

Apcotex Industries Limited
Q4 FY18 Earnings Conference Call
May 04, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY18 Earnings Conference Call of Apcotex Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” followed by “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal – CEO of Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Thanks Aniket. Good afternoon, everyone and a warm welcome to you all. My name is Anuj Sonpal. We represent the Investor Relations of Apcotex Industries Limited from Valorem Advisors. On behalf of the company, I would like to thank you all for participating in the company’s earnings call for Q4 FY18 and the year ended financial 2018.

Before we begin, I would like to mention a short cautionary statement as always. Some of the statements made in today’s earnings call maybe forward-looking in nature. Such forward-looking statements are subject to risk and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management’s beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today’s earnings call is purely to educate and bring awareness about the company’s fundamental business and financial quarter under review. I would now like to introduce you to the management of Apcotex participating with us in the call. We welcome Mr. Abhiraj Choksey, our Managing Director and also Mr. Anand Kumashi, Company Secretary. Without much ado, I request Mr. Anand Kumashi to give his opening statement. Thank you and over to you, sir.

Anand Kumashi: Thank you Anuj. Good afternoon and welcome everyone to this earnings conference call for Q4 and year ended 31st March 2018 under review. Along with me in the today’s earnings call, I have our Managing Director Mr. Abhiraj Choksey. I hope you had an opportunity to look at the company’s performance for Q4 FY18 results as well as the earnings presentation which has been circulated and uploaded on the website and the stock exchanges. Please note that the Scheme of Amalgamation of Saldhar Investments and Trading Company Private Limited which was the holding company of Apcotex merged with Apcotex Industries Limited with effect from 13 February 2018. Hence the financial statement we have provided the pre-

merger and post-merger numbers for a full year. For Q4 FY18 the financial related to merger related expenses have been showed under exceptional items. In order to do that an apple-to-apple comparison for full financial year we suggest you focus on the pre-merger financial.

Moving on to the financial performance for the quarter, the Q4 FY18 the net turnover increased by 59.8% from INR 87.1 crores in Q4 FY17 to INR 139.2 crores in Q4 FY18 and operating EBITDA stood at around INR 22.8 crores in Q4 FY18 as compared to INR 7.5 crores in Q4 FY17. The operating EBITDA margin stood at 16.38% for Q4 FY18 as against 8.61% in Q4 FY17. The PAT for Q4 FY18 was reported at around INR 12 crores as against INR 3 crores in Q4 FY17 with a PAT margin of around 8.62% for Q4 FY18. For the financial year ended FY18, the net turnover after adjusting for the excise increased by about 36% from INR 388 crores in FY17 to INR 526 in FY18. The operating EBITDA stood at around INR 64.1 crores during FY18 as compared to INR 29 crores in FY17. The operating EBITDA margins were around 12.2% for FY18 as against 7.5% in FY17. The PAT for FY18 was reported around INR 40 crores as against for 21 crores in FY17 with PAT margin of INR 7.62 crores for FY18.

Some of the key operating highlights for the quarter are as under:

The company reported highest ever quarterly sales in Q4 FY18 who also recorded the highest ever exports in the financial year. Additionally we have delivered the highest ever operating EBITDA margin and operating profit for the quarter as well as the financial year. The higher Y-o-Y growth in Q4 FY18 was on account of difficult Q4 FY17 due to strike at our Talaja plant. The company has incurred a CAPEX of around INR 30 crores in FY18 and we have got a CAPEX plan of another INR 40 crores to INR 50 crores in FY18-FY19. We have introduced a new product line in latex called XNBR specially meant for the gloves industries.

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

Moderator: Thank you very much. We will now begin with the question and answer session. First question is from the line of Sagar Gandhi from ICICI Securities. Please go ahead.

Sagar Gandhi: My question is, sir what percentage of your topline has come from exports and what is the Y-o-Y growth that it has seen over the last year and what is the outlook on the segment going forward?

Management: So exports is about 14% to 15% of the total turnover of the company currently and we have seen a very good growth this year. I think upwards of 100% again just wanted to remind you that last year we had the tough year with 2 months of plant being shut in the Q4 of last year. So, of course we lost sales last year so the percentage growth is of course higher but it is about 100% for exports.

Sagar Gandhi: And sir your outlook on the segment going forward?

