



# “Apcotex Industries Ltd. Q3 FY-17 Earnings Conference Call”

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**Moderator:**

Ladies and gentlemen good day and welcome to the Apcotex Industries Ltd. Q3 FY17 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the belief, opinions, and expectations of the company as on date of this call. These statements are not a guarantee of a future performance and involve risk and uncertainties that are difficult to predict.

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 ‘\*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand over the conference to Mr. Anand Kumashi. Thank you and over to you sir.

**Anand Kumashi:**

Thank you. Good afternoon I welcome you all to the Earnings Conference call for the quarter and, nine months ended 31<sup>st</sup> December 2016. Along with me I have Mr. Abhiraj Choksey – the Managing Director and Strategic Growth Advisor Pvt. Ltd – Our Investor Relation Advisor.

I hope you had an opportunity to have a look at the Company’s Q3 FY 17 Results as well as the presentation which has been circulated and uploaded on website of Company and stock exchanges.

I would like to bring to notice that recently we were facing some labor issues at our Taloja Plant. The workman union at plant, have called for a strike, since 9<sup>th</sup> January 2017 for the wage increment. The estimated gross sale loss due to strike is around Rs. 10 crores to Rs. 12 crores for period of about 22 days that is up to 31<sup>st</sup> January 2017. We are making all the possible efforts to settle the issue and restart the production.

Moving on to the performance of the company – the export volume during the nine months ended 31<sup>st</sup> December 2016 went up by 25% compared to nine months ended 31<sup>st</sup> December 2015.

Also the volume of VP latex which is used in the tyre industry is up by 52% for nine months ended FY 17, compared to nine months FY 16. Further the price one of our key raw material has increased resulting in the shift of customer preference from SBR latex to Styrene Acrylics. This has affected the volume to some extent and thereby suppressed the margins.

The recent changes in the economic scenario of our country have led to volume pressure from the consumer oriented industry. Though temporary in nature we are confident that the volume will bounce back to the original level once these changes in the economy are settled down. We are happy to inform that during the quarter the scheme of amalgamation has been approved by the high court which has come into effect from 1<sup>st</sup> December 2016, and hence the subsidiary is now merged with Apcotex industries and we will be posting only single result from this quarter onward. I will also like to share with you some of the initiatives that the company has



continued to take to turnaround the acquired company that is Apcotex Solutions, which is now merged with Apcotex Industries.

We are constantly working on optimizing the inventory level by implementing the flexi-inventory policy and freeing the working capital limit. With better working capital management, we have been able to lower the inventory level of finished goods by about 45% as on 31<sup>st</sup> December 2016, compared to March 16 and about 51% since acquisition. We have been successful in bringing down the debtor's days from 84 days in February 2016 to about 65 days as on December 2016. As stated in the previous earning call, we have started utilizing the CAPEX of about Rs. 30 crores, majority of which is for reducing the current power cost and for improving the efficiency and margin improvement.

We have been able to reduce the expenses at Valia unit from Rs. 27 crores to Rs. 16 crores since the date of acquisition. We have already implemented ERP systems from this quarter and simultaneously working on material balancing system and improving the product yield. Lastly you might have seen in our investor presentation that we have designed a New Corporate logo for company to give it a new identity.

Moving on to the financial performance of the quarter and the nine months ended 31<sup>st</sup> December 2016, In Q3 FY 17 we had a turnover of Rs. 104.19 crores as against Rs. 65 crores in Q3 FY 16 a growth of 58% and EBITDA stood at Rs. 6.18 crores as compared to Rs. 9.52 crores in Q3 FY 16 with the margin of 5.93%.

The PAT for Q3 FY 17 is Rs. 5.15 crores as against Rs. 4.68 Crores in Q3 FY 16 with the margin of 4.94% an increase of 10.16% on year on year basis. For nine months ended 2016 the revenue stood at Rs. 303 crores as against Rs. 200 crores nine months ended in FY 16, a growth of 51%. The EBITDA for the period stood at Rs. 21.49 crores as compared to Rs. 28.56 crores with the margin of 7.09%.

