"Apcotex Industries LimitedQ4 FY-20 Earnings Conference Call"

May 22, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY20 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 "*"and "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Anuj Sonpal, CEO of Valorem Advisors.Thank you and over to you Mr. Sonpal.

AnujSonpal: Thank you Karuna. Good afternoon everyone warm welcome to you all. My name is Anuj Sonpal from Valorem Advisorse manage 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 the fourth quarter financial year 2020 and the financial year ended 2020. Before we begin, as always, I would like to mention a short cautionary statement.

Some of the statements made in today's earnings conference call may be 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 information currently available to management. Audiences are cautioned not to place undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings 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. We have with us Mr. Abhiraj Choksey - Managing Director and Mr. Anand Kumashi - Company Secretary. Without much delay, I request Mr. Anand Kumashi to give his opening remarks. Thank you and over to you, sir.

Anand Kumashi: Thank you Anuj. Good evening and welcome everyone to this earning conference call for the fourth quarter of FY20 under review. Along with me in today's call, I have our Managing Director, Mr. AbhirajChoksey. I hope you've had an opportunity to look at the company's financial statement and the earning presentation which has been circulated and uploaded on the website and website of the stock exchange. Moving on to the financial performance for the fourth quarter, the net revenue was around 116crore, the operating EBITDA around 8 crore for the quarter and the EBITDA margins were 6.83%.The PAT reported around 3 crore with a PAT margin of 2.68%. For the financial year ended FY20 the net revenue stood at 496 crore and operating EBITDA was around 33 crore. The EBITDA margin were 6.73%, the PAT was around 17 crore with a PAT margin of 3.35%. From the numbers you can clearly make that this quarter and the whole financial year was definitely a challenging quarter as well as the financial year and due to COVID-19 the challenges further aggravated. To give an update on the operations our Taloja plant, we would have a best quarter ever, in terms of volume but due to lockdown, we couldn't complete the pending orders. The margins are still under pressure, but gradually improving.On the other end at Valia plant during Q4 of FY20 the NBR margin was well as allied products started picking up and margins are slowly coming back to the normal level. And in the export business, we would have our best quarter in terms of volume too, but due to lockdown we could not complete the pending orders.

With regard to our ongoing projects, out of CAPEX of phase I of 100 crore, 95 crore has been invested till 31st March 2020, Co-Gen Power plant was commissioned just before COVID-19 shutdown, but had to stop temporally due to the lockdown. The debottlenecking project will be completed shortly as well, we will increase the production capacity in Valia plant to about 20,000 metric tonnes per annum, which will also help us in reducing the operating cost per metric ton. We're coming with the two major projects for designing and consent application for XNBR Latexworth of 60 crore and Polymerization Line 2, which is worth about 180 crore. Additionally, we're looking to add Latex capacity in Taloja plant to the extent of additionally 20% in FY21 at a cost of about 12 to 15 crore.

Postshutdown on account of COVID-19 both plants restarted operation from 20th April, 2020. For the safety and health of all the employees we have introduced a new protocol for sanitation and distancing which are being followed very strictly.We are modifying few reactors at both the plants for manufacturing XNBR Latex for hand gloves where in the demand is extremely strong. So modified reactors will be ready in few weeks for the production. The company has a healthy liquidity position currently and maintains the same liquidity and cash flow position are reviewed regularly by the leadership team. With this, I would like to open the call for question answers. 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 Rohit Prakash from Marshmallow Capital.Please go ahead.

Rohit Prakash: So my first question is on the NBR side,last quarter you had mentioned that it was affected quite a bit due to lower raw material prices and dumping from Korea, Europe because of difference with Asia Monomer price differences. And you expect the issue to continue for some more time, pursuing to the whole issue you had applied for anti-dumping, which you mentioned it got approved as well. You also mentioned that you were not, you're planning to revisit the CAPEX plan and NBR because of this whole issue. So if you could give us an update that would be helpful?

AbhirajChoksey: Okay, so NBRas I mentioned last time in Q3 was extremely challenging, Q4 were certainly much, much better. Although it was not to normal levels, the dumping was still ongoing. But it was definitely better than Q3 and you can see that in the results as well. If you see we had a negative quarter in Q3.Q4 we have turned it around it was positive despite losing the last about 16 days of sales. In fact, overall as a company, we've lost about 17 crore of sales and 4 crore in the bottom line just because of last two week because Feb and March were extremely strong for us. So, of course the NBR remains a challenge. As, I mentioned last time, the anti-dumping duty against Korea was filed and the investigation was initiated. So that remains to be seen, of course that's a more medium term thing it will take another two quarters before we know the results of the anti-dumping investigation. But however, having said that at least before COVID hit us, we were quite upbeat about business overall and NBR while challenging was certainly better than Q3. I hope that answers your question.

Rohit Prakash: So you do intend to go ahead with the plan which you had mentioned that you were revisiting last quarter the CAPEX plan?

AbhirajChoksey: Well, I didn't maybe I missed or misspoke, but it was not that we were revisiting the plan. But obviously, given the situation and the margin, we wanted to focus more on the projects that had immediate, like NBR Latex for gloves is one of them and now we are also expanding or we are thinking or exploring, expanding our capacity in Taloja because what we saw in Jan and Feb was, extremely strong demand and we were at almost 100% capacity utilization in Taloja. So, on the Latex side is where we wanted to focus. Of course, we're still continuing to finish or start the, we've already started the process for obtaining theconsent and we will start the process of design as well, but before we actually hit the ground we will take another one, two quarters to decide that keeping the current situation now of course COVID is also another angle that is coming, but certainly we will it's not that we have shared the project.