Management: We do not give numbers but overall we are targeting aggressive growth in export segment as well. There are opportunities still available. We are introducing new products all the time, new product lines, some of our current products like NBR which we acquired, also at some export opportunities which we are evaluating but currently we are running a 100% capacity, so we do not have much to give. But certainly there is lot of opportunities outside India that we can exploit and so we are looking at aggressive growth.

Sagar Gandhi: Sir, have you also looked at new geographies apart from Middle East and South East Asia?

Management: Lot of our products are water based and about 50% of our sales comes from water based products, so in terms of freight and logistics it get difficult to go very long distances. But certainly for some of our solid rubber products NBR, HSR, NBR powder and so on, we are looking at it closely and working at it. Of course, we are already exporting but yes looking for aggressively growing in other geographies.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: What would be the opportunity size for this new product that we have introduced the XNBR latex gloves?

Management: The opportunity size is very large actually globally, of course not in India so much. It is largely an export driven market with the largest consumption geography being in South East Asia and in number of tonnes it is upwards of 600,000-700,000 tonnes may be close to a million tonnes of XNBR latex totally consumed. So, it is something that we are just starting off and we do not even have enough capacity right now but we will be adding over the next 2-3 years.

Kaushal Shah: Any number that sir you can share with us in terms of what we could do this year, of course it is a new product and like you said you have just started.

Management: Yes, it is not going to be significant this year and it was not significant in 2017-2018. It is in terms of current business it is not going to be significant for 2 reasons. One is that well, we are a new entrant and we are still sort of approval cycle take time and the second reason is we do not have that much capacity either to be able to cater to this kind of demand as our latex capacity in Taloja is 55,000 tonnes and we are just sort of eking out few hundred tonnes, it is very small amount for Nitrile latex to almost seek the market even this year. Because the market is so big even 5,000 tonnes-10,000 tonnes is a small volume in this market, it is not even a drop. So, not significant from ApcoTex point of view in this year.

Kaushal Shah: And sir, there is plan in the next 2 years to significantly raise capacities. So the increased capacities, I mean out of the increased capacities, will this product play a significant role?

Management: Yes, absolutely that is why we are feeding the market for the next year or two. So that when we have new capacity it will be one of the product ranges that we will be expanding as this one. We will be allocating capacity to XNBR latex for gloves.

Kaushal Shah: And sir if you can give some color on the margins that this product will have vis-à-vis our existing product?

Management: I think it is a little early to say but needless to say it will not be lower than what we currently have.

Moderator: Thank you. The next question is from the line of Dhaval Shah from KR Choksey. Please go ahead.

Dhaval Shah: I have few questions, firstly about the other expenditure for this quarter. So there is some reduction of around 3 crores in the other expenditure for Q4 FY18 and because of that we have seen the jump in the EBITDA margin. So, can you please explain that variance?

Management: Yes, I mean look, there were some maintenance expenses in Q3 then we have taken up so that was one of the reason and also there was certain provisions, I mean there is also some provisions that were made through the year and which were reversed in Q4. These are largely the 2 reasons, nothing significant in that sense.

Dhaval Shah: So, can you quantify the number for provision which has been written back ...

Management: Sorry I cannot. One, I do not have it with me second it should be sort of very specific.

Dhaval Shah: But if we adjust all this 2 things then what could be the adjusted EBITDA margin for Q4?

Management: I mean it is not significant in that senses it may go down little bit till that sense but not significantly.

Dhaval Shah: But still I think it could be around 13% to 14% EBITDA margin right?

Management: Yes, for sure. It is not significant as I said.

Dhaval Shah: Second thing for this gloves market so, I just wanted to understand about the potential players I mean who are the largest players in this segment and is there any one from India or are we the first entrant into this market?

Management: We would be the only manufacturer in India. Most of the manufacturers are in Malaysia and East Asia, Korea, Taiwan and nobody in India. But as I mentioned in earlier that even the Indian consumption for this product is not large it would be export driven of course.

Dhaval Shah: And one more thing, if I take the FY17 numbers, NBR was contributing around 35% to the overall revenue and 50% was latex and 15% from the rubber. So, what was the revenue contribution for these 3 segments in FY18?

Management: For which 3, can you repeat please?

Dhaval Shah: NBR, synthetic latex and synthetic rubber.

Management: Again not significantly different I mean may be a couple of percentage points here or there. It would be about the same.