The PAT for the nine months ended 2016 is Rs. 15.56 crores against Rs. 16.11 crores, with the margin of 5.13%. You may note that certain expenses related to merger have been debited to the profit and loss account for the period ended 31<sup>st</sup> December 2016. This is one-of expenses of about Rs. 80 to 90 lakhs during the nine months ended period. Accordingly, normalized PAT would have been about Rs. 16.35 crores.

With this we now open for question and answers.

**Moderator:**

Thank you, ladies and gentlemen we will now began with question and answer session. We have the first question from the line of Sagar Gandhi from ICICI Securities. Please go ahead.

**Sagar Gandhi:**

My question is for Q3 FY 17, how has been the capacity utilization both at the Taloja plant and the Valia plant. And if you can also throw some light on competitive intensity that the company is facing from key players like BASF, how has been the raw material prices, and what is the outlook of the management on exports going forward?



- Abhiraj Choksey:** So you have asked 3-4 questions, first capacity utilization. As far as capacity utilization goes at our Valia plant, the plant we have acquired there, we are running at very high capacities utilization levels, almost upwards of 90%, that has gone well. Part of the reason is raw material prices are going up, so there was a lot of demand in Q3 and it continues into Q4, for those products we make in our Valia plant. As far as the Taloja plant is concerned, I think our presentation alludes to the fact that we have had a major impact this year where one of our largest customers' volumes have fallen, so clearly the capacity utilization also to some extent fallen because of that. While there are some segments that have grown quite handsomely, like our tyre cord segment and exports as well. You know one of our largest customers having some financial distress had put some pressure on our volume as well. So there I would say the capacity utilization is perhaps a little lower than last year.
- Sagar Gandhi:** So it is less than 65%?
- Abhiraj Choksey:** Yes.
- Sagar Gandhi:** And my second question was on the competitive intensity especially with regards to BASF?
- Abhiraj Choksey:** I think competitive intensity has not changed drastically; the structure of the industry still remains the same. We are all affected because of one of the largest customer, was also a large customer for our competitor. But other than that, no change in competitive intensity as far as Latex products are concerned. As far as the synthetic rubber is concerned we are the only manufacture of the two or three types of synthetic rubber, we manufacture Nitrile rubber, high styrene rubber, most of it is imported there also there is no major change in the competitive intensity.
- Sagar Gandhi:** Sir, raw material prices?
- Abhiraj Choksey:** The last quarter has been bullish and continues to be in Q4 as well., I have been following the trend of oil going up and also some have been much higher than increase in oil prices also. So, it is a combination but certainly overall it has been a bullish sentiment in the petro chemical states in the last few months.
- Sagar Gandhi:** And sir your outlook on the exports market?
- Abhiraj Choksey:** We have mentioned before there are lot of opportunities in the export markets. We have done reasonably well this year on export growth and we have invested a lot of efforts, time and resources into developing the export market and I am sure that the market is very large, but we have to tap the right customers and satisfy them. We have done a lot of ground work and we are continuing to do so, we expect good results from the future as well.
- Sagar Gandhi:** Okay sir. Last few quarters we had an opinion that the margins will be in the range of 10 to 14% so this quarter margin revenue are pretty subdued. And next quarter also because of labor



issues things will look lack luster, so outlook for FY 18 and 19 can we expect similar margins over FY 18 and 19?

**Abhiraj Choksey:** See you know what I said in the earlier calls was last year the percentage margins were around 13-14%, after the acquisition because it was a loss-making company when we took over, margins immediately dropped below 10% and that I would have said overtime, over the next two to three years, it will improve slowly as we turn around the company.

**Sagar Gandhi:** That holds good.

**Abhiraj Choksey:** Yes that still holds good, and of course as the volumes grows the margins will improve. What was not expected is one of our largest customers went into some financial distress and volumes have really dropped, so that was not expected, that has caused margins to deteriorate further to some extent than we have expected. Other than that as Anand have mentioned there are few onetime expenses, because this was the year of amalgamation, lot of changes happening there are a few onetime expenses that were incurred this year that we don't expect to incur in future. So that has also costed us some margin erosion.

