

“Apcotex Industries Limited Q4 & FY’19 Earnings Conference Call” April 26, 2019

Moderator: Good day and welcome to Apcotex Industries Limited. As a reminder, all participants’ lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Anuj Sonpal – CEO of Valorem Advisors. Thank you, and over to you, sir.

Anuj Sonpal: Good evening, everyone and a warm welcome to you all. My name is Anuj Sonpal. We represent the Investor Relations of Apcotex Industries Limited. On behalf of the company, I would like to thank you all for participating in the company’s earnings conference call for Q4 FY’19 and year-ended financial year ’19.

Before we begin, I would like to mention a short cautionary statement as always: Some of the statements made in today’s earnings conference call maybe forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management’s beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place undue reliance on any of these forward-looking statements in making any investment decisions. The purpose of today’s conference 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 Industries Limited participating in today’s call with us. We have with us Mr. Abhiraj Choksey – Managing Director and Mr. Anand Kumashi – Company Secretary. Without much ado, I request Mr. Anand Kumashi to give his opening statements. Thank you and over to you, sir.

Anand Kumashi: Thank you, Anuj. Good evening and welcome everyone to this Earnings Call for Q4 FY’19 under review. I hope you have had an opportunity to look at the company’s performance for Q4 FY’19 results as well as the ‘Earning Presentation’ which has been circulated and uploaded on the website of the company as well as the stock exchanges.

In Q4 FY'19, the turnover increased by 9% to Rs.152 crores from Rs.139 crores in Q4 FY'18 and operating EBITDA stood at around Rs.14 crores in Q4 FY'19 as compared to Rs.17 crores in Q4 FY'18. The operating EBITDA margin was about 9.2% for Q4 FY'19 as against 10.3% in Q4 FY'18. The PAT for Q4 FY'19 was reported at around Rs.15 crores as against Rs.12 crores in Q4 FY'18 with the PAT margin of around 10% in Q4 FY'19.

For the year ended FY'19, the net turnover increased by about 16% to Rs.626 crores from Rs.538 crores in FY'18 and operating EBITDA stood at Rs.68 crores in FY'19 as compared to Rs.64 crores in FY'18, YoY growth of about 6%. The operating EBITDA margin was 10.8% for FY'19 as against 11.85% in FY'18. The PAT for FY'19 was reported at around Rs.47 crores as against Rs.39 crores in FY'18, YoY growth of about 20.7% with PAT margin of around 7.45% in FY'19.

Some of the key operating highlights for the quarter as follows: The Company has excellent volume growth in the several industries we cater to; however, the challenges were in domestic carpet industry, that was negative impact due to removal of certain export incentives. Major raw materials prices have been on six months decline, affecting the short-term margins. The margins were also under pressure due to slowdown in the automobile industry.

Lastly, we are happy to inform you that based on the recommendation of the investor community, the board has decided to go for a stock split of Rs.5 each to Rs.2 in order to improve the liquidity in the market.

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 the question-and-answer session. The first question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

Nilesh Ghuge: My question is on EBITDA margin particularly as you mentioned raw material prices were up. But apart from that, if I look at employee expenses YoY and other expenses, that also has gone significantly up from about let us say 81 million in Q4 FY'18 to 103 million in this quarter and the other expenses from 176 million to 203 million. So, any specific reason? My second question is on raw material prices, sir. If the crude oil prices remain elevated for let us say first half of FY'20, so is that you cannot pass on the raw material prices to end consumer and your margins will be under pressure for this FY'20 as well?

Abhiraj Choksey: Thanks, Nilesh for your question. So first of all, I will take the questions in a particular order. The first is other expenses are up mainly because volumes are up and within other expenses we have lot of variable costs like power and water and fuel that go into other expenses. That is actually the main reason why other expenses up. As far as employees is up, if you see the entire year, I think it is up from about Rs.34 crores to about Rs.38 crores which is really in line

with the market incidence, part of it is the increments, part of it is the few new employees we created a project scheme, we added few new team members. So for the year, nothing out of sync as far as I am concerned. Your second question about margins are concerned, so far in fact even the oil is going up right now. Ever since November to now, for the most part besides one month, we have seen our raw material prices actually go down. We have been expecting that they would correct but they are still not corrected, but I have a feeling now in the month of May they will start correcting again and going back up. So our problem has been quite the opposite. We have seen raw material prices come down and the reason why margins are being affected is because we were stuck with some higher cost raw material inventory. I think that started last quarter itself and this gone into Q4 which was quite unexpected frankly because we also as everyone else expected petrochemical prices to go up along with oil. But frankly the petrochemical that we deal with or we buy have gone down. So that is what is really affected margins I would say over the last four, five months for us. As far as when prices do go up, we are typically able to pass along those cost increase to our customers.