Dhaval Shah: Can you give ball park number for plant utilization for both Valia and this Taloja for FY18?

Management: FY18 is, well in Valia I think currently at least the current run rate in the last 6 months we are almost at 100% capacity utilization and for Taloja we are at about 80%.

Dhaval Shah: And last question about the latex market, so if I have some the numbers, our synthetic latex realization is around Rs. 70 to Rs. 80 per kg. So, here this latex gloves realization will be higher than our core products and also the process will remain the same, I mean can you manufacture the latex gloves from our 55,000 metric tonnes of capacity as well?

Management: Yes, we can manufacture, that is what we are doing right now because we do not have capacity. We have already started manufacturing from our Taloja plant and in terms of pricing it would be a little higher but in the similar range.

Moderator: Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh Kotak: Sir, just wanted to understand how has been the growth across the 3 categories? All the 3 products have grown in similar trend or which products have grown a bigger growth this year, out of the 3 categories HSR, NBR and latex?

Management: HSR is not grown significantly at all. It is little bit but mostly flat. NBR and latex both have grown. Latex I again must point out that last year in FY17 we had a strike for 2 months, so obviously FY17 numbers are lower than normal, what normally they would have been. And NBR has grown really well for us. It is a product range that we have turned around and growth has been quite significant.

Kamlesh Kotak: And when you say out of export which has grown 100%, so also export contribution is mostly coming from which category of products? Is it latex, NBR?

Management: A large chunk is latex, right now.

Kamlesh Kotak: Mostly from latex, right?

Management: Its large chunk, yes.

Kamlesh Kotak: And has supply to that paper vendor who was in trouble is resumed or is it still not being there in the overall scheme of things?

Management: No, it is resumed, in fact even FY17 we have resumed. It was a little bit of a start-stop, so that continues into FY18 as well. It is not completely resolved so our volumes are of course less by 50% of what they were at its peak. But they are better than FY17. FY18 has been better than FY17.

Kamlesh Kotak: And of the total growth can you just segment us between how much would be value growth and how much would be volume growth for this year when we say the total revenue was 526 versus 388. So, how much of the growth would have come from volume part and realization part? If you can just help us understand.

Management: 90% of the growth is volume.

Kamlesh Kotak: And how is the pricing trend now? Is it stable or higher with the crude prices going up? How the trend you see it?

Management: Yes, in the last 3-4 months with crude prices going up of course it has been a higher trend. Going forward of course anybody's guess, largely depends on crude pricing of course, there are each petro chemical also has its own cycle. But certainly they have been bullish last few months.

Kamlesh Kotak: So, the prices have been revised upwards both for raw material or finished products?

Management: Yes, of course.

Kamlesh Kotak: And when we see the debottlenecking to happen for our NBR products from 16,000 metric tonnes we had some plans to debottleneck the capacity. So, when you see that is going to be in?

Management: So, I think it should happen in next 3-4 months.

Kamlesh Kotak: So it will go to?

Management: By Q2.

Kamlesh Kotak: And to what size it will go to from 16,000 to?

Management: We are looking at about 20-21.

Kamlesh Kotak: And Phase-II of our capex is on track in terms of the December 2018 to commission the power plant and debottlenecking?

Management: Yes, that is going on. We have already spent about 13 plus crores this year in FY17-2018 and we are expecting another 40 crores to 50 crores is over the next 12 months. There were some delays in obtaining some government permissions to set up the power plant. So, of course I think I had mentioned in my last quarterly concall as well that it would probably be sometime between Q4 of this FY18-2019 or may be gets spill into Q1 of next year as well as far as the power plant is concerned. The rest of the projects will all be done in the next 3 to 6 months

Kamlesh Kotak: And lastly if you can share how much of markets now in NBR, I understand we were gaining market share from the imports. So, how it stands now?

Management: So, when we took over the company we were at about 17% or so, 16%-17%. And right now we are at the run rate of about 25%.

Kamlesh Kotak: The new capacity coming up, do you see that is further improving from here the market share?

Management: Of course, yes. I mean that is the idea right. Of course, the market is also growing, so but of course the market share should grow as well.

Kamlesh Kotak: So, broadly to say what will be market growth for this 3 markets latex, HSR and NBR in percentage terms if you were to say volume terms what could be the growth trend?