**Moderator:** Thank you. We take the next question from the line of Kamal Sahoo from India Nivesh Security Ltd. Please go ahead.

**Kamal Sahoo:** This time we had good set of numbers, can you throw some light on demand and supply? how much order you have in your hand, and how much orders you have delivered in this quarter?

**Abhiraj Choksey:** So Kamal we are not engineering company so we don't get orders months before hand. We have regular customers, most of the customers and industries we cater to, we have seen good bullish demand except one or two areas. Again I repeat the same thing that one of our largest customers is in some financial distress, so volumes have really dropped there. So, other than that as far as supply and demand is concerned, there is no major change.

**Kamal Sahoo:** Okay. So, this time is good than last quarter?

**Abhiraj Choksey:** Yes, it has been better than last quarter. I must say that exactly what I have said. Like in Q2 that customer had problems in Q3 also, but other areas have grown right. Between Q3 and Q2 in new acquired company, there also we have made several changes again a lot of it is in the presentation so I don't want to repeat it. We introduced new products and established new products, so all that has resulted in volumes improving in Q3 over Q2.

**Kamal Sahoo:** So basically, from which area you got more demand like tyre or rubber?

**Abhiraj Choksey:** You know so automobile components is been very good, where we supply NBR, our nitrile rubber. We have good demand, for one of the product that goes into tyre cord industry. And exports have been as I said compared to 9 months of last year the growth has been 25% for the



first nine months. Q3 was also similar. So this is in a nutshell from where the growth has come from.

**Kamal Sahoo:** So you are saying that export has grown up?

**Abhiraj Choksey:** Yes.

**Kamal Sahoo:** By how much percent?

**Abhiraj Choksey:** By 25%.

**Kamal Sahoo:** Sir may I know about when this Taloja plant is going to be started?

**Abhiraj Choksey:** The strike as I mentioned started on January 9<sup>th</sup> and as of today it is still on, honestly, difficult to predict, but we are doing our best to resolve the issue as quickly as possible.

**Kamal Sahoo:** Can we expect that by this quarter the plant will be operated?

**Abhiraj Choksey:** We are trying our best to do that, of course.

**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 first of all could you help us understand now that you publish only consolidated numbers so how the business have been shaping out across the 3 products that is latex, Synthetic Rubber and nitrile rubber which can help us get some indicative breakup of the three business across the revenue?

**Abhiraj Choksey:** So you know honestly we don't give break up of individual areas of our business for obvious strategic reasons, but what I can tell you that is as far as the synthetic rubber business is concerned that has been very bullish, we have seen some good numbers there. As far as latex is concerned, we supply to 6 or 7 different industries. Two or three have seen very good growth some have been somewhat flat and one or two has declined as well. Again, as I have explained some of the reasons for the decline. Again, I will not repeat it. So, in this Q3 that's what the numbers are compared to.

**Kamlesh Kotak:** So is it fair to assume that the other two business have grown far better than the latex business, synthetic rubber and nitrile rubber?

**Abhiraj Choksey:** Yes for Q3 yes, I would say even for first overall nine months.

**Kamlesh Kotak:** Okay. Right secondly, you've said that 13% growth and there were some prices sort of trending higher, so what has been the volume and value growth if you can even get some indication of that?