Nilesh Ghuge: My question is on balance sheet also sir. Sir, you are able to reduce your debt significantly over last two years per se from 222 million to just 40 million in FY'19 end. I do not see any significant requirement or jump up in a date from here on. Will you maintain that level despite having Rs.50 crores CAPEX in FY'20 as per your presentation?

Abhiraj Choksey: Partly it is because of internal accruals and the second is also we have been lucky over the last few months raw material prices have been lower, so the working capital requirement has also been lower to that extent. Going forward also, we do plan to take some debt for some of our projects that we are looking at. But so far, yes, we have been lucky enough till the end of last year that we have not needed to take any.

Nilesh Ghuge: Last question on this CAPEX only sir. What is the guidance you will give in terms of incremental revenue after this project completion, when it will be achieved, and what are the products that you will come out with?

Abhiraj Choksey: Of course, we are always trying to debottleneck and create more capacity with the assets that we currently have. So that is one part, and we think that should be enough for the next year or two, the growth that is required for the next couple of years. We are planning a Nitrile Latex project which is in the design phase. Our board has approved that project. We are waiting for some bigger customer approvals before we actually go ahead with the project. We have already started manufacturing this product from our Taloja facility. But we have limited capacities therein the reactors we have there. So we are creating new reactors in Valia. Prime facie the board has approved the project and that will give us about Rs.300 crores of revenue.

Nilesh Ghuge: Starting in first half of FY'20, the actual construction of a plant and by when you will achieve the Rs.300 crores of top line?

Abhiraj Choksey: Initially the project will be about Rs.200 crores, in a sense it will generate revenue of Rs.200 crores and we will add one more reactor which should only take about 8, 9 months. So we will start with Rs.200 crores, but we are creating all the capacity to make it Rs.300 crores revenue project.

Nilesh Ghuge: But the board has given you approval. Still you are waiting for your major customers to give go ahead and then you will start, am I right?

Abhiraj Choksey: We have already started the designing phase. But yes, before we start putting in on the ground, we also need some environmental approvals from the environmental agency. So we are waiting on that as well.

Nilesh Ghuge: If suppose let us say that customer does not give any approval, then you will scrap that project or still you will go ahead with this?

Abhiraj Choksey: No-no, as I said, we have already started in small ways. We are waiting for more customers to give approval. We do not think it will be an issue but just to be cautious.

Moderator: Thank you. The next question is from the line of Abhishek Salunke from Trivikram Consultants. Please go ahead.

Abhishek Salunke: I want to know two things: First, can you please give us revenue breakup like HSR, Latex and NBR?

Abhiraj Choksey: We do not give a breakup in that sense but I have given broad breakups in the past where the broad breakup is 50% of our business is Synthetic Latex and 50% is Synthetic Rubber. So that should give you pretty much a good idea.

Abhishek Salunke: And this Nitrile Latex should be a part of NBR?

Abhiraj Choksey: No, that is a Latex business,

Abhishek Salunke: Second thing, I want to know the current trend of RM price. As you have mentioned that on the petrochemicals that you buy have gone down, so how have you been passing it on to customers and how will it pan out in the first quarter?

Abhiraj Choksey: How will it pan out is anybody's guess, but so far till April the petrochemical prices that we buy have been going down. We expect it to go up of course because of oil going up quite dramatically especially in the last week or 10-days. We are able to pass along the cost increases as I mentioned to the previous gentleman as well. Of course, there is a time lag. What has happened in the last six months is frankly we have been stuck, the reduction has been quite drastic and we were stuck with high cost inventory especially of raw materials that we

imported, and we have not frankly seen that in a long time, six months in a row we have seen cost come down.