Management: Look HSR as I have mentioned before is largely been flat and somewhat declining as well. Latex is supplied to 5 or 6 different industries. So, different industries have different growth trend. I cannot give one number entirely for latex. And for NBR, of course we are seeing overall in automotive components being a large application, in the long run we do see good growth higher than GDP for sure.

Kamlesh Kotak: Any percentage range you can share for both these latex at overall level and NBR in terms of the industry growth?

Management: Latex is very difficult. NBR as I have mentioned it should be at least 1.5 to 2 times the GDP growth.

Moderator: Thank you. The next question is from the line of Karan Sharma from Kredent Capital. Please go ahead.

Karan Sharma I wanted to ask are you looking at the growth opportunities inorganically over the next 1 or 2 years.

Management: Yes, absolutely if it strategically make sense then it would be something that we would explore for sure and of course the value is right.

Moderator: Thank you. The next question is from the line of Viraj Vajratkar from Sanctum. Please go ahead.

Viraj Vajratkar: Just wanted to know the raw material price movements for the 3 raw material ingredients butadiene, styrene and I think acrylonitrile. How have these 3 moved over the last quarter and over the last year if you can share that?

Management: This is all frankly public data. But in general the last quarter as I mentioned earlier oil has been going up it has been quite bullish all petrochemicals have been on the rise. As far as the last year is concerned if the whole year there is always ups and downs. Each raw material behave separately, you could easily analyze it by sort of it is all available in the public domain.

Viraj Vajratkar: So, your butadiene is all locally sourced right and styrene and acrylonitrile, how was the sourcing done for these 2?

Management: All imported. There no manufacture styrene and acrylonitrile in India. But we import 100%.

Viraj Vajratkar: From the mix of countries or ...

Management: Yes, mix of supplier's mix of traders, countries, yes all. No specific.

Viraj Vajratkar: Any hedging on these 2?

Management: No, where we do, what kind of hedging?

Viraj Vajratkar: In terms of currency, I think for these 2?

Management: Yes, we do. We do hedge, we take forward covers we build into our price.

Moderator: Thank you. The next question is from the line of Farokh Pandole from Avastha. Please go ahead.

Farokh Pandole: I just had a couple of questions. Firstly, I see from the last 2 quarters results that obviously we increase in input prices because of higher crude has been obviously past a long and you will have not felt any negative impact from a profitability stand point. So, is it fair to say that this could continue even if we see crude prices continuing to escalate?

Management: So, good question. I would say in a way, of course no one likes it when prices are going up as customers do not like it, we do not like it but obviously there are certain short term benefits we can take. When prices are going up and we do better buying. We can do better buying and that is part of the reason why margins have also been good to be frank has been that we have had some great buying in the last quarter or last 4 to 5 months. And we have taken advantage of that. And yes we are able to pass along the price increase and if that continues we are quite confident of continuing to do that.

Farokh Pandole: Also, I am sorry, I may missed it in the question we have been asked earlier but there was a loss on the other income line in this quarter as supposed to a stronger gain in the last quarter on that line. What was that on account of?

Management: So Farokh, since this year if you are aware but Apcotex falls under the IndAS accounting standards. Apcotex has the significant treasury portfolio, some of it is in equities as well or equity linked products, equity mutual funds and equity direct equity. Earlier the rule was, as per the old accounting standards that whatever profit you books is what you have to report in other income. From this year onwards, even mark-to-market gains and losses has to be reported every quarter. So, as a result of which the markets of course equity markets were a little weak in the last quarter. And so this is more not an actual loss realized by Apcotex but yes some of our portfolios were lower than they were on January 1st or on December 31st.

Farokh Pandole: And just lastly on the CAPEX, the milestone of next December 2019 was that for the bigger expansion?

Management: Yes, that was for the bigger expansion assuming that we would start the bigger expansion now. But we are still working out of the plans. So, I do not have a date on that yet. It will probably be sometime in 2020. December 2019 deadline ahead, I mean about the year ago also that is what we had set up ourselves but I think it will be delayed by a few months.

Moderator: Thank you. The next question is from the line of Abhijeet Sinha from Pi Square Investments. Please go ahead

Abhijeet Sinha: I have a couple of questions regarding your HSR product. You said that there was a flattish demand come, growth coming in from there, right?

Management: Yes, correct.