- Abhiraj Choksey:** Sorry 13%?
- Kamlesh Kotak:** Quarter on quarter growth, I am saying Rs. 91 crores going on to Rs. 103 crores, so that 13% growth if I had to see, was it all because of the realization firming up or also there was the volume growth how is it...
- Abhiraj Choksey:** I think most of it was volume, if you compared Q2 and Q3, and yes there is some amount of realization as well.
- Kamlesh Kotak:** So how the two must behaved...
- Abhiraj Choksey:** I don't have exact the break up right now but I am going to venture a guess saying that about 60-70% was volume growth and rest would be value.
- Kamlesh Kotak:** Okay, and are we able to pass on that?
- Abhiraj Choksey:** Actually 70-80% should be volume growth and rest should be matching that.
- Kamlesh Kotak:** Are we able to pass on the cost pressure in terms of the realization going higher or how is it?
- Abhiraj Choksey:** There is always time lag, so that's been one of the reasons that our margin has been suppressed a little bit because we have seen some bullish raw material cost and there is time lag by the time we can pass it along to the customers, but by enlarge we are able to pass it along.
- Kamlesh Kotak:** So could we see that effective somewhat more in Q4 numbers and the pass so happening?
- Abhiraj Choksey:** Sure, yes.
- Kamlesh Kotak:** Next is also I understand you were also implementing modernization capex at your Taloja Plant and in the middle of that the strike has also come, so what is our final take on completing modernization and starting the plant because we understand you have planned to shift entire production from Valia to Taloja for synthetic rubber right? So are these plans being changed or is it on track?
- Abhiraj Choksey:** Two things most our investments are happening in the Valia plant. We had some repair works going on at the Taloja plant for which we moved high styrene rubber production to Valia, that plant is ready, but given the strike situation we have continued high styrene rubber production in the Valia plant for now. We will bring it back as soon as the strike is over. So soon after the strike is over...
- Kamlesh Kotak:** So upgradation work is over. It is only the strike, than post which we can integrate the production to Taloja is it?
- Abhiraj Choksey:** That's correct.



- Kamlesh Kotak:** Okay and what is the timeline for commissioning of our Valia Plant CAPEX of Rs. 25-30 crore that we...
- Abhiraj Choksey:** That is actually not the CAPEX for increasing capacity that was more from the point of improving efficiency and reducing cost. The first phase of Rs. 30 crores, that project has already been started. It has already started implementation it will take about 12 to 18 months given most of the constraints are around permission, I wish we will complete the first phase but before that we may even start the second phase.
- Kamlesh Kotak:** So how much cost would be entered in the second phase?
- Abhiraj Choksey:** Not yet got to the details of that, we will inform you as soon as we have those details may be in the next one or two quarters. The focus right now is starting implementation of this first phase.
- Kamlesh Kotak:** And sir is it also right that we are setting up a power plant? At the Valia plant?
- Abhiraj Choksey:** That's correct.
- Kamlesh Kotak :** So can you get some sense on what would be per head cost difference between Taloja and Valia plant in terms of the cost of power? As it extends now?
- Abhiraj Choksey:** One I don't have it with me now and two even if we I did, I don't think we can reveal those numbers for strategic reasons. But the idea of implementing or commissioning of power plant is number one, we are power independent, number two the cost obviously will come down compared to the current power cost that we are facing. Amongst power there are other things like steam utility and a lot of other things, their cost will also come down. Overall running operations cost of the plant will come down.
- Moderator:** Before we take the next question remainder to the participants please limit your questions to two per participant. Next question is from line of Dipen Shah from Kotak Securities. Please go ahead.
- Dipen Shah:** Just wanted to know what was the contributions of the largest customers and what we could get because of that in terms of contribution to the revenue?
- Abhiraj Choksey:** Sure. If I compare to last year it is little difficult to say now because last year we were stand alone. The company revenues were lower, so at that time of course the percentage to the total company revenues of this particular customer was much higher. Now if things had been normal with them, overall revenues would have been in the region of 10 to 15% over nine months or over the year. But having said that 10% to 15%, had the volume being completely normal there has been some sales of course so it is not like we have lost the entire 10% to 15%. They have been working at much lower capacities but the volumes are still on for the first nine months.





