

Apcotex Industries Limited
Q1 FY19 Earnings Conference Call
July 30, 2018

Moderator: Ladies and gentlemen good day and welcome to the Apcotex Industries Limited Q1 FY19 Earnings Conference Call. As a reminder all participants will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal – CEO of Valorem Advisors. Thank you and over to you sir.

Anuj Sonpal: Thank you Mamta. Good afternoon everyone and a warm welcome to you all. My name is Anuj Sonpal, from Valorem Advisors. We manage the Investor Relations for 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 Q1 Financial Year 2018.

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 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 any 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 like to now introduce you to the management of Apcotex participating with us in earnings con-call. We have with us Mr. Abhiraj Choksey – Managing Director and also 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 afternoon and welcome everyone to this earnings conference call Q1 FY19 under review. Along with me on today's earnings call, I have our Managing Director Mr. Abhiraj Choksey. I hope you had an opportunity to look at the company's performance for Q1 FY19 results as well as the earnings presentation which has been circulated and uploaded on the company's website and the stock exchanges website.

Moving into the financial performance for the quarter, in Q1 FY19 the net turnover increased by about 25% from Rs 120 crores in Q1 FY18 to Rs 150 crores in Q1 FY19 and operating EBITDA stood at around Rs 18 crores in Q1 FY19 as compared to Rs 8.6 crores in Q1 FY18. The operating EBITDA stood at 11.9% for Q1 FY19 as against 7.2% in Q1 FY18. The PAT for Q1 FY19 was reported at around Rs 11.2 crores as against 5.2 crores in Q1 FY18 with a PAT margin of 7.5 % for Q1 FY19.

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

- The company reported highest ever quarterly sales of Rs. 150 crores in Q1 FY19 though the margins were under pressure in Q1 FY19 due to rise in the input material cost.
- We have also commenced the sales of new product range – XNBR latex for the gloves which is going to be a future growth driver of the company.
- Our planned CAPEX of about 70 crores is on track and is scheduled to be completed by March 2019.

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

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

Sagar Gandhi: Two questions from my side; first is how has been your export performance in this quarter and if possible you can share your exports number for this quarter. Continuing with this question, your export performance in FY18 was very nice as compared to the previous financial year, how would you see the trend in FY19? Post this I will ask my second question as well.

Abhiraj Choksey: Overall I think export continues to do well. Of course there is some amount of choppiness in the export market, there are times when we see better quarters than the others, Q1 was also good. There has been one small setback we have had is one of our main export customers had a fire in their factory so the last 2 to 3 months they have been shut. But these kind of things will continue on and off but overall the broader picture is that we have given a thrust to exports. We are exporting to more than 35-40 different countries across most industries that we cater to. So we continue to grow strategically in exports as far as possible. But it is definitely choppy and in terms of sales is a good quarter and very-very good quarter, so we have had a reasonably good quarter this year as well.

Sagar Gandhi: Can you also throw some more light on the Apcobuild which is mentioned extensively in the annual report, if possible what is the current sales number and what do you envisage for this product over the next 2 to 3 years?

Abhiraj Choksey: It's not one product, it's a range of products. Apcobuild over the last 3 to 4 years we are growing it slowly and of course the last couple of years due to the acquisition a lot of management bandwidth and time was focused on acquisition which now of course we are looking to grow, it's of course a much smaller portion of our overall turnover but the idea here is to see the new business and see where we can take it. We have some inherent advantages because lot of the raw materials we supply ourselves and we will continue to seed the business and invest in it.

Sagar Gandhi: Any larger vision that you can share, 100 crores topline in next two years something like that from this particular Apcobuild category?

Abhiraj Choksey: No honestly we don't have. Of course we have our internal target but we are still experimenting and growing with it.

Moderator: The next question is from the line of Amar Mourya from Emkay Global. Please go ahead.

Amar Mourya: In this particular quarter what was the volume growth per se?

Abhiraj Choksey: As you know we don't typically give out our volume numbers but having said that our overall value growth was 24%. The volume growth was lower than that because overall we have seen an increase in raw material cost, so there has been some amount of cost that has been part of this increase as well compared to Q1 of last year. Volume growth has also been quite healthy.

Amar Mourya: Is it 70-30?

Abhiraj Choksey: What is 70-30?

