in the nitrile rubber segment from 16000 to 21000 tonnes?

**Anand Kumashi:** That is right.

**Sagar Gandhi:** And both the other segments shall be more or less status quo?

**Abhiraj Choksey:** Yes we are working on a longer-term project to even double nitrile rubber capacity from there so from 21000 take it up to maybe around 35000 or so, maybe around 36000, 37000 so double from let us say double from today's level 16000 to 35000 or so and latex also we plan to increase capacities as well.

**Sagar Gandhi:** From 55000 tonnes to approximately?

**Abhiraj Choksey:** We have not decided yet so we are working on different models and different costs depending on different investments and may not even be sure of the location, we can either do it in Taloja or Valia it will not be a Greenfield project in a new location it will be one of these two locations.

**Sagar Gandhi:** Thank you so much Sir, it answers my question.

**Abhiraj Choksey:** Thanks but we will get back to you as and when we have clarity on that investment and total capacity but that will be a significantly large capacity expansion project so far what we are doing is only debottlenecking, improving, operations and so on but it will be a larger investment project.

**Sagar Gandhi:** Thank you so much Sir.

- Moderator:** Thank you. Next question is from the line of Dhavan Shah from KR Choksey. Dhavan Shah. Please go ahead.
- Dhavan Shah:** Just few questions firstly you mentioned that we are increasing capacity to around 21000 metric tonne from 16000 so of this 16000 I suppose 12000 is for NBR and remaining 4000 is for NBR powder right?
- Abhiraj Choksey:** No, not NBR the other products also we make. We make power, latex, NBC nitrile polyblends all that is part of the 16000 and we are not really giving breakup because it is all as I said product mix we can use NBR and NBC it is a little complicated than that so I think just to make it easier or I think it is simpler for you to assume capacity of 16000 tonnes for NBR and aligned products.
- Dhavan Shah:** That has been running at 70% utilization as on FY2017 right?
- Abhiraj Choksey:** Somewhere between 70% and 80%. I just want to qualify it again I am mentioning it depends on the product mix but yes.
- Dhavan Shah:** So does that mean that we can optimize the overall capacity by FY2019 and from FY2020 onwards we will be having 5000 more metric tonne capacity.
- Abhiraj Choksey:** That is the endeavor. I do not have an exact date on when the project to align but we are hoping we can complete it by FY2019.
- Dhavan Shah:** So it will be, commission from the revenue can come from FY2020 right.
- Abhiraj Choksey:** I do not want to commit to that but yes that is something that we are looking, we are trying to achieve, now we are still working on the engineering details, we will know in the next three to six months exact timeline.
- Dhavan Shah:** So this NBR per metric tonne realization is around Rs.170000 per tonne and we are increasing by 5000 metric tonne so it will add around 85 Crores to the topline numbers?
- Abhiraj Choksey:** I do not know where you have got Rs.170000 per metric tonne it is quite dramatic, depending on the raw material prices anywhere between Rs.100 and Rs.200 yes but fine yes but you are right in that ballpark figure Rs.60 to Rs.70 Crores.
- Dhavan Shah:** This Valia plant has around 115 acres and we are utilizing around 40 acres for this 16000 capacity so is it safe to assume that the requirement for the incremental capacity what you have highlighted around Rs.35000, Rs.40000 tonnes will suffice for the Brownfield capex and it will be to the tune of around Rs.60000 per tonne the capex will be this much right?

**Abhiraj Choksey:** I am not sure where you are getting these numbers but no we have not – we do not know what the capex will be yet.

**Dhavan Shah:** Because the Rs.30 Crores capex is for 5000 tonnes so it should be around?

**Abhiraj Choksey:** No but you cannot assume that way because this is the capex for 5000 tonne is just a debottlenecking project wherever there are bottlenecks in our current line, we are improving capacities of those equipments so this is not completely so it is not the right extrapolation what you have done. So the answer is I do not have a number for the phase III expansion as we are calling it so phase I is 30 Crores which is reducing cost and improving quality phase II is 30 Corers, which is going to increase capacity to by about 5000 tonnes and phase III will be the bigger project which will maybe double capacity of NBR but for that I do not have any numbers I do not have any investment numbers right now.

**Dhavan Shah:** So this 16000 to 21000 is the phase II right?

**Abhiraj Choksey:** Yes.

**Dhavan Shah:** And the debottlenecking will be at how much?

**Abhiraj Choksey:** It will not add capacity it will be reducing cost and improving quality.

**Dhavan Shah:** So is it just because from the power and fuel costs are you expecting some reduction?

**Abhiraj Choksey:** Cost reduction yes conversion cost yes.

**Dhavan Shah:** So this power plant is around 2.5 to 4 megawatt that will come by this December end so I think Omnova's operating margin is around 4% to 5% and the power and fuel cost is around 8% to 10% so the reduction of this overall cost can be visible from FY2019 onwards and we can see around 8% to 9% Omnova's margin right apart from the base business margin is around 12% to 13%.