- Dipen Shah:** Great. And second is last year, mid of the last year we were saying that because of improvement in efficiency of Omnova we could almost double the revenue contribution from Rs. 180 to Rs. 350 crores, just wanted to understand may be once fully integrated and once all the efficiency everything comes in, what kind of consolidated revenues we can look forward and say for FY 18, FY 19?
- Abhiraj Choksey:** I think may be there have been a misunderstanding. I didn't say that revenues will go up from Rs. 180 crores to Rs. 350 crores that is I would say is Phase 3 when once we decide to increase capacity and double capacity. As of now through some debottlenecking etcetera we will be able to increase some amount of capacity but not double it.
- Dipen Shah:** Just the link question is what kind of CAPEX would be required to go to Phase-2, Phase-3 and what could be the desired output of that, and by when we can see that output coming in?
- Abhiraj Choksey:** As I said we are working that out yet, not completely sure of Phase-2, Phase-3 numbers, right now we have made a plan to invest about Rs. 30 crores which has already started. Phase-2 is likely to be in a similar range of Rs. 30 to Rs. 40 crores, Phase-3 is not even yet worked out.
- Moderator:** Thank you. We take the next question from the line of Suvarna Joshi from SMC Global Securities. Please go ahead.
- Suvarna Joshi:** I had this question regarding the Taloja plant strike that you mentioned, so we are facing this Taloja strike from 9<sup>th</sup> of January onwards. As it has already been reported that we lost the sales up to Rs. 10 crores to Rs. 12 crores, so could you please help us understand, these Rs. 10 crores to Rs. 12 crores are towards which industries? Are these sales that we lost in industries where we are growing as against the other industry for example paper where we have not seen a good improvement in terms of offtakes?
- Abhiraj Choksey:** I think it is across all the latex products that we make, because that's the majority of production in Taloja. We have moved some small quantities of Latex whatever we could make in Valia, High styrene rubber which use to be made in Taloja was already moved to Valia earlier. So across the board on all the latex products that we make.
- Suvarna Joshi:** Sir also it will be helpful if you're able to give us the breakup of revenues across the industry, so how much in this particular quarter would paper and paper related industries will contribute to the revenues vis-à-vis the tyre and the other ones?
- Abhiraj Choksey:** In the past I have given the broad breakups, I don't want to mention that quarter-on-quarter and all that. But the broad breakups are mentioned about 50 % of synthetic rubber approximately and 50% is the latex from the overall business.
- Suvarna Joshi:** But can it be possible to give us an understanding in terms of the industries that we cater to I mean I am not asking you a specific number, but even a broad understanding within the industry would be helpful?



- Abhiraj Choksey:** It is a little difficult question to answer because Nitrile rubber is used in multiple industries largest being automotive components as rubber goods, there is rice roll manufacturing, so nitrile rubber which would be now currently in the consolidated results about 35% of our sales, 35% to 40% of our sales. That caters itself to four or five different industries. High styrene rubber caters to 2-3 different industries. And within Latex to we cater to 7 or 8 different industries. So industry wise is difficult, so that's why I am giving you overall broad breakup of our product range, which 50% is synthetic rubber and 50% is Synthetic latex approximately and of course, in the last quarter the latex has been more affected, so it may be a little less, I don't have the exact number right now.
- Suvarna Joshi:** Sure. The other question was you mentioned about the exports really doing well in this particular quarter as well as the nine months' period, so within exports could you highlight or give us the understanding as to which geographies has done well or is it the Middle East countries that we were trying to focus on or is it the Asian countries that have done better?
- Abhiraj Choksey:** It has been a combination of South East Asia and Middle East both, but we have done some business in other areas as well in other countries as well, but the Middle East region and South East Asian continues to drive most of our volumes.
- Suvarna Joshi:** And primarily coming from the carpet industry if I understand that correctly?
- Abhiraj Choksey:** No, it has been the combination again the tyre cord, high styrene rubber, carpet, construction these are the four major ones not so much of paper exports and far as nitrile rubber is concerned we don't have enough capacity even for the domestic markets. So right now we are not doing much in nitrile rubber, there is some amounts of nitrile powder we are exporting, but small quantities of high value. So, it is a combination of four or five different things.
- Suvarna Joshi:** Sure. Okay and just last final question could you just throw some light on what has been range for the key raw materials that have gone up like, butadiene or styrene if you could probably help us understand that?
- Abhiraj Choksey:** You know gone up between which period because that's an important fact?
- Suvarna Joshi:** So if you were to take these nine months of this particular financial year versus that of the last year?
- Abhiraj Choksey:** I have that data somewhere, but needless to say that everything has gone up.
- Suvarna Joshi:** Because sir I believe in Q2 con-call we had mentioned that price of styrene had temporarily seen an upside but were coming to normalcy, so therefore this particular question?
- Abhiraj Choksey:** Exactly. So average out is Styrene compared to nine months of the previous year has been, and this is published data so I can tell you this. Styrene has been about the same a little bit higher, butadiene has been up by about 30% compared to nine months' previous year.