Abhishek Salunke: For example, if there is an increase in our raw material prices, so with how much lag of time we pass it on to our customers?

Abhiraj Choksey: Almost immediately but sometimes it takes an average of a month or two because in some customers we have quarterly pricing contracts or bi-monthly pricing contracts.

Abhishek Salunke: Last three quarter we have seen revenues growing at the rate of 20-25%. In this quarter especially it has grown at the rate of 9%. So is it only because of slowdown in the industry or there are some other reasons also?

Abhiraj Choksey: One of the reasons has been actually carpet industry where we have seen a degrowth in the overall carpet industry in India. It is the chemicals that we sell to the carpet industry have been badly affected. So there has been a degrowth there. Otherwise in fact we have seen a very healthy growth in construction, in the NBR business. So the growth is by and large across the board, but in carpet where we have been affected little badly.

Abhishek Salunke: Carpet contributes how much in two years revenues?

Abhiraj Choksey: Again, I do not have the exact number, but it is 8-12% maybe.

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

Vikrant Kashyap: My question is on exports. So how exports has been for you in the last quarter and in FY'19 and how do you see this going ahead?

Abhiraj Choksey: Actually, very good I would say. That is the short answer. The problem has been and I have mentioned in the last two or three concalls that one of our largest customers in the export market had a big fire in April 2018. So if you compare the numbers to last year, we have frankly not grown much or in fact the volumes have been lower. But we have been able to grow everywhere else. Unfortunately, we were dependent on this one customer. So there is nothing we can do about it. It is stuck in insurance, they had a big fire. We do not know when they will come back on.

Vikrant Kashyap: So apart from this big customer, the rest of the market is doing good for you?

Abhiraj Choksey: Yes, that has grown in double-digit this year.

Vikrant Kashyap: You had also introduced a new product, Rubber Gloves for the market?

Abhiraj Choksey: Yes, Nitrile Latex for Glove. That is what we were discussing earlier.

Vikrant Kashyap: So, this product is doing well for you?

Abhiraj Choksey: Yes, as I said, we have limited capacity for this product which we are right now catering from our Taloja plant. We will have to build capacity and we have decided to do it in Valia plant. The board has in-principle approved this project. We are waiting on some environmental clearances as well as some larger customers.

Vikrant Kashyap: This is a part of Rs.200 crores project, right?

Abhiraj Choksey: No, total investments will be Rs.50 to 60 crores or so.

Vikrant Kashyap: Say you had earlier or in your presentation you had mentioned Rs.90 crores of CAPEX plan till 2020 and you had made like Rs.50 crores. Has there been any CAPEX gone into this product or all Rs.40 crores will be...?

Abhiraj Choksey: Earlier Rs.90 crores that we have spent has largely been on productivity projects or efficiency projects or lot of maintenance CAPEX. As far as this project is concerned, we have not invested a significant amount yet.

Vikrant Kashyap: Since we have seen a little bit of stress in automobile say carpet industry for you, but if you compare it to FY'18 to '19 you have done relatively well. So do we expect similar performance in '20 overall?

Abhiraj Choksey: We do not give revenue guidance but in general of course, we are dependent on some external sources and industry as well as price of petrochemicals and oil. But of course if all things are okay, then we do expect growth to be pretty healthy in FY'20 as well.

Moderator: Thank you. The next question is from the line of Rohit Sinha from Emkay Global. Please go ahead.

Rohit Sinha: Just one question in line with the RM prices. If you look at the ACN and Butadiene, pricing all have corrected around 22, 23% on YoY basis. So can you just quantify in terms of higher price inventory you have with you or any sort of number we can take on?

Abhiraj Choksey: Unfortunately, we do not give those kinds of numbers out on inventories and all that. We try and minimize our inventories but sometimes because we are forced to import lot of these raw materials, for example, Styrene and Acrylic Nitrile we have to keep some inventory at least 15-days to 1.5-months sometime. I can talk in terms of number of days but we do not give out quantity details or value details.

Rohit Sinha: In terms of days, how much we can say?