Rohit Prakash: Understood and just mention of 20% increase in capacity in TalojaLatex with 12 to 15 crore, is it specific to the medical gloves Latex industry alone or is it that the 20% CAPEX that you are calculating from the 55,000 tonne capacity you have in Taloja for Latex?

AbhirajChoksey: Yes, the second part. So, this is also 55,000 capacities for our existing industries that we cater to, gloves are a completely separate project that we are going to set up in Valia.

Rohit Prakash: So, again, my confusion here is because, 20% capacity increase that is around 11,000 tonnecapacity increase for 12 to 15 crore to a layman like me sounds like an extremely cost effective way to increase capacity. So how come we did not prioritize this over our larger projects, because this seem to be a low cost way of increasing capacity by a substantial amount?

AbhirajChoksey: Because at that point, there wasn't a need. We were, we always had it in mind, which is not that we didn't have it in mind. It's quite a simple project to do, but we needed some consent. So, we applied we will be shortly applying for all the consent, we started the application process. Because we have to build a new building, but that was always on the card. But since we had enough capacity, we were at 75, 80% capacity utilization, but now we've even for this year, we should be okay. But, by the end of the year we think we will hit capacity at Taloja as well. So, it's a short sort of six to eight month project.

Rohit Prakash: Sure, got it. So in the past when, during previous conference calls, you had mentioned that because we remain quite cash rich given the prudent way in which we manage our balance sheet, we would be looking for acquisitions at times of stress, because we have the fire power to do it. So my question is more on capital allocation in the sense that, at current prices do you think it makes sense to do a buyback or to do an acquisition to improve capacity or capability like you did two, three years back with the Valia plant that you did. So, what are your thoughts there, or you are focused entirely on organic right now?

AbhirajChoksey: Look, an acquisition is something that, there are many things that have to fall in place. So we are always looking out for a strategic acquisition as the right value. Having said that, even currently, as you rightly said we are on the lookout for it, if opportunity does come about. But, what we can control is organic growth and Greenfield or Brownfield projects that are completely in our control. So that's certainly and if you see the opportunity in a Brownfield project, then obviously we are not going to let go of that and we will continue with our plan. And hopefully, in the last five, six months, the company has gone through a challenging period. So the amount of cash generation through our operations has also been lower than what we had expected. But both options, I would say both options are on the card. And the third is buyback, buyback is well, we have discussed it. If it does make sense, we'll do a buyback. The problem is, there are some sort of technical problems with buyback in the sense it's not a very liquid stocks, we'll have to see whether it makes sense.

Rohit Prakash: Okay, I understand that makes sense; it's just that it's a little funny to us because, it clearly does not reflect the true value of your business and just curious if you have any ideas there fair enough. And last question before I get back into the queue for further follow up. So, one thing which I really enjoyed or liked about Apcotexa lot was that there was no dependency firstly, in the sense may other chemical businesses, they tend to depend, historically have tended to depend on some sort of protection from the government for generating high returns on capital employed over extended period of time. So with this, do you see this current issue, which NBR is going through, do you see it as a purely temporary issue because of some dislocation, which will not persist for a long time or do you think the business profile has changed more permanently with the you requiring duty or some sort of protection from the government for generating reasonable returns on equity or capital over a long term?

Abhiraj Choksey: Look when we acquired the business was in February 2016 and after we turned it around, we had a pretty good run for about three years. Genuinely, I believe that structurally, giving a sound and strong business there's only a handful of manufacturers of NBR in the world. There are multiple reasons why this would have happened in the last six months, one of them being that China has imposed an antidumping duty during end of 2018; China imposed anti-dumping duty on Korea and Japan. And that has resulted in the Koreans and Japanese looking for other markets. Now, that was obviously unexpected, that was because of, China doing something. I still believe structurally this is a good business to be in. I believe that we have low market share in India we are only have about between 20 to 25% market share in India, the rest of all is imported so there's a good import substitution story as well because we are the only manufacturers in India. There is an opportunity to export, the unfortunate part of the last six, eight months has been that because of this anti-dumping duty thatChina has imposed on a couple of countries this kind of thrown the market a little bit. And that got exacerbated because of the auto industry also not doing extremely well in the last six months in China and India. But I think, that is turn once, obviously now COVID is another angle to it but, that will turn and people, the business has to, any business has to be structurally strong itself and not dependent on any government roll outs. So while we have, we will take advice or we will try and do whatever we can to protect ourselves in the short term, the intention is not be any business where we are dependent on any government rules or support.

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

Rohit Sinha: Just wanted one clarification on this market share in India, you just mentioned about 20 - 25% so that is in the NBR side right?

Abhiraj Choksey: Yes.

RohitSinha: Okay. So my question is firstly on the Latex side, when we are saying that we are looking to increase the capacity by 20%, which basically the industry is there, where we are seeing a bigger opportunity, which actually pushing for this capacity expansion of the existing mix which is growing?

Anand Kumashi: It's the existing mix but of course, the four or five major industries that we cater to from Taloja is paper, paperboard, construction, carpet, tyre and textile and a few other specialty applications and what we have seen is, again pre COVID, we had seen very strong growth in construction, in paper and paperboard and actually all seen for. So our intention was to see if we can expand in Taloja at least up to the, very quickly for these and of course we're doing it for the next two, three years not immediately and pre COVID we were quite bullish and we saw that in Jan and Feb, we had a difficult three, four months between September and December, but we are quite bullish about it now. Hope that answers your question.

Rohit Sinha: Okay. So, in Latex right now, we are operating close to around 75% to 80%?