- Moderator:** Thank you. We take the next question from the line of Sharad Sharma who is an individual investor please go ahead.
- Sharad Sharma:** Few questions had this been a normalize quarter what would be top line and bottom line would be? So today you are doing 100 crores at 5% margin approx..., what is the normalize quarter for Q3 been? Assuming BILT and everybody you know all the key clientele could have continued and not shutdown. The earlier shutdown of last quarter hadn't continued?
- Abhiraj Choksey:** I will have to make that calculation, I don't have the calculation ready but I would say it would be at least 10 to 15% higher on revenue front and on the margin front much higher.
- Sharad Sharma:** Superb. And has the problems with the key client continued to Q4?
- Abhiraj Choksey:** Yes.
- Sharad Sharma:** Sir what is the correlation with natural rubber price, the rubber prices go up that's why the industry move to synthetic rubber and aids this industry?
- Abhiraj Choksey:** To some extent it is too again depends on application to application in our case since nitrile rubber is the specialty rubber, its applications, there aren't any substitutes especially natural rubber cannot be used when nitrile rubber is used. To some extent in high styrene rubber that is possible natural rubber substitution can happen. But again, it's minor. I think what you are talking about is SBR 1502 which is used in the tyre industry which is made by a couple of other companies in India, we don't make that grade where the substitution is little bit more. For example, natural rubber prices are much lower than then synthetic rubber prices, consumers do tend to shift more significantly. But that's not really the case in our two-specialty rubber that we make.
- Sharad Sharma:** The tax incentive you got a tax credit is it because of the Omnova thing?
- Abhiraj Choksey:** Yes. It is because of basically in the first two quarters we have provided for standalone tax for the standalone company. And since in Q3 the amalgamation is completed, we could take this benefits and therefore we have to reverse the first two quarter's tax provisions.
- Sharad Sharma:** Got it. The balance Rs. 10 crores to Rs. 12 crores the remaining outstanding in Omnova that will accrue equally over the next few quarters, so can we assume FY 18 will also be a lower charge?
- Abhiraj Choksey:** I think so it will continue but not to the extent that in Q3, because in Q3, Q1 and Q2 are reversed.
- Moderator:** Thank you we take the next question from the line of Rohit Gyanchandani who is an individual investor. Please go ahead.



- Rohit Gyanchandani:** I just have one question regarding this Taloja plant strike, have we employed any contract labors or if yes then what are the additional cost incurred for that?
- Abhiraj Choksey:** As of now the production is shut for the last few weeks.
- Rohit Gyanchandani:** Okay. So it is totally shut?
- Abhiraj Choksey:** Yes.
- Rohit Gyanchandani:** Are we planning to employ any contract labors for that matter or we are going to just prolong this, I mean are we going to wait until the strike is over or are we will employ any contract labors?
- Abhiraj Choksey:** This matter is subjudice and again for strategic reasons I am not able to give any more details of the strike.
- Rohit Gyanchandani:** Okay. Okay and the loss the tax expense is negative due to that acquiring amalgamation of losses if I am not wrong.
- Abhiraj Choksey:** Yes. It is not losses it is unabsorbed depreciation.
- Rohit Gyanchandani:** Other incomes are up to Rs. 220 lakhs which was Rs. 30 lakhs in previous quarters, previous year quarter 3?
- Abhiraj Choksey:** Yes.
- Rohit Gyanchandani:** So it is on account of what?
- Abhiraj Choksey:** The Company has investment portfolio for our treasury and there has been some profits which has been booked this quarter.
- Moderator:** Thank you. We take the next question from the line of Anuj Choksey who is an individual investor please go ahead.
- Anuj Choksey:** Hello Abhiraj.
- Abhiraj Choksey:** Yes hi Anuj bhai.
- Anuj Choksey:** I am sure the consolidation will help us to take it further as you have already mentioned your Phase-2, Phase-3. I don't have any questions left because most of the questions have been answered. But I am confident that probably after the Phase-2 Phase-3 we will be back to the EBITDA margins of around 14% and 14.5% that we have achieved in the last two three years.
- Abhiraj Choksey:** That's the endeavor. One of things we also want to watch out for is the oil prices, because we had an advantage of having very low Oil and Petrochemical prices in the last two three years.