Abhijeet Sinha: Do, you see as progressing on the other 2 products more sir because I see that it is used in your Hawai Chappals and all those kind of stuff, so the demand should be flattish, and would we be looking at your NBRs and latex more?

Management: Yes, HSR is only about 15% of our sales. Certainly, for the growing market in fact overall if you look at the last 10-15 years it has been a market that is actually come down in India because of competing polymers or different consumer preferences or changing consumer preferences. So, we are not investing anything in this area. We have a plant which is almost fully depreciated and we are continuing to run it. Growth would come from latex and NBR and allied products.

Abhijeet Sinha: Exactly, so as you are saying that the facilities almost fully depreciated. So, is there any plans to change in the Taloja plant or anything? Are there any changes in the plan for the Taloja plant?

Management: No, change.

Abhijeet Sinha: So, talking about the capex apart from the de-bottling any other CAPEX plan, sir?

Management: Yes, so we have a capex that we have planned for about 60 crores which I mentioned which will be completed by most of it will be complete by March 2019. The first 25% has already been spent out in last year and the remaining 75% will be now. The capex will be debottlenecking and improvement cost reduction those kinds of things.

Abhijeet Sinha: That will be for the NBR, right?

Management: Mostly for the NBR and some maintenance CAPEX as well of course which is in both latex and NBR.

Abhijeet Sinha: And sir what about our debt, debt levels? How are we on that? Are we planning to take on more that or ...

Management: Not for now. I think we have enough funds in with us and we are okay with now and all these through internal accruals in the next year or two.

Abhijeet Sinha: So, no large debt, there is no large debt going to be taken any time?

Management: Not anytime sooner.

Abhijeet Sinha: And sir, generally in our Apco Build, we have a B2B model, so we provide industries directly do we have any plans for you in B2C models in any of our products?

Management: Yes, construction, chemicals we do this, Apcobuild is at B2C model. Exports is growing well we would have still a small percentage in of the sales in the context of Apcotex currently. So, yes we do have one but mostly it is a B2B company. We are a B2B company.

Abhijeet Sinha: So, I am sorry the B2C model was the Apco Build?

Management: Yes.

Abhijeet Sinha: And sir last thing was regarding the Pidilite. Could you just let us know how much revenue comes in from Pidilite itself?

Management: I am sorry we cannot. We do not give specific customer numbers.

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

Sharad Sharma: My question is more of a strategic kind of vision kind of a question. Is there potential or is there a vision to scale up to let us for example some 100,000 tonnes after your short-term CAPEX to let us say 500,000 tonnes, right. Basically, do you see a vision or potential for 10x scale up this year? Any time frame around on that?

Management: I do not where, 10x, no we do of course, we would love to do it but for that a lot of fund required. And but yes we do have a vision to keep increasing our range within emulsion polymers whether organically or inorganically. We will strategically make sense one of the things I will looking at is NBR expansion, NBR latex and for our traditional latex products as well as and when we need capacity. So, we looking at all those 3 and planning a fairly large CAPEX around after which will start in FY20 but not 10x.

Sharad Sharma: So, do you foresee at to be a 5,000 crores company or something if at all or would this be incremental 10%-15% or doubling, would that be the standard thing or would it be like more vertical takeoff types?

Management: Right now we are at 500 odd crores. Our first target is 1,000 crores, as I said our vision is not so much in numbers that we want to be a 5,000 crores company or 10,000 crores company. Our vision is more towards where we want to be, we want to be the number one player in wherever we are and aggressively grow in the technologies that we understand. Now unlike some other markets where growth is 40%-50% the year and you can think of 10x in 5 years, it is not the case in the current product ranges that we are in.

Moderator: Thank you. The next question is from the line of Keyur Pandya from Prabhudas Lilladher. Please go ahead

Keyur Pandya: The question is on the growth front. So, whatever growth we have achieved during FY18, so especially in the latex front? So, can you just highlight which are the segments which has contributed more, large segments of paper and paper product and so among those categories which were the one which were the key contributors? Or where you see even higher growth?

Management: So, honestly, we have had excellent growth across all the industries that we are in within latex. Of course, again I wanted to mention FY17 was difficult for the latex business because

of the strike in the Taloja plant, lost a lot of business. But in general even adjusting for that we have seen good growth anywhere between 15% to 50% across all the segments where in and our industries that we cater to and in exports more than 100%.

Keyur Pandya: But no specific on which stands out, I mean outlier or?