Abhiraj Choksey: Yes, pre COVID as I said in this Q4, we would have been at close to 100%, 90, 95%. And for the month of February and March in orders we had in March but of course things have changed in the last two months.

Rohit Sinha: And in the footwear segment, our HSR segment, so there how's the outlook for the footwear industry and what other industry we are looking, we are serving in HSR and where is the outlook there, what is the outlook there?

Abhiraj Choksey: So, HSR has been a sort of flat to little bit de-growing market every year. We, before COVID, the outlook were that it was not a strategic focus for the company. Whatever business we have, we are continuing to serve and, but post COVID actually some of our customers are more bullish, because we cater to the cheap footwear market and they feel at least in the short term for the next year or two that's the market which will actually grow faster than the more premium segment. So, it remains to be seen what happens frankly, but it's a low ticket item. However, we're still not statistically focusing on it anyway, even as of today we have more capacity than what you're producing. So we are not going to invest anything further on HSR.

Rohit Sinha: Right, so on utilization level how much utilization level we are operating in this HSR?

Abhiraj Choksey: Obviously it's not; it's quite low it's around 60, 70% approximately.

RohitSinha: Okay. And sir overall when we are saying that automotive is close to 20 to 25%for whole revenue then, with this COVID thing, pre COVID also we were setting problem with the slowdown in the auto side and with this COVID thing, demand is fairly squeezed. So just wanted to know how would be the overall run rate for us in terms of revenue and the margin level which we would be looking at for at least FY20?

Abhiraj Choksey: So, first of all autos not 20- 25% of our entire business. The NBR is about 25 - 30% of our entire business, about 30% I would say and auto is about maybe half of that, the rest is I would have maybe said auto and tyre, we also supply product called VP Latex for the tyre industry, which is about 10% of our entire business. So, if you split up auto into auto and tyre, tyre for sure the demand will slowly come back as we have already seen traction in May, because that's largely a replacement market. Whereas auto we expect the next two, few quarters to be challenging. So one of the things that we're doing is utilizing that capacity to making Nitrile Latex for gloves because the same reactor that we are using to make the Latex and then converting into rubber. We are actually planning to convert a couple of the reactors to make Nitrile Latex of glove assuming that the demand this year will be a little muted for auto. Having said that, as I mentioned as far as volume is concerned, it's not a problem at all for us. We can reduce the price and get as much volume as we want in India because we only have 20, 25% market share, but we don't want to grow like that, we don't want to grow at by killing the price of the product and therefore this currently, demand for medical gloves is extremely high. And we're seeing a lot of inquiries and strong demand from existing customers; unfortunately we didn't have enough capacity. But what we are doing is trying to sort of modify the existing reactors that we do have, it's not the most ideal way to make Nitrile Latex for glove it's a little technical, but we are modifying it in the next few weeks that should be ready. So some of that demand which will be lower in India, we will use Latex to substitute that, if required.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from AMSEC. Please go head.

Karan Bhatelia: Sir, I had couple of questions, first how has been the price delta between the Asian prices and the Europeanprices, because in last couple of quarters, we've seen that growth from $100 difference to $300 per ton difference?

Abhiraj Choksey: Yes, that's certainly come down, Q3 that was a big challenge. But in Q4, the differences were much less and of course currently, everyone knows what's happening with oil in the world. And accordingly all petrochemical prices are by and large, the same level across the world, whether the US Europe or Asia, including some of our raw material prices. So right now that's not an issue and even in March, that was not an issue in fact, March has been one of our strongest months. So as of today, it's not an issue and we expected that because it does happen from time-to-time you see this every month, every three, four years for about three, four months where European prices are much lower than Asian prices on vice a versa as well. But it's not sustainable because material starts flowing, because that arbitrage cannot remain forever. So in three, four months, material starts flowing and in the arbitrage opportunity comes down. That was one of the challenges we had in Q3, it's no longer an issue as of today.

Karan Bhatelia: Correct. And sir is it right to assume that in Q4 we might have a flattish kind of volume growth and whatever the sales dip is purely because of the realization?

Abhiraj Choksey: That is absolutely right. In fact, we had flattish volume between Q4 of this year and last year, in fact and compared to Q3 we were much better in terms of volume and had we actually finished the quarter in the orders we had in our mind, we would have had a reasonable reasonably good growth as well compared to Q4 of last year. So, the next realizable value of products has gone down because in Q4 also as you know raw material prices are falling so, as a result of which our finished goods or our net realizable value per kg was also falling.

Karan Bhatelia: And how are the prices sharing up me in April, May?

Abhiraj Choksey: Even this, sorry just to complete our volumes are actually intact, even though our top line has fallen by more than 100 crore our volumes are actually intact, the only difference has been that one is obviously prices have fallen compared to 2018-19. And the second issue is in product mix we have sold more Latex than rubber and Latex prices are generally 60% or 50% to 55% of the rubber prices. So, as a result of which, the top line is also sort offollowing.

Karan Bhatelia: Correct because we've seen that in 3Q and 2Q as well, where the product mix was impacting our margins as well. So, in Q4 are we like back to normal 50% for Latex and rubber?

Abhiraj Choksey: Actually, no, we would be more Latex than rubber in Q4.

Karan Bhatelia: So, it is right to assume 60:40 or 55:45?

Abhiraj Choksey: I don't have the exact number with me right now, but I think 60:40 is probably the right assumption, but I'll haveto go back and check the exact numbers.

Karan Bhatelia: Sir, how is the pricing trajectory of key raw materials Styrene, Butadiene,Acrylonitrilefor April and May, as in we are 22 days to May now. So, how has those prices reacted?

Abhiraj Choksey: This is published data so between March and May everything, there had probably, I would not say lifetime low but at least decade low prices, for Styrene, Butadiene and most petrochemical.