Abhiraj Choksey: Acrylic Nitrile sometimes we have one or two months of inventory because lot of this comes from Europe, America or East Asia, so the lead time is quite high. As far as Styrene is concerned, we have two to three weeks because it is available in the Middle East and comes quickly.

Rohit Sinha: If you can give us a breakup of your export in FY'19?

Abhiraj Choksey: Approximately I would say about 12-13% is exports for the year.

Moderator: Thank you. The next question is from the line of Udit Gajiwala from SMC Global. Please go ahead.

Udit Gajiwala: Just a follow up on that Rs.50, 60 crores that will be investing into the Nitril Latex. So sir, what will be the margins in that product – will it be higher than the current ones or?

Abhiraj Choksey: Little experience we have had selling it for the last few months. We have seen higher margins; however, in the long run it is hard to predict what could happen. But yes, I can speak from experience that so far it has been a higher margin product. They are mostly sold to smaller customers. Once we start selling to larger customers, I am not sure. So it is better to assume it will be similar margin.

Udit Gajiwala: What will be the time to set up this capacity like if we start in say FY'21, then the capacities will be ramping up in three years or two years?

Abhiraj Choksey: By the time we start it will be two years from today, let us say if everything goes according to plan.

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

Suvarna Joshi: I had a couple of questions: The first one was on our EBITDA margins. So would you be able to quantify the impact of raw material in terms of percentage points on the EBITDA margin because I believe in the nine months period of FY'19 we reported an average of 11.5% and this quarter we have reported 9.2% EBITDA margin. So what is the impact of raw material specifically on the EBITDA margin? My second question was you mentioned about the slowdown that we are witnessing in the automotive sector which too has impacted our EBITDA margin, to be specific the NBR margin. So again over there what is the sense now that we are getting because clearly some of the leading automotive players have cut down their production ~~times~~ and the guidance especially by Maruti was given that they will be growing in mid-single-digit. So that is something which will probably impact our sales to the automotive OEMs or the vendors as well. So how do we plan ~~to~~ to probably mitigate this kind of risk arising due to the slowdown that we are witnessing in the automotive sector?

Abhiraj Choksey: I will start with your question on raw material margins. I would say a large impact in this quarter has been because of higher raw material margin. Maybe you have quantified it as 2% drop, right, 11.5%, 9.5%, 10%. Large chunk of that drop has been because of the raw material prices coming down and us having been stuck with higher cost raw materials. Other issue on automotive. Look, it does, it is a concern for us frankly because indirectly or directly almost about 25-30% or maybe 30-35% of our sale is to automotive and tyre sector. So obviously that is the concern for us if there is a slowdown. Having said that in the NBR we have grown quite well in terms of volumes in the automotive industry because we have got extra capacity from some of the debottlenecking we have done. Our market share is low. So we are able to hold on to volumes and even grow them. The problem has been whenever there is a slowdown in any industry, the pressure on margins is very high because everyone is looking to cut costs, looking to make sure that bottom line is healthy. That has impacted us for sure in this last quarter because of automobile. We are hoping that in a country like India it could happen, there could be a quarter or two of those kind of things but in the long run we firmly believe that the auto sector is here to stay and grow.

Suvarna Joshi: If I have to just understand what you mentioned right now, so do we expect therefore that in FY'20 our margins will be in the sub-11, 12% kind of range as against our prior thoughts on reporting around 13-14% kind of EBITDA margin growth which we did report prior to the Omnova acquisition back then, is my understanding right?

Abhiraj Choksey: Fairly optimistic that we can do that. One of the things that is going to happen this year is also our power plant is going to come onstream. So that is going to help us reduce in operating cost as well. That will help in margins. And then again on the raw material side, as I said, it has been six months of continuous decrease which is also rate and we were not expecting. So with both those things, we should be able to get back onstream with our margin goals.

Suvarna Joshi: The other question was on the carpet industry. It was this quarter where the domestic carpet industry got impacted. Prior to that our exports to leading customers which operated again in the carpet industry, because of that we have got impacted. So we have seen that lot of regulatory hurdles or somewhere impacting our business growth at various points in time during the year. So any thoughts you can share that how do we plan to mitigate this kind of risk or are we looking at any other industry where kind of concentration or that particular uncertainty will somehow be normalized or streamlined to that extent?