Management: As I said exports is certainly an outlier. But exports include lot of speciality products, new products we have developed as well as the traditional carpet construction segments that we, industries that we cater to as well.

Keyur Pandya: The second question is, so on the large capex that you are referring to, if you can quantify and the area of those capex it would be helpful.

Management: Yes, I mentioned earlier that it will be in NBR and XNBR latex for gloves which is a product we have just introduced and our traditional latex SB latex and styrene acrylic latex products. All those 3, there is lot of synergy in all these products and therefore, I mean of course these are broad numbers we are looking at about 250 crores to 260 crores expansion plan. Project will start sometime in FY20.

Keyur Pandya: With average gestation period and capacity addition of around?

Management: Gestation, so it will be in terms of revenue it will be about 500 crores and it will take about 18 months once we start.

Keyur Pandya: Gestation period of building the capacity and the new capacity or the capacity addition that you are looking for which the 200 crores of capex or 250 crores of capex?

Management: So, it will take about 18 months to build in. Is that your first question?

Keyur Pandya: Right.

Management: And then what is your second question?

Keyur Pandya: Your capacity from 16,000 to it would go to what level of tonnage?

Management: No, 16,000 we already planning to make 20,000-21,000 that would become around 35,000-36,000 that is only NBR. We are planning to add another latex capacity which we are looking at about 40,000 tonnes of latex also.

Keyur Pandya: So, 16 would become 21 with this debottlenecking, right?

Management: Yes. 20-21 exact numbers I do not have but yes and we are looking at approximately 35,000 tonnes.

Keyur Pandya: So, additional 15,000?

Management: Yes, additional 15,000 for NBR and additional 40,000 for latex. As I said these are broad numbers we are sort of working through the details right now. This is subject to change over the next 3 to 6 months.

Keyur Pandya: These are just ballpark number, right?

Management: Yes, these are ballpark number. So that will be about 500 crores of revenue the additional revenue.

Moderator: Thank you. The next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi: We hit the double-digit margin mark that we always had indicated earlier prior to acquisition. I have just one question and that is more longer term in nature and that is regarding the NBR business segment. So, we said that NBR we cater to the automotive component players as such. But in the event that we see the electric vehicles coming in, do we still see the automotive components segment to continue to giving the kind of growth that it is giving right now or will be see some deceleration over there over the longer term?

Management: Yes, absolutely certainly that is a worry that is a risk. Of course, it is a longer term risk, I think it is 10 years out that is our view. It is not going to happen immediately and even when it happens immediately, it will not be across the board, cars and bikes and scooters and of course first city busses, trucks and long drive vehicles will still be difficult on electric. But certainly, that is an issue. Automotive components is large chunk of our NBR business but there are other industries as well that we cater to within NBR, for example, rice de-husking rolls, hoses several industrial rubber components, cables, so there are other applications that we have as well those will continue to grow. Also from our point of view we are looking at an expansion because we do believe we have the low market share now. So, even if something goes wrong in the long run, we are not looking to take the whole market as well. Lot of export opportunities available as well, so certainly it is a good question and there is a risk to it. But I think it is a risk in the long term.

Suvarna Joshi: So, while we are cognizant of this risk over the longer term, do we have any plans to diversify for this product into other industries besides may be the existing ones that you mentioned like rice de-husking rolls and the other ones that you mentioned?

Management: Yes, as far as possible we are trying different other applications as well. But as of now automotive components is still a large chunk.

Suvarna Joshi: So, how much would that contribute to may be about 50% or so or?

Management: Yes, something like that. You are right.

Moderator: Thank you. The next question is a follow up from the line of Dhavan Shah from KR Choksey. Please go ahead.

Dhavan Shah: Two questions. Firstly, our adjusted operating margin was around at least 14% to 15% in last quarter. So, now going ahead we are increasing revenue share from NBR and also launching this latex which both of this products have value accretive to the overall business. So, is it safe to assume that this is the minimum operating margins we can maintain in FY19 as well?

Management: As I told you there have been some benefits in this quarter as well when raw material prices are going up we had very good buying. I cannot guarantee that will continue over the next few quarters. But certainly, our endeavor is to be in and I have been saying this for the last 2 years our margins dropped after the acquisition to single digits. So, we brought it back to double digits. We are quite confident of double digits going forward but there are certain risks with raw material variability with the paper. Our paper industry that we are catering to lot of ups and downs, lot of imports of paper coming. So, look there are always risks but our endeavor is to try and maintain double digit margins in FY19 as well.