Karan Bhatelia: Right. I can chip in one more, one or two questions. So, any CAPEX number for 21 we are doing that 12 to 15 crore for Taloja and 5 crore that is remaining of the phase one CAPEX so like 17 to 20 crore is assumed?

Abhiraj Choksey: Yes, look there are some uncertainties even now but having said that our intension is to actually do the 60 crore NBR Latex for gloves project in Valia. Complete the remaining which is 5 to 10 crore CAPEX that is pending and about 12 to 15 crore from Taloja. So, I would say over the next 12 to 15 months, I would not say this financial year but 12 to 15 months we are looking at another about 90 crore or so. 90 to 100 crore we are still working out the details of one project but, 90 to 100 crore would be the next 15 months from now.

Karan Bhatelia: 15 months, correct. And sir is it fair to assume that first we will compete off the 60 crore CAPEX for Latex and then we will look at the NBR project or it can go on to simultaneous basis?

Abhiraj Choksey: We will also have to wait and watch till what happens with COVID. That uncertainty is very much there in our life now. We will definitely go ahead with the NBR Latex project first and if we start that we will then take a view on what, how things are because the plan was to use a combination of debt and internal accrual. Now, internal accrual in the last six months hasdefinitely not gone as per plan. We are hoping that at least from Q2 onwards, we can get back on target of our internal accrualsalso we will also have to see what we are able to accrue to afford those projects. And then of course, debt also in this time, we'll also have to relook and re-talk, have conversations with our bankers. But we have quite sort of positive that we will, as far as being able to raise this to 200 crore or so even going forward. It will not be that much of a challenge if they are going to invest in over the next couple of years. But the only reason why I mentioned about the NBR Line 2, the second line being delayed is because, earlier I'd given a date of end of FY22, that's in the current context will definitely be delayed. That was my point, but we still have time to go ahead with it. Funding is one issue, but the major issue will be just to see how the NBR market and margins are playing out over the next three to six months.

Karan Bhatelia: Correct. And tax rate going ahead will be like standard 25%, or we have some more benefits from the Omno acquisition?

Abhiraj Choksey: Yes, we do have some more benefits for this one more year for FY2021. So, our rate will effectively be less than 25%, I think 22% or so.

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

UditGajiwala: Sir, would it be possible to give the domestic and export mix for the quarter and full year?

Abhiraj Choksey: I think we are at about, in terms of value we are at about 12, 13% is exports if I'm not mistaken for the full year. Quarter numbers, I don't have with me but quarter wise, for the quarter it would be higher.

UditGajiwala: Okay. And like we have been mentioning about some orders that could have been completed, but due to COVID it has been impacted. So by when do we assess to finish the same?

Abhiraj Choksey: Most of these orders have already been dispatched by now.

UditGajiwala: Okay, so it will be reflecting in this quarter?

Abhiraj Choksey: Yes, of course.

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

DhavalShah: So, I have a question on the CAPEX side. So you mentioned around odd percent incremental capacity for the Taloja plant. So by when can we expect this to be commercializedandhow are we going to fund this CAPEX, because the operational performance are also subdued and the working capital situation has also been tightened up so, is it going to be funded entirely through debt. And if do the reverse calculation the Brownfield CAPEX per tone comes around Rs.12,000 something, so what kind of asset turn are you expecting from these Latex capacity?

Abhiraj Choksey: Sorry, you're talking about what I just mentioned about the 20% additional in Taloja is it?

DhavalShah: Yes.

Abhiraj Choksey: So that's going to cost us about 12 crore is what I have the initial estimate is as I said, this was still in the early stages. This is the first time we are announcing it. But, asset turns wise yes, if 20% gives us about 11,000tonnes, so it's like about five times, 5x is your asset turnover that we see.

DhavalShah: And when can we expect it to be commercialized?

Abhiraj Choksey: So 10, 12 crore is not a big amount. So that will be through internal accruals for sure that's not an issue, but first we need the whole problem is the uncertainty right now, because we require some consentfrom the pollution control board, the state pollution control board as well as one or two other agencies. In the current COVID scenario, a lot of these guys they are working but going extremely slow with applications. So we are a little dependent on them. There is not much design or anything required so, that should be ready. We're just hoping that we can finish all the design and permission by the end of the monsoon so we can start the work immediately after the monsoon. And we expect the plant to be ready within six to nine month or the expansion it's not a plant it's just anexpansion area to be ready within six to nine months.

DhavalShah: Right. And this additional 4000 or 5000tonne NBR capacity expansion that's what we are doing so is that going to come maybe in the second half of this fiscal and also given that the auto demand itself is subdued right now. And you are changing the reactors to make the Latex from the NBR rubber. So would it be possible to convert this additional 4000 tonnecapacity into the gloves, Latexgloves? Andwhat kind of realization is there of Latex versus the NBR right now?

Abhiraj Choksey: So that project that I mentioned, moving from 16 to 21,000 tonnesis already within the works for a long time, in fact we have finished most of it. It was just the last bit that was pending that we were supposed to commission by March 31technically, the 99% of the work is already completed. So, that is already the money has already been spent it is part of the 100 crore projects that we have done so that will be completed in the next few weeks. The only reason why we've not been able to complete it is because we are, we needed some vendors from otherstate, and they're not able to come into Gujarat and they have not been able to complete it because we want to commission those projects in front of the vendors because for various technical reasons. So that's number one, just to mention that's already completed as far as the project investment is concerned, the commissioning should be happening in a week or two. And you're right, that is going to help us to some of that capacity at least thereactor capacity NBR is two phases, one is you make the Latex and reactor and then you dry the Latex to baleNBR. So the reactors you will certainly be able to use, two or three or whatever we decide for gloves. The realization of gloves versus NBR is a good question. Look, it's obviously glove right now is in high demand so the realization of gloves is quite good. I would say what we've seen in 18-19, 17-18; the realization of NBR has also been very, very good. So if you ask me currently that gloves realization would perhaps be a little better. But NBR is a commodity which moves up and down quickly also in terms of margin. So we know what regular margins are for NBR. So the NBR comes back then it will become a good problem for us, but we'll have to choose between gloves and NBR between Latex for gloves and rubber for NBR.