Abhiraj Choksey: Look, in business there is always uncertainty. Just to correct one or two things, it was not always on regulation. The customer that we discussed earlier was because of a fire in their factory. They have only one factory. The second thing, yes, because of some incentives that were taken away from our customers in India. That can happen. Having said that, even with all that, we have a fairly healthy growth in terms of top line revenue this year.

Suvarna Joshi: So for the other industry like construction and other section barring automotive, what is the kind of growth that you are seeing especially in the first quarter of FY'20 – are we seeing healthy signs there because I believe with the ongoing election, there could have been some bit of slowdown on such activities where we are probably supplying these chemicals, so any thoughts on that?

Abhiraj Choksey: Frankly, in the construction industry, we have seen good growth in Q4 and continue to see that in Q4 as well.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from VRDDHI Capital. Please go ahead.

Rohit Balakrishnan: Sir, first of all, I am actually new to the company. So some of the questions would be pretty basic. So first up, can you just broadly give me the breakup of your revenue by industry, you said about one-third of the revenue comes from tyre and automobile industry and you also mentioned something around construction?

Abhiraj Choksey: We do not generally again give in detail but what I have mentioned in the past is that we look at our business in two ways: Synthetic Rubber and Synthetic Latex. In Synthetic Rubber, we have NBR which goes into automotive and several other industrial applications. High Styrene Rubber goes into footwear. So that totally is 50% for those products and Latex we have paper and paper board which is largest chunk of our Latex business and then we have Construction, Carpet product called VP Latex for the tyre industry and a bunch of specialty Latex. I think a lot of these is available if you look at our corporate website or earlier transcripts you would be able to get lot of these details.

Rohit Balakrishnan: You mentioned about the Nitrile product. If you plan to put up and that will be happening in two years. So you mentioned that once it is up and running and once it is properly functioning at a peak capacity it will maybe add about Rs.300 crores. Kind of investment for that is about Rs.50 crores, is that right?

Abhiraj Choksey: Yes, the initial investment is Rs.50 crores. We may have to add about Rs.10-15 crores in the second phase which will be once we start selling and maybe we did. Initially of Rs.50 crores for Rs.300 crores project.

Rohit Balakrishnan: Typically, the other chemical companies if one looks at even so-called specialty or some companies which have higher margins, the fixed asset turn is around 3-4x, yours is 5x which seems to be very high. So any specific reason you could attribute that to, is my understanding correct that 5x is very high to begin with?

Abhiraj Choksey: Look, in our case it is a Brownfield project. So we have some of the assets already on the ground. Maybe that is why. This is not a Greenfield project.

Rohit Balakrishnan: Typically, in your business, you mentioned that you have been able to pass on prices to your customers. So what is the reason for that – is it because there are no other players in the market or what enables you to pass on the prices?

Abhiraj Choksey: Look, we are a competitor. Of course we have a competition in the market. If we did not, then margins would be much higher. But we are able to pass it along because the industry and our competitiveness is such and our value proposition to our customer is such that they will not leave us, we also have several formula based contracts which work on formula. So therefore we are quite confident of passing along. We have done it in the last many years. It has been going on.

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

Dhavan Shah: Actually, I have one question and that is related to the input/output ratio for the NBR as well as for the Latex segment. So, here for 1 ton of Acrylic Nitrile and Butadiene input, gives how much of NBR?

Abhiraj Choksey: That is highly proprietary data. We do not give that out.

Dhavan Shah: But normally is it 1:1?

Abhiraj Choksey: Obviously, in any chemical facility, there are losses and the yields as we call it in our industry lower than 100%.

Dhavan Shah: If I look at on QoQ basis, the Acrylic Nitrile prices have come down to around \$.1,600, so it was down by around 11 percentage on QoQ and Styrene is also down by around 8 percentage on QoQ. So if we exclude the mark-to-mark inventory losses, then what could be the EBITDA margin?

Abhiraj Choksey: As I said, I do not have the exact breakup because there are a couple of reasons why EBITDA margins are lower, but a large chunk was due to drop in prices, not just Styrene, ACN but it is also Butadiene which is one of our largest raw materials and some of our other raw materials as well. So, I frankly do not have an exact answer for you.