**Abhiraj Choksey:** First of all Omnova you cannot as I said there is lot of changes have happened in the last year since we have taken Omnova. We have moved some products from Valia to Taloja. We have moved some products from Taloja to Valia so I am not sure where you are getting all these numbers from 4% to 5% and all but bottomline and I will talk about a bit more broadly than instead of sort of giving exact numbers, operating cost will go down and therefore margins will go up the quantum of which all that is not yet completely clear but suddenly it will help and it will increase.

**Dhavan Shah:** Thank you.

**Moderator:** Thank you. We have a follow up question from the line of Farokh Pandole from Avestha Funds. Please go ahead.

**Farokh Pandole:** Thanks. I just sorry but I just wanted to clarify again this 30 Crores has been spent this year in Valia will be the phase II that you refer to in your answer to the previous question is that right?

**Abhiraj Choksey:** There are two Rs.30 cr - the confusion is because that to phase I and phase II are both Rs.30 Crores phase I has already started and which will be spent between this financial year and next financial year, there we have already started with purchase orders the projects are already underway that is for reducing cost and improving quality. That is phase I. Phase II will be an additional Rs.30 Crores this is an estimate that has come right now which will increase capacity by about 25% in Valia that is I do not have an exact timeline of when the project will be completed because we are still in the early engineering detail phases that but that will also start from next year and our endeavor is to try and finish it by next year but I am not yet sure and I do not want to commit to that.

**Farokh Pandole:** So between this year and next year Rs.60 Crores will need to be...

**Abhiraj Choksey:** Exactly.

**Farokh Pandole:** I know that you said that you do not have the precise figures and working for the eventual large capacity expansion that is phase III of the whole process but my question was that on the financing side what would be the risk to the balance sheet by because this is the reasonably large amount for if you add all three phases that becomes a reasonably large amount for the size of your current balance sheet?

**Abhiraj Choksey:** While Rs.60 Crores is not a reasonably large amount and in the first two phases is not a reasonably large amount and we plan to do most of it through internal accruals. The third phase is I said we are still working on and obviously the cost benefit has to work out so we are working at different options and we will come back to you at the right time I just wanted to mention that it is in the work and wanted to sort of mention to all that we are working towards doubling capacity of NBR and increasing latex capacity as well because within a year or two we believe we will be full up on latex as well.

**Farokh Pandole:** So those possibilities would include a potential equity raise at some point?

**Abhiraj Choksey:** We have not come to any conclusion till we do not know what the total amount is, we have not made any decision on whether it will be could be a combination of debt and internal

accruals, it could be different options are available of course equity is also have possibility. As you know we have no debt on the books.

**Farokh Pandole:** Right what is the net cash position right now?

**Abhiraj Choksey:** Approximately Rs.50 Crores as net the current value of the investment.

**Farokh Pandole:** Yes so the net surplus cash is Rs.50 Crores.

**Abhiraj Choksey:** Yes I do not know how you calculate that I mean the way we look at it yes Rs.50 Crores.

**Farokh Pandole:** Thanks.

**Moderator:** Thank you. Next question is from the line of Sourabh Shroff from QRC Investment Advisors. Please go ahead.

**Sourabh Shroff:** Just a few questions on your Apco-build line how big is this business and what are your sort of future plan for this and it is going to be a B2C business something that we are going to focus on in a big way?

**Abhiraj Choksey:** This is something that we started a few years ago it is and again we do not give breakup of this each business unit that we have. It is not even unit but separate business that we have. I would like to say yes we are focusing on it, it is more B2C of course then our traditional business at the same time this Omnova opportunity came up so obviously in the last year or two the management bandwidth was also focused more towards the Omnova opportunity which was larger in terms of investments as well as revenue; however, to having said that we have a separate team working on Apco-build and it continues to be a profitably profitable business growing well but it is much smaller than – it is a much smaller percentage of the overall business.

**Sourabh Shroff:** And your inorganic opportunity just you mentioned are they likely to be in this area or you think that still the focus is well on the rubber styrene.

**Abhiraj Choksey:** No we are open as I said if it makes strategic sense and if it makes it has to be obviously sizable as well for it to make sense. We are open to any of the current businesses that we are in are similar business that we are in as and even have to be the exact business for example Omnova they were competing with us only on one product range but first 70% of the revenue was completely new to us but it was an allied line of business which we understood quite well so that we would do something that is synergistic.