DhavalShah: Yes, but NBR realization is somewhat around Rs.100 per kg right now or is that higher than that?

Abhiraj Choksey: It is around that much currently. So, when I say realization sorry, I meant margin, in terms of margin obviously realization for Latex will be much lower because it's 50% waterso when you ask when I say realization, I meant margin, I'm sorry I should have clarified that. The margin realize but yesLatex is about 60, 65% of NBR right now.

DhavalShah: Okay. So, that is or Latex gloves right?

Abhiraj Choksey: Latex for gloves.

DhavalShah: And the last one is on the working capital side. So we have seen somewhat around 15, 20% increase in the working capital situation for FY20 and given that the demanditself is subdued on the ground. So how do we see the working capital scenario for the entire FY21 I think the cash conversion cycle for FY20 was around 75, 76 odd days, against from 62 days last year. So, what kind of fresh conversion do you see this quarter?

Abhiraj Choksey: Yes, but that's not true actually. Because, I'm sure you're looking at this data from the balance sheet, and that's on March 31st. Please understand that we were stuff with a lot of inventorythat we typically would not have been both raw material and finished goods, because of the shutdown, because of the lockdown. And secondly, customers there wereissue with collection. So, our debtors also just in those two weeks, the last two weeks went up quite dramatically because most customers stopped paying up. So this was one of the reasons why your calculation of 72, 75 days has come. Typically, it would still be in the range of 18-19 only, three days here there. So, that's a temporary phenomenon and as soon as, I think they started normalizing already as our customers have started picking up, got pleasantly surprised with a collection and debtors are coming down as we speak.

DhavalShah: Okay. And this 90 odd crore that you mentioned, 90 to 100 crore CAPEX over the period of 12, 15 months. So do you foresee, our balance sheet price would allow such kind of huge CAPEX in the next 12 to 15 months?

Abhiraj Choksey: I think so, as even as on March 31st, where net debt free, in fact we have a surplus funds and so, and of course one assumption in that is that, things from the second quarter onwards would start looking much better for us. So we would start accruing some cash as well from Q2 onwards, which would allow us to fund this additional CAPEX partly through our internal accruals starting from let say July onwards and partly through debt, so, it's not a large amount for our balance sheet for sure.

Moderator: The next question is from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.

NavBhardwaj: While most of my questions have been answered. Typical one I would want to ask is currently, we had said that in our opening remarks that we had a very strong order flow in our last quarter, but we could not fulfill them. Are we facing any problems in the sense of, cancellations or renegotiation in prices, given the drop in price of raw materials right now?

Abhiraj Choksey: The short answer is, it's complicated but, yes in some cases we are because some customers have been very good about it and they are whatever orders they had placed at that time, they are picking up the material at those same old prices, whereas of course some customers are trying to take advantage of the current situation prices oil and petrochemicals have crashed. So they want the current spot price. It's a sort of a, yes and no is the answer to that, some customers we've been able to give at the old price some, you've had to renegotiate.

NavBhardwaj: So something like an 80:20 will be a good way to work with?

Abhiraj Choksey: I frankly don't have a number, I don't have that number. But, I don't have a number on that. But, yes what you're getting at is we will have some stock losses from March because we were stuck with some high cost inventory.

NavBhardwaj: All right, air enough. I won't push you on. The other part being that, I want to know how much some clarity if you can give on a pricing formula and how do we goes about it. If there a formula based as an ROC based or is it a cost plus model for simply sport. It's a combination of formula and spot, so some customers who are prefer to buy some quantities from us they have a range of quantities that they commit and then it works on a formula base and some customers on spot so, I would say it's probably around 50:50 or maybe 40% on formula, 60% on spot. The NBR market largely works on spot, there are a lot of other products that it largely work on, a lot of Latex product not all but a lot of Latex product has work on formula.

NavBharadwaj: And is it fair to assume that the glove market will be more of an MRP kind of a product and margins over there will consistently be higher irrespective of raw material price movement?

Abhiraj Choksey: No, because the MRP is for the glove we don't manufacture glove we are making the Latex and then supplying to the glove manufacturer. Therefore, the Latex also as of now because we are selling very small quantity, we have been selling on spot and frankly, in the current market scenario it does make sense to sell on spot because the spot prices are higher than actually some of the contract prices that some suppliers of Latex have signed with the customers. And so since our quantities are very small right now, we are continuing to sell on spot for the Nitrile Latex for gloves and that will follow the similar it's not an MRP based product.

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

FarookPandole: Good job with the fourth quarter results, especially against the backdrop of the third quarter and the entire sort of volatility that we had during March. I just related to that had a question. Firstly, if you could give us some color on how the current quarter has been even qualitatively in terms of demand, in terms of raw materials, in terms of the actual logistics of doing business, etc that would be useful. And also I wanted to know, what was the status of the power plant and the current cash on our books, net cash on our books?