Suddenly in the last few months of course there has been up swing on it. So sometimes we do give up on percentage margins and protect our overall contribution but yes certainly, that's the endeavor and that's what we hope to do.

**Anuj Choksey:** I am sure and even the Valia plant will take care of such eventualities like the strike that happened and we can always ramp up our production over there and this kind of labor problems can be tackled in future?

**Abhiraj Choksey:** Absolutely I mean to some extent yes and that was one of the reasons of acquiring another plant was to diversify the risk which of course in today's case has paid off and of course that has also allowed us to take a tough stand with our union as well so I guess either ways it has been diversifying risk.

**Moderator:** Thank you. We take the next question from the line of Kamal Sahoo from Indianivesh. Please go ahead.

**Kamal Sahoo:** Can you please tell me you have mentioned export volumes are up by 25% year-on-year for nine months ended on December 2016. Can you please tell me the numbers of these nine months, how much the export is contributing to top line?

**Abhiraj Choksey:** We don't give exact volume numbers either by industry or by customer.

**Kamal Sahoo:** Not volume number I am talking about the revenue how much it is contributing percentage wise?

**Kamal Sahoo:** Of course it is still a smaller percentage now with the consolidation because the new company that we have bought. I come back to you by exact value but I think it would be about 10% to 15%.

**Kamal Sahoo:** Between 10 to 15%?

**Abhiraj Choksey:** Yes.

**Moderator:** Thank you. The next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.

**Dipen Shah:** What could be the loss of Omnova for FY 16 and to what extent we have been able to reduce that loss in the first nine months of this fiscal year?

**Abhiraj Choksey:** It was a loss-making company to the extent of Rs. 8 -Rs. 10 crores is from what I recall when we acquired the company. And we are in the positive already for this year.

**Dipen Shah:** That means we have almost improved by Rs. 8 crore to Rs. 10 crores on those numbers as compared to FY 16?



- Abhiraj Choksey:** At least.
- Dipen Shah:** Yes. And sir one more thing is that, can you give us some color on what kind of CAPEX would we incur in the next two to three years both in Phase-2 and Phase-3 which is not yet decided, but in Phase 2 what could be the CAPEX and where it could go in terms of increasing capacity?
- Abhiraj Choksey:** Sir Phase-1 as I mentioned we have embarked about Rs. 30 crores is not going to increase capacity that's for reducing cost, overall we are looking at about Rs. 100 crores in the next two to three years, may be even a little bit more. But as I said I don't have the numbers yet but at least Rs. 100 crores if you include everything in it.
- Moderator:** Thank you. The next question is from the line of Sharad Sharma, an individual investor. Please go ahead.
- Sharad Sharma:** As far as the potential impact of Taloja Rs. 10 crore to Rs. 12 crores or Rs. 20 crores for 22 days in Jan can this be assumed to be the run rate for February- March as well, I mean extra including 30 days? Safe to assume Rs. 10 crores top line and 5% bottom line impact.
- Abhiraj Choksey:** Difficult to predict but we do have some inventory as well that we have dispatched in January and we continue to dispatch in February, but yes if it continues it will be at least that much.
- Sharad Sharma:** And sir assuming we come out of labor issue or something, can this loss be recuperated by the end of Q4 so can we recover Rs. 30 crores loss of Jan-Feb and March?
- Abhiraj Choksey:** No, we will not be able to do it that quickly. Recuperative the loss it may take a little longer.
- Sharad Sharma:** Got it. And couldn't settlements and wage increases impact the financials and further impact the bottom line?
- Abhiraj Choksey:** To some extent.
- Sharad Sharma:** Got it. On the Omnova acquisition we have got the monopoly or near monopoly in HSR, am I correct?
- Abhiraj Choksey:** That's correct. I won't use the word monopoly but yes, we are the only manufactures in India of High Styrene rubber and we are the only manufactures in India of nitrile rubber and Nitrile powder.
- Sharad Sharma:** So I came across some articles Reliance also getting into Nitrile rubber is that the competitor or something or we are just in some different angle to that?
- Abhiraj Choksey:** Reliance is not manufacturing Nitrile rubber they are manufacturing Styrene Butadiene rubber, poly butadiene rubber and I think they are coming up with butyl rubber plant.