Dhavan Shah: 16,000 tons is our NBR capacity which is operating at almost 95%, 100% currently. So normally we are manufacturing 4,000 tons of NBR per quarter, right, and this is the sales number for this quarter as well, is that correct?

Abhiraj Choksey: We do not give volume data, but it is close to the number, yes.

Moderator: Thank you. The next question is from the line of (Farook ~~Bandole~~Pandole) from Avista Fund. Please go ahead.

(Farook ~~Bandole~~Pandole): Just a couple of questions. Given the previous participant's sort of questions, are we to presume that the first quarter obviously will also bear a similar effect of the carrying cost of higher inventory prices and hence the sort of squeeze on margin, and also related to something which was said earlier, are we still on track for the first quarter launch of the power plant? So that is one question. And the second was the Rs.50 crores that we mentioned for the Nitrile Latex capacity in two years, is that part of the broader Rs.300 crores CAPEX that we were talking about earlier and what is the status of that?

Abhiraj Choksey: To your first question, it is hard to say we are just 25-days into Q1, but so far we have seen in April as well raw material prices having come down and the same issue. However, given what has happened in the last 7 to 10-days, I would think strongly that our raw material prices will start to correct from now onwards. So hopefully May and June will be a little better and we will be able to recover some of those margins. To your second question, the power plant is scheduled to come, the steaming day is somewhere between June and July, not sure right now, they are working hard to getting it done, by and large, maybe one or two months here or there.

(Farook ~~Bandole~~Pandole): So second question definitely?

Abhiraj Choksey: All the equipment is on, lot of the civil work has been completed, it will be definitely second quarter if not the first, yes. And your third question was on the Rs.300 crores. Yes, the Rs.50 crores is part of the total Rs.300 crores project that we had mentioned earlier. The other was the NBR line-II. Again that has been also in-principle been approved by our board to go ahead with it. Having said that, there the major issue is we are waiting for some environmental clearances before we can start anything. So hopefully that should also come about in little longer 2.5-years and then we can start the project.

(Farook ~~Bandole~~Pandole): The timing of the expansions would not hamper our organic growth in anyway?

Abhiraj Choksey: It should not. We have a few projects lined up to debottleneck our current capacities as well what we have. So we should be okay for the next two years.

(Farook ~~Bandole~~Pandole): If you could just explain the variances in deferred tax and other income?

Abhiraj Choksey: I was waiting for that question. So what has happened is in line with some IT assessments that we have filed the company has accounted some tax credit in this quarter. So that is why you see the tax credit numbers there. As far as other income is concerned, that is mostly because of the mark-to-market gains and losses we do have some investments in the equity markets as well and a large chunk is the fair valuation of those. As per the new IND AS rule, up to at least this Q4, it comes into other income, my colleague sitting here out, tells me that is the reason why the other income is on the higher side.

(Farook ~~Bandole~~Pandole): On the deferred tax?

Abhiraj Choksey: That is because some credits received in line with some income tax assessments that we received. This is mainly due to the merger of Omnova which was done a couple of years ago and those tax credits have been received now in this quarter. These assessments have been completed in the income tax department is accepted. So we have accounted for it in Q4.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from VRDDHI Capital. Please go ahead.

Rohit Balakrishnan: The other question that I had is, if I look at the margins on the last few quarters, they will be as high as 15-16% in the few quarters and this quarter 9% and if I go back even beyond those seven, eight quarters, the margins have been lower. So just want to understand for you when you look at your business, what is the kind of margins that you typically target assuming things there are no uncertainties in terms of any macro factors which are beyond your control, what is the base line that you think that your business should earn?

Abhiraj Choksey: Frankly, we have done 13-14% in the past. So first of all, we like to go back to that. Unfortunately, the last one year we have had some reason or the other why we have not been able to achieve it. But I think the business going to achieve up to 15% after a lot of the projects for two reasons; one, because of the organic growth, that also has EBITDA margin, second is the power plant that comes on stream in the next few months, that will also help operating cost and of course, the other factor also have to be in our favor or somewhat stable I would say. In fact, we have had quarters where we achieved I think 16% EBITDA as well in the past. With this kind of business, the volatility is definitely there QoQ. You could have EBITDA margins of much lower than average and much higher than average QoQ, but if you see annually typically we would love to move to 13-14% and finally 15% range.