Abhiraj Choksey: Okay. I think last time we meet in February perhaps after our last board meeting on this concall. And we were quite positive back then, or it was end of January I can't recall exactly, but we were quite positive for Q4 and as I said, besides the NBR margins, everything else was really back on track and we're excited and things are going really well and we were expecting Q4 for Taloja and an exports would have been the highest and we had the orders on hand for the last week. So, Q4 was really good and were expecting a great Q1 as well of this year, unfortunately this COVID stuck and obviously the rest everyone knows. As far as qualitatively yes, I can give you a little bit of a flavor of what's going on with us. So we, we had to shut down like everyone else on March 23. We restarted both our plants between April 20th and one plant April 20thand the second plant on April 23th, I believe. As far as Taloja plant has been concerned, we've been running sort of continuously since then, of course at lower capacity utilization just from because of several constraints people and raw materials, etc. Took a little bit of time for logistics to set right. Frankly, things are going reasonably well and much better in May than we expected were at, in May we expect to close overall at about 60% of our regular sale that we've had in Jan and Feb. So we were, we thought which was better than what we expected and certainly better than a few other companies. There's a lot of uncertainty right now, there's uncertainty on labour. We do have some there is a stigma attached with coming to work. So we're trying to work through that. We have uncertainty on government can do anytime; anything can happen it can be a second lockdown in a month. So, that's another concern. The third concern is, of course there is a little bit of concern on logistics although, logistics in the sense raw material supplies, because in some cases, we are dependent on two suppliers or on two or three suppliers all over the world and we don't know what's going to happen in their countries also. But in the current context, at least for the next month or two, we are well covered for all our raw materials, or at least in the short term that's not an issue. We have quite upbeat because, what we have done is we've adapted quite quickly, and we've realized that look some areas of our business will not do so well areas in the sense some of the industries we cater to may not do so well in the next few quarters and as a result of which we know one industry that will do well, which is the gloves industry. So we have moved very quickly and we started this work on April in the first week of April itself, where we started modifying our reactors, as soon as we could get some people in and started modifying our reactors to cater to the glove industry as you know we were going to setup set up new reactors for it by next year. But given what happened, it's not the most ideal way of making it, it's not the cycle times are long, but given that it's better to make this then keep the capacity idle. So, that's a little bit about what we have done. Your other question was on the cash position, I think cash wise we have around, I have my finance team on but correct me if I'm wrong Suraj and Anand, but it's about 35, 40 crore of cash on the book, net cash after all is my calculation correct?

Anand Kumashi: Yes, around that only.

Abhiraj Choksey: So, I hope that answers your question and then the last question on the power plant, we commissioned it in March, but we had to immediately shut it down as we were going through that process. And, the part of the process of commissioning that we needed about four or five different vendors, the vendors from the buying and panels and the boiler to be on site for the first two, three weeks and just before the lockdown was announced, unfortunately they had to leave for their home and so now we are bringing a lot of them back. And we're starting that process as we speak. And so anyway, the plant has been largely shut. We started the Valia plant but we again shut it down for lack of demand. And so there was no tearing honey in the last couple of months to start it now of course we hope to restart it as soon as we start production again which is next week. I hope, I answered all your questions.

Farookpandole: Yes, that's great. I just had one last question. You mentioned that, there was a 60 or 80 crore allocation, which you'll weregoing to be making towards the gloves project and you also mentioned that the work on the Taloja expansion would start post monsoons. So, is it fair to assume that the work on the gloves project will also start post monsoon?

Abhiraj Choksey: Yes, that's the plan.

FarookPandole: Okay, great. And I just also wanted to say that, one of the earlier participants had mentioned about examining the possibility of a buyback and I think in the sort of current situation, I certainly think that's, an option which is well worth exploring and looking into just a suggestion.

Abhiraj Choksey: Thank you. Thanks very much sir we'll consider it.

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

Harsh Bhatia: I have joined the call a bit late. So, I wanted you to provide colour on realization numbers per kilo for NBR, Latex and HSR separately?

Abhiraj Choksey: Look, we typically don't first of all there is move quite drastically, especially in times like this. And number two, we don't give our kind of information however if you go to the market and ask for NBR price from somebody you will get it I'm sure. Similar in the Latex front but I can give you a broad, typically the rubber is 100% solid product, Latex can vary anywhere between 40% to52%. So Latex prices are typically around, are about half I would say, compared to rubber prices, this obviously varies depending on what's going on in each market, but that's how it typically works. And obviously, it's different when oil is at $20 versus an oil is at $100. Obviously, the petrochemicals also follow a similar cycle so do our finished products then. So that's, the answer I can give you right now.

Harsh Bhatia: Yes, makes sense. So last quarter, we have said that we were seeing price differential up to almost 25 to 30% with European and Asian markets. So we were expecting that to come around back to 5 to 8% across the board. So right now, how do we see those price differentials and how do we expect that to flow into our exports, howwill that benefit?

Abhiraj Choksey: Yes, so that already that happened in Q3 and Q4, we already saw that differential come down quite substantially, especially in the Q4, we saw that come down quite substantially and therefore our February and March, the second half of Q4 exports were very strong in fact, for the quarter had COVID not happened we would have had a strongest export in quarter in the history of the company. In terms of volume, we would have had a very strong quarter for Taloja also Q4 and I think in the current scenario of course look COVID is brought a lot of uncertainty, for our customers for us and so obviously, raw materials is no longer an issue. I think the differential between Asia and Europe is not there anymore or very minor. That's not an issue more of the issue is from demand right now.

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

Rohit Prakash: Thank you for allowing me the follow up. My first question is,I understand the expansion of gloveslatex, because we clearly see a demand there. But could you repeat again, on the Latex capacity addition in Taloja what industry would that be catering to?