**Sourabh Shroff:** Thank you.

**Moderator:** Thank you. Next question is from the line of Dhavan Shah from KR Choksey. Please go ahead.

**Dhavan Shah:** Just one question is regarding the construction latex segment so our one of the main customer is Pidilite and they are also more focused to improve the sales from the water chemical segment and they have also acquired Nina as well and they are focusing addition growth rate in next few years so what is our outlook on the same because I suppose BSF is also supplying some latex to them as well. So the and we are also planning to add some capacity so is that just because from the construction latex segment?

**Abhiraj Choksey:** Not sure I have understood your question but yes Pidilite is a customer and they continue to be a customer and I do not know what you mean by high capacity.

**Dhavan Shah:** You said that we are planning to add some capacity in latex as well in next few years and we are also manufacturing this construction in latex which goes to the Pidilite Doctor Fix It products right and for the Doctor Fixit they are also buying from BSF as well and we are also one of the supplier so the thing is because the revenue for the water proofing chemicals is likely to grow in next few years and Pidilite is the largest player in that segment and we are supplying that latex to them so the incremental capacity what we are planning in next few years that will be in regards to the construction latex?

**Abhiraj Choksey:** As you perhaps no we make latex for different industries say like paper board, construction, carpet, tyres, range of specialty latexes as well for different industries from roofing to adhesives to abrasive paper all kinds of things so keeping all that in mind we obviously would not add capacity just for one customer overall we see that all these industries are growing well by and large we believe we are in the right position to add capacity further as I mentioned to the gentleman who was asking me previously I do not have exactly the numbers of the investment and what kind of capacity enhancement we will do but it will be for all the latex then we can make all these latex with the swing plant so we can make latex for construction carpet paper or all these from one plant so we will utilize it towards all of course.

**Dhavan Shah:** Thank you.

**Moderator:** Thank you. Next question is from the line of Deepak Shah an Individual Investor. Please go ahead.

**Deepak Shah:** Thanks for the good coverage from the question, which was asked by the previous speakers, which was more on the technical ground. I would like to draw few attention why we have the dividend payout has been little more extra finally the end of the day the promoters will

good quite a bit more than about 57% to 60% holdings so why cannot we go with the theory of going back with the buyback of the shares that is the ideal way of rewarding that is number one and still can this balance sheet be read along as an investment company, because during the course of the last year you have made some of the very I should use the word bad investments company like Lupin and Sun Pharma where I am sure the price must have gone down to half and I believe that we are still holding those investments. So basically investment is our forte and if that is the case then I think it is ideal that we go for delisting by since you have experience of our group of delisting the Aeonian investments, which is the voluntary delisting. So what is basically I am just trying to understand the business side is fine our networth is Rs.206 Crores and turnover is something like Rs.430 Crores they are just rotating the capital twice the money which we have got. So it is not very, very good figure to appreciate. I do not know whether this the hit and you can cover up these things.

**Abhiraj Choksey:** I will answer it in two three ways. One is that as far as dividend versus buyback is concerned look we have always the board has always believed in a liberal dividend policy we have also felt that as long as a company can afford it why not and we do give back to shareholders, buyback in theory is okay to say but practically it is an expensive process. It is the time consuming process and not necessarily always a successful process. We have already done a buyback once a few years ago and we were not able to achieve our target at that point because it is in Apcotex's case it is not liquid stock to some extent.

**Deepak Shah:** But now it is now the buyback is actually is the ideal replacement for dividend payout right?

**Abhiraj Choksey:** Theoretically.

**Deepak Shah:** No practically even I am looking at the company's which are going now the numbers are going up right so we do fall in that category now so with the kind of money that we have got.

**Abhiraj Choksey:** Yes, but practically it we are looked into it and in our opinion in the board's opinion it is not always easy to do. We have done it before. We take your view. We appreciate your suggestion and we have done it before a few years ago and we will again take it into consideration at the right time. Having said that we have not increased as an overall compared to last year, yes we have had a tough year that the strike was one of the reasons one of our largest customers sort of being affected financially and therefore our business being affected was another reason but in the long-term we are still fairly optimistic and bullish about the business we continue to invest in it even we have enough capital to use to invest further...