Dhavan Shah: And second question is about the capex. So you said that we may be increasing our capacity by 40,000 metric tonnes in latex. So, if I look at the NBR our capex is around Rs. 50,000 per metric tonnes brownfield capex. So, what could be the Brownfield capex for latex per metric tonnes and will it be Brownfield or Greenfield?

Management: I do not know why how you came up with the Rs. 50,000 per metric tonnes number.

Dhavan Shah: Because I think we are increasing our capacity by 6,000 metric tonnes and our capex is around 30 crores. So, basically it should be around 50,000 to 60,000.

Management: No, I think you misunderstood that we have not spent 30 crores to increase capacity by 6,000. These are small debottlenecking project, in fact we have hardly spend anything much less than that. The capex, the big chunk of the capex was the power plant which is really to reduce cost and improve margins. There were other such projects to improve cost improve operation and that has nothing to do with increasing the capacity from 15,000 to 21,000.

Dhavan Shah: What could be the amount can you spend for per metric tonne?

Management: As I said we are looking at overall 250 crores brownfield project which will give us an additional capacity of 15,000 tonnes for NBR and 40,000 tonnes for latex. These are initial numbers we will be revising them and we go into some more details over the next 3 to 6 months.

Moderator: Thank you. The next question is a follow up from the line of Keyur Pandya from Prabhudas Lilladher. Please go ahead.

Keyur Pandya: So, generally we have policy of passing on the raw material prices. So, on that front do any uncertainty exist on as you mentioned that there can be some risk to margins. There can be risk to gross margins or it is generally passed on with some lag or any uncertainty on that front?

Management: Absolute there is always a time lag, so, yes that risk. Also in the long run we are definitely confident, sometimes our competitors have brought raw materials at a lower rate than ours that could also happen, so our margins may dip for 1 or 2 months or one quarter that could happen, so that is the risk. But in the long run as you have seen in our business over the last few years we are by and large we are able to pass along the cost increases and the flip side is also true when cost go down we are forced to pass along the decreases as well.

Keyur Pandya: And the other related question is, so when you mentioned that when the prices go up, so you sometimes get some benefits?

Management: Sometimes.

Moderator: Thank you. The next question is from the line of Abhijeet Sinha from Pi Square Investments. Please go ahead.

Abhijeet Sinha: I just wanted to understand on operating manner that how are we being the only Indian manufacturers of latex and how this give us an advantage in the Southeast markets as well as when you are competing again players like BASF?

Management: We are not the only Indian manufacturer on latex BASF manufacturers in India.

Abhijeet Sinha: And like you were talking about this earlier sir, when you are talking about going into the Southeast region?

Management: That is for the new product we have launched which is XNBR latex.

Abhijeet Sinha: Only in that particular one?

Management: That particular one nobody else manufacturers in India.

Abhijeet Sinha: And sir why would there a low demand from India? You were saying there is a low demand from India compared to Southeast?

Management: Well the largest the industry that, this XNBR we are supplying for the glove industry and the glove manufacturers traditionally are more in South East Asian countries like Malaysia,

Thailand and Indonesia. There are a few in India as well but much lower quantities than in those countries.

Abhijeet Sinha: And these are what kind of gloves, are these surgical gloves or are they more like the outside wares?

Management: Yes, good question. So, these are medical gloves, these can be examination or surgical. These are also industrial gloves that are used in several applications in industries from mining to construction to manufacturing and the different kinds of industrial gloves also supported gloves and so on.

Abhijeet Sinha: So, sir if we grab hold these pharmaceutical people who distribute these gloves they also sell medical gloves. So, if we have a tie up with these guys cannot we target hospitals and industries where we can get great sales on ...

Management: Yes, but we do not make the gloves, we make the latex. We supply to the glove manufacturers.

Abhijeet Sinha: So and the manufacturers in the South East Asia are the ones who are dealing with the pharmaceutical in India as well?

Management: Yes, correct.

Abhijeet Sinha: Or do they primarily do it in South East Asia itself?

Management: No, they export all over the world.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Abhiraj Choksey for closing comments. Over to you.

Management: Thank you everyone for your time and we look forward to see you next quarter. Thank you very much.

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