Abhiraj Choksey: It's the same industry that we cater to now paper, paperboard, carpet, construction, textiles a bunch of specialty products.

Rohit Prakash: So, given you have mentioned how uncertain the current environment, so do you see the demand growth over the next year for this industry, for these industries at this juncture or you just want to be ready because you already hit 100% in Jan, Feb in this segment?

Abhiraj Choksey: As, I said look we, anytime we think about capacity you don't think of one year, you don't think about absolutely the current situation and obviously the current situation is extremely challenging, but in general we have entrepreneurs and businessmen are optimistic generally by nature. So I'm quite optimistic that look at some point or the other in the next year or two, this COVID thing will be behind us, there will be vaccine medication something will come, we will learn to live with it, and we will hopefully the human race will find some solution for it. So, once that does happen, I expect 21-22 to be quite strong for us. So we should be prepared for the next year and that's why we're looking ahead a year, year and a half later. And, especially with the cost for us and the asset turn it's kind of a no brainer to go ahead and do it and prepare for the following year.

Rohit Prakash: Understood, that was helpful. And the second question I have is, for the XNBR Latex projects for gloves. How many, do you have any competition in India for this product or how many or if not, if there are none then how competitive is the space in Asia?

Abhiraj Choksey: Look in India, there is no manufacturers of XNBR Latex, there are actually very few manufacturers of gloves as well. The large when we thought about doing this project this was largely for the export market. The largest exporter of gloves in the world is in Malaysia, the largest exporter so there are about 8 or 10 large companies manufacturing gloves, and they are scattered the Latex comes from handful of companies in Asia, from Korea, Taiwan and Malaysia mostly. And so we thought there was a really good opportunity not only to export to Malaysia but for the Indian industry as well. As well as Sri Lanka, Thailand, Indonesia, there are lots of gloves manufacturers everywhere, Malaysia I think caters to about 70% of the global glove demand in the world. So this project is largely for exports to Southeast Asia.

Rohit Prakash: And XNBR, so XNBR Latex the product in particular, there are not many suppliers of this product across Asia is it?

Abhiraj Choksey: A handful.

Rohit Prakash: Okay, so it's a compound or a chemical related to Latex produced, and it's a regional product because it's a liquid product is it?

Abhiraj Choksey: Yes, you're right.

Rohit Prakash: Okay, fair enough understood. And the last question I have is on broadly the pricing. So when you do so, obviously as you said the initial prices depend on the raw material prices within a dependent crude oil broadly and they fluctuate all over the place. So when you try do you look at the target EBITDA per tonne or do you look to drive it in a way because if the realization EBITDA per tone comes down, it won't be able to cover the fixed price if the EBITDA per tonne is not good enough. So how do you balance that, because a lot other cost, like employ, et cetera would be fixed right?

Abhiraj Choksey: Yes, so basically we don't look at percentages, or I would not say we don't look at it, but I would say the most important thing is exactly what you said is EBITDA per tonne in dollars per tone or rupees per tonne or whatever, it has to be an absolute amount, because the prices vary too much. So, we do look at that number in an absolute form.

Rohit Prakash: So when the prices go down, the EBITDA per tone sort of goes down but that will be sort of adjusted with the increased reduced working capital investment?

Abhiraj Choksey: No, EBITDA per tonne does not go down; when prices go down we try and hold the EBITDA per tonne. So, percentage will go up and vice-a-versa.

Rohit Prakash: I am just curious, so you sort of prefer a lower price environment in that case, because the EBITDA per tonne. If I am retaining at lower prices you're working capital investments would go lower right, because lower inventory and there'll be lower inventory cost at same volume. So, does that mean that at lower prices you do much better than at higher pricing?

Abhiraj Choksey: Of course, we do prefer lower prices because percentage EBITDA is higher although EBITDA per tonne is ideally should be fixed. And yes, working capital requirement is lower, customers also prefer lower prices, negotiation is easier. Wherever there is spot negotiations so from all angles, we obviously prefer lower prices. However, by and large, we try and stay, we try and talk about this EBITDA per tonne and look at that number and make sure that's consistent. And as prices go up, wetry and increase that EBITDA per tonne to cover that extra working capital.

Rohit Prakash: Okay, sure understood sir then how come with the lower EBITDA margin has been much lower than in the past?

Abhiraj Choksey: Yes, because this is the ideal scenario what does end up happening is, there are times when what happened in Q3was that two things happened at the same time. One is NBR market, we were hit by dumping from NBR so the margins of NBR were in fact, the EBITDA was very, very low EBITDA per tone and so that was one aspect of it. Second aspect was that European raw materials prices we much lower than Asian raw material prices as a result of which our exports were affected. Both in terms of volumes as well as our margin both and we also, saw some even in India, some of the industries we cater to like construction and all went through a lean period for about three, four months and so, when that does happen, then competition sometimes heats up and EBITDA per tone which is generally at let say one, we know the general EBITDA per tone what it should be for different products drops, when there is a little bit fight for volumes, which started turning in Q4.

Rohit Prakash: Okay, so you see that stabilizing hopefully over the next year or so and you will get back to your normal sort of better margins than pre COVID hopefully because of the power plant coming in and the debottlenecking also being complete hopefully?

Abhiraj Choksey: Yes, exactly. Right now our main concern is getting back to our volumes that would be our first concern. And then of course, I think given the current raw material environment, we're quite optimistic on EBITDA margins per tonnebeing quite healthy, that's not an issue.

Moderator: Thank you. The next question is on the line of Nikhil Porwal an Individual Investor. Pleasego ahead.