- Deepak Shah:** Sir one thing that on Rs.400 share price Rs. 11 dividend is just 2.5%.
- Abhiraj Choksey:** As far as whether we are an investment company absolutely not we are not an investment company we have used the money that we have extra money that we have to keep it aside as a war chest. We have used it towards acquiring a new company, we have used it towards our capital investments, we as a company do not manage the money, we have given it to investor friends like you who are more capable of investing the money than we are, if we were to outsource the investments it is a temporary passing spot for it we also know this kind of business that we have is the highly volatile in terms of raw material pricing, in terms of as we saw what happened in Taloja last year was a two months strike which could have even been for four months or five months in which case having some cash on hand is always useful. So that to us was one of the reasons why we have these investments.
- Moderator:** Thank you. We take the next question from the line of Amar Mourya from Emkay Global Financial Services. Please go ahead.
- Amar Mourya:** Thanks a lot for the opportunity. Sir number one is on the margin front now when we see that given that the raw material prices are falling so are we saying that if the raw material prices continue to fall from here on we will either see that the margin staying at this level or margin will further come down because of this action. That is number one question?
- Abhiraj Choksey:** I have answered this again but I repeat it very briefly I have already answered it twice on this call but one more time I will mention that last quarter was not just raw material prices falling it was also falling significantly. I have given an example also one raw material which fell more than 100% and over a course of four months not just a quarter, starting from March ended and July currently it is not falling it is quite stable.
- Amar Mourya:** So meaning if it is to remain stable ultimately I will see that the margin should improve from here on?
- Abhiraj Choksey:** Sure.
- Amar Mourya:** Second question is on the latex side when we are seeing in a long-term vision that we wanted to increase our capacity on a latex side so are we saying that this new capacity expansion is primarily in the line for the new products, which we will be evaluating over a period of time or it is for the existing product line?
- Abhiraj Choksey:** Both.

- Amar Mourya:** So meaning both the things are in taken care of that and I believe you can double the capacity in Taloja itself because you have a substantial land over there?
- Abhiraj Choksey:** Yes we could do it in either place either in Taloja or Valia.
- Amar Mourya:** The nitrile rubber when you talk about almost 10000 tonnes to 16000 tonnes so is this, this year nothing is going to come right it is all going to come right in the next year?
- Abhiraj Choksey:** No currently even it is about 16000 tonnes and we are planning to increase it by around 5000 tonnes. I do not have the exact number but I am just given a ballpark figure of 4000 to 5000. We are in the middle of the engineering exercise that happening. I will have more details in the next three to six months yes in terms of timeline exact investment and the total capacity expansion of this debottlenecking phase, which is phase II which hopefully in the next three to six months we should have more information.
- Amar Mourya:** All this is going to come from the internal accruals?
- Abhiraj Choksey:** Yes for both the projects.
- Amar Mourya:** Thanks a lot Sir. That is all from my side.
- Moderator:** Thank you. Next question is from the line of Ronak Shah from SJC Capital. Please go ahead.
- Ronak Shah:** Thanks for the opportunity. The large paper customer is that business back to double now?
- Abhiraj Choksey:** The short answer is no it is not back to normal. They are continuing to buy from us but at much lower volumes they have facing the main issue the plant is all good everything else in the Indian business is also actually quite profitable, they had run in two issues with debt and not being able to service debt so as and when they do have cash flows they have funds they are buying some material from us but it is at a fraction of what they used to buy till Q1 of last year.
- Ronak Shah:** Yes, but I think though the plants have been taken over by a competitor right so are you – do you work for the competitor as well on the same product?
- Abhiraj Choksey:** Can you repeat again?
- Ronak Shah:** What I was saying is I think two of those plants have been taken over by competitor?
- Abhiraj Choksey:** No that is not I do not think the deal is final yet it still remains under current management.

**Ronak Shah:** Just a question on Omnova as well. So I think when we had taken over the plant, the working capital efficiency was quite poor, I think what you mentioned with about 100, 110 days where is that will it go down given that it has been more than a year and a half?

**Abhiraj Choksey:** It is between 60 and 70 days now.

**Ronak Shah:** And you see more room to kind of take that down to the Apcotex stage?

**Abhiraj Choksey:** No I think in the current business cycle and the way that business is 60 to 70 days is fair.

**Ronak Shah:** And just last question from me. Just on progressing we have added some segments.

**Abhiraj Choksey:** Sorry I may have misunderstood are we talking about debtors I am talking about debtors 60 to 70 day's now overall working capital.

**Ronak Shah:** Well I was talking about overall cash cycle.

**Abhiraj Choksey:** Overall cash cycle, which is not inventory and all so I think what we have done as of today, is by and large I think there maybe obviously headroom to improve but the large opportunity that was there to reduce has already been exploited.

**Ronak Shah:** So what is the exact number ballpark at the moment?

**Abhiraj Choksey:** I do not have that separately for – as I said it is now become difficult we are become one company and the way its run as company we have moved products around so it is hard to sort of give it separately.

**Ronak Shah:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you Sir!

**Anand Kumashi:** Thank you all very much for joining us in Q1 earnings call I hope we have answered questions to your satisfaction if there are any follow up questions please feel free to drop us an email and we would be happy to answer them. Thank you very much.

**Moderator:** Thank you very much sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.