Rohit Balakrishnan: Just one clarification was that you mentioned one of the raw materials been Acrylic Nitrile or Acetyl Nitrile?

Abhiraj Choksey: Acrylic Nitrile.

Rohit Balakrishnan: The last question was that, out of your overall business, is there bifurcation first of all you say that this is more a long-term business, more contracted business and this is more a spot business, any sense that you have?

Abhiraj Choksey: Yes, in a sense that there are larger customers that is more of a contracted business where we do have either written contracts or at least verbal assurances that they will constantly buy from us. So those I would consider as what you said long-term business. And there are certainly some that are spot businesses, where they will buy us for three months and they are not after that. So, our endeavor is to move more and more customers to the long-term contractual businesses of course to keep...

Rohit Balakrishnan: How much would be the long-term part roughly as a broad cut?

Abhiraj Choksey: I would say nowadays majority, at least 50-60% is stable long-term customers that buy from us, and it is not industry-specific, it is more about the size of the customer, the larger the customer they are, they want to ensure that they have good suppliers and we also put a site capacity only for them. So, I think most large customers understand the strategic value that Apcotex brings. So, I would say we are slowly moving more and more customers towards long-term and more strategic customers.

Moderator: Thank you. The next question is from the line of PJ Shah, an individual investor. Please go ahead.

PJ Shah: What is the financial mergers will give you the revenue which you have excluded? Second thing when will we reach Rs.1,000 crores without CAPEX?

Abhiraj Choksey: Saldhar was actually just a holding company that we have merged into our company, it was not a revenue generating company which was discussed in the last two, three quarters that merger has already been completed a while ago, it was a holding company of Apcotex. The whole purpose is to simplify shareholding structure for the promoter. Your second question is Rs.1,000 crores. I wish tomorrow. We do not give any guidance on that. Obviously, some CAPEX that will be required because we will not have enough capacity as we currently to reach Rs.1,000 crores.

Moderator: Thank you. The next question is from the line of Sharath Sharma, an individual investor. Please go ahead.

Sharath Sharma: A few questions: Just to clarify my understanding on the CAPEX right, the Rs.90 crores is only debottlenecking, it does not include Rs.50 crores for generating additional Rs.300 crores nor the NSR line-II, correct?

Abhiraj Choksey: We are line-II, correct. Rs.90 crores was just for three years included maintenance CAPEX, included the co-gen power plant, included several other projects that we took up to debottleneck and reduce operating cost, productivity, projects.

Sharath Sharma: So, if you are tending 90% capacity already, any uptick in FY'20 given that you will be incurring Rs.90 crores or can we assume same FY'19 volumes?

Abhiraj Choksey: No, we have debottlenecked and created that capacity where actually the remaining Rs.40 crores we do have to spend still some more debottlenecking in productivity improvement projects.

Sharath Sharma: Around 10% increment, is it safe to assume?

Abhiraj Choksey: Yes, depending on product, at least 10%. I think it should be okay for the next two years for organic growth.

Sharath Sharma: The taxation of all benefits of Saldhar are taken. Can we assume Q1 FY'20 normalized at 35% taxation?

Abhiraj Choksey: No, we still have a few left. Few depend on some income tax assessments but so far we have around what we can say for sure is only about 80-90 lakhs tax credit, that will be coming in Q1 on this year, the rest will depend on a few things, we are waiting for that, but that will be more.

Sharath Sharma: Sir, you said exports around 12% and you also import some raw materials. Net FX exposure, 10% exports and you import let us say 5%, so net is 5%, right on the receivable side. I just want to get what is your asset?

Abhiraj Choksey: Imports are higher.

Sharath Sharma: Stronger rupee would benefit you?

Abhiraj Choksey: But we hedge a large chunk. So we do not really take a risk.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Abhiraj Choksey: Thank you all for participating in our earnings call for the year-end. We are working as hard as ever as always to achieve our growth and provide good performance for our valued investors. We look forward to the future with great zeal. We have value added products. Being a much bigger portion of the business mix is going to propel our business and we are confident of the growth in the future.

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