Nikhil Porwal: Abhiraj can you tell me if, I wanted to ask about the XNBR gloves project that we are working on. So as you mentioned that world's biggest glove manufacturers arein Malaysia. So do you have any commitment from any of the largest manufacturers for setting up this capacity on a constant basis, because all of these manufacturers have a very big CAPEX plan for the next two, three years.

Abhiraj Choksey: So what's your question, sorrydo we have any?

Nikhil Porwal: So, do you have any commitment from any of the biggest manufacturers for continues uptake of the raw material?

Abhiraj Choksey: Well, frankly we've got a lot of approvals from some of these big manufacturers. The problem is they said you at least start putting up the capacity and don't worry about the volume, and what capacity we intend to put up initially is not even, couple of percent of the total gloves Latex market, what they can consume. So we don't expect that to be an issue at all. If we can make the right quality of product at the right price, and we think we can do that. We have already got all quite a few approvals. There are issues of course, like in some customers that they want improvement in color or something little bit here and there. But, we've already been selling, this year itself sold a few maybe a 1000 tonnes on a little bit more, I don't remember the exact number. So we're quite optimistic about that, that's not an issue.

Nikhil Porwal: Okay. I don't know if you'll be comfortable while sharing the name of the customer. But can you give me a hit whether it's amongst one of the top five glove manufacturers?

Abhiraj Choksey: Yes, not only one customer we have in fact been engaged with all of them. Top five we engage with all five.

Nikhil Porwal: So, that includes top…..

Abhiraj Choksey: It's public knowledge you can just look it up for who the top customers are in Malaysia and in the world.

Nikhil Porwal: Yes. And another question I had is, the NBR capacity, as you mentioned, is around 30% to 40% of the revenue and half of that is consumed by the automobile sector. Now I'm talking about a long shot wherein after a couple of years, when the shift to EV starts, where will this capacity be used. I'm sure that there's some anavenue that this can be used?

Abhiraj Choksey: Okay, let's take a step back. So, one is the total market in India for NBR total is around 50,000 tonnes. Our entire capacity even after this small debottlenecking expansion we have done is 20,000 tonnes. So, if you assume 50,000 tonnes and half of it going to auto, approximately half that is also a little bit higher estimates, but approximately half, the remaining market will be there for non-auto which is growing at 4 by 5% pre COVID at least it was growing at minimum 5, 6% I would say in India. So, we think that auto is not going to become zero overnight, it will take 10, 15 years for it to become zero as far as already in so, we think as long as there isa export market there are no other NBR manufacturers in our part of the world when I say our part of the world I mean Middle East, South Asia and Southeast Asia, that market itself is another 35 or at least 40,000tonne. So, I don't think it was very worried about that frankly in terms of volumes. What we're worried about currently with our experience in the last five, six months is in margin.

Nikhil Porwal: Yes, I kind of got that in the Q3 numbers.

Abhiraj Choksey: Yes, so volume and doing business and volumes and EV and all, while it's an in the long run. We're not setting up large capacities, so it's not the people that should be worried are the people that have very large capacity 100,000 tonnes, 120,000tonnes, those are the guys that should be worried because and in India also luckily we have other markets in China and in Europe auto is a much higher percentage for NBR, it's maybe 70%.

Nikhil Porwal: And, I don't know if you've mentioned about this, I joined the call later. So, I saw your company has applied forsunsetreview for NBR. So is there any progress in that?

Abhiraj Choksey: Yes, as I mentioned we have applied for against Korea, there was a small anti-dumping. So we have applied for sunset review this is public information, the investigation is ongoing.

Nikhil Porwal: Okay. And one last question. So like it's been happening in the entire chemical sector where in there's a lot of shift that's happening from Europe to India or maybe somewhere in Asia. So is there scope for something such in the synthetic emission, polymer industry?

Abhiraj Choksey: Yes, tosome extent, absolutely there is.

Nikhil Porwal: Is there a further value chain in this like some high performance products or something like that?

Abhiraj Choksey: Look, we have a longer term plan for a few other products. But as I said, it's too early to say and we would not want to reveal on that right now.

Nikhil Porwal: Okay. One last question, sorry. Can you give your sense on the reviews that you receive for ApcoBuild from the Indian market?

Abhiraj Choksey: Yes, it's going well. As, I always mention it's a much smaller percentage of our business. We are growing it slowly and surely we started off with the Mumbai market and we are now in the Western region in a few states. And this is between the South as well. So it's actually quite well received we are focusing on products where we are backward integrated, we are focusing on products that not me-too products so therefore, the growth will always be a little slower. We are focusing on products where we have a different technology advantage and it's going quite well. And I would say in terms of it's a very small value in terms of overall as a percentage of overall Apcotex is, but reasonably profitable yes, we're happy with the progress.

Nikhil Porwal: I hope it increases as a percentage after reviewing, I see that the RAC are significantly higher in that business for you?

Abhiraj Choksey: Yes, we have to, there are a lot of other challenges as well distribution network, branding. It's completely different types of business, but we are slowly growing it.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. Abhiraj Choksey for his closing comments over to you sir.

Abhiraj Choksey: Yes, so I just like to thank everyone for joining the call again, I hope everyone is stay safe and stay healthy in these difficult times. While there is a lot of uncertainty in the next few months and quarters. From the company, I can tell you we are quite upbeat and excited over the next few quarters a lot of opportunities as well. We are excited that we have a good diverse range of industries that we cater to hand over the next few years we also will expand on the diversity in terms of geography. We have products that there are handful of companies in the world may or only one or two companies in India so we're quite optimistic and I hope things go well for the country, for the world and I'll see you again next quarter on this con-call. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen with this we conclude today's conference call. Thanks for joining us and you may now disconnect your lines.