- Sharad Sharma:** No impact to Apcotex?
- Abhiraj Choksey:** Completely different product range.
- Sharad Sharma:** Okay, so only competitor for Apcotex is imports right?
- Abhiraj Choksey:** Yes for these two products.
- Moderator:** Thank you. The next question is from the line of Kamlesh Kotak from Asian Market Securities please go ahead.
- Kamlesh Kotak:** Yes sir some more clarification if you can help us in the cost structure, from from Q2 to Q3 comparison the employ cost which was Rs. 76.8 has come down to Rs. 61.9 million, 19% drop so what is drawn account off?
- Abhiraj Choksey:** You know I will have to check there may have been some regrouping as well that may have gone to other expenditure, I think that is the case I will have to recheck and get back to you if you don't mind, but from what I recall there was some regrouping done.
- Kamlesh Kotak:** Because if you see the other expenses gone up by 21%?
- Abhiraj Choksey:** Yes there was some regrouping that have taken, we have some mathadi and some contract laborers that cost may have been regrouped to employees to other expenditure. I will confirm with you after the call.
- Kamlesh Kotak:** Okay. And sir secondly on the raw material front there has been a big spike from 68.4% of raw material-to-sales it has gone up to 72.5% so is it because again as you mentioned that prices have again firmed up during the quarter which the pass through has not happened.
- Abhiraj Choksey:** Yes exactly, there is always a little time lag for the pass through so that's the reason.
- Kamlesh Kotak:** And can you give the number of people working in both the plants?
- Abhiraj Choksey:** Yes, I mean approximately I don't know have the exact numbers, but in Taloja full time employees would be about 240. Full time employees without contracts. The entire company full time employees Anand tells me is 450.
- Kamlesh Kotak:** 240 at Taloja and Valia?
- Abhiraj Choksey:** No, there are offices also there about 15 – 20 of them. So about 180 to 190 in Valia.
- Kamlesh Kotak:** And all of them has been retained post-acquisition?
- Abhiraj Choksey:** Yes.



- Kamlesh Kotak:** And lastly if you could help me even the export revenue breakup for nine months you said 12% to 13% for three months' right?
- Abhiraj Choksey:** No it is about the same 9 months, 3 months about the same.
- Kamlesh Kotak:** This quarter also have seen a big jump in export, still it is the same or?
- Abhiraj Choksey:** Yes, the percentage wise it is the same.
- Kamlesh Kotak:** Because in nine months an export has been up by 25%? Is it?
- Abhiraj Choksey:** Yes I mean I think the 25% was nine months number only. For the quarter, it is about the same may be a little bit lower you know for exports I don't have quarter-on-quarter numbers but the export is anyway a smaller percentage number of sales. Even though the growth rate of the exports has been more it will remain about 10% to 15% range
- Kamlesh Kotak:** And lastly if you can help me all put together all products now in all how many customer base you will be serving?
- Abhiraj Choksey:** It is the good question but might be 350 to 400 I don't have the exact number. It is a well-diversified portfolio you know across 8 or 9 different industries.
- Moderator:** Thank you. That was the last question I now hand the conference over to Mr. Anand Kumashi for the closing comments.
- Anand Kumashi:** Thank you. We thank everyone for participating the earning call, we have uploaded the investor presentation on the company website. In case of further queries, you may get in touch with Strategic Growth Advisor, our Investor Relation Advisor or feel free to get in touch with us. Thank you very much for participation.
- Moderator:** Thank you. Ladies and gentlemen on the behalf of Apcotex India Industries Ltd. this concludes this conference. Thanks for joining you may now disconnect your lines.