Amar Mourya: 70% is the volume growth and 30% is because of the realization improvement?

Abhiraj Choksey: We don't give exact numbers of that sort, it depends on quarter to quarter but certainly this quarter also the growth has been quite healthy.

Amar Mourya: What was the export contribution in this particular quarter, export in percentage terms?

Abhiraj Choksey: I don't have the exact number but it's very similar to the previous year.

Amar Mourya: Around 15%?

Abhiraj Choksey: Yeah that much 14-15.

Moderator: The next question is from the line of Punit Kumar from Reliable Investments. Please go ahead.

Punit Kumar: The negative part is number one is that since of the merger or takeover the top line growth is just 13.1% year-on-year for the quarter which leaves a lot to be desired.

Abhiraj Choksey: The top line growth is not 13.1% but it's 24%.

Punit Kumar: I had seen the top line numbers.

Abhiraj Choksey: I will explain to you Q1 of last year included excise, so the top line number of Q1 of FY18 includes excise whereas Q1 of FY19 is net of GST. But if you see the excise numbers it's a 24% growth which I'm sure you would agree is not so bad.

Punit Kumar: I feel that the company is definitely driven by a lot of historic strength of the company in terms of the promoters and Abhiraj is also one of the most educated person, CEOs of the country. But I don't think there is much emphasis on sales and marketing in the organization. Any comment on plans on the future?

Abhiraj Choksey: That's not true again I think we have an excellent sales and marketing team. In fact for our company I must tell you that for each industry that we cater to for example the rubber industry is one, we cater to tyre industry, automotive components, footwear. Selling our product we have rubber technologies that provide technical service. Similarly on the paper industry we have paper technologies that are selling the products.

Punit Kumar: Technologically am not questioning that, technologically I tell you are very sound I'm agreeing to that. I'm saying the sales and marketing.

Abhiraj Choksey: But I'm telling you even in the sales and marketing team we not only have good sales and marketing people but they are backed by good technologists as well. So we have a big sales and marketing team for a B2B company.

Punit Kumar: Annual report does not talk about any high-profile marketing sales that's the point.

Abhiraj Choksey: Next time we will talk about it but we have good people.

Moderator: The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: In terms of your ongoing capex, you mentioned the CAPEX of 70 crores, wanted to know what's the current utilization levels which we are working with. Secondly the new capex planned of Rs 70 crores can give us what kind of turnover and thirdly how are we going to fund the capex?

Abhiraj Choksey: Just to answer your questions one by one, I will go backwards Rs 70 crores of CAPEX is I think most likely going to be through internal accruals. I think your second question was on utilization I don't know what you meant by that.

Kunal Bhatia: What is the current utilization of the capacities which we have?

Abhiraj Choksey: We are at about 85% to 90% for Taloja plant and at Valia plant we are almost at 100% capacity utilization. As far as this capex is concerned, there is some amount for debottlenecking that will happen and that will give us some extra capacity. We're expecting about 4,000-5,000 tonnes addition in Valia and some amount in Taloja as well. But large chunk of this is going to be on improving margins.

Kunal Bhatia: If you could qualitatively tell us how much of a margin improvement we could see.

Abhiraj Choksey: Don't have the exact numbers there, we had discussed this in the past the couple of times but do not have those numbers ready. But one of the projects we're taking up is a co-gen power plant and that will certainly reduce cost and improve margins by at least 1%-1.5%. That is one project and similarly we have other projects as well. So we are looking that should definitely help by next year we should have better margins because of these projects.

Kunal Bhatia: Broadly what kind of turnover will this Rs 70 crores generate?

Abhiraj Choksey: As I told you it's not an expansion project but it will free up some capacity. We will have the exact numbers once we implement the project and just see how things are going.

Moderator: The next question is from the line of Farokh Pandole from Avestha Fund Consulting Services. Please go ahead

Farokh Pandole: Congratulations on the strong revenue traction which you have had again this quarter and my question was relating to that and also what the earlier participant asked. Given your utilization levels at both facilities over the next couple of years, will the supply-side be an obstacle or an impediment to our growth going forward. And related to that, the new and large capacities which we are planning, how does that fit with respect to timing and commissioning etc. and specifically the rubber gloves project when can we start supplying those on a commercial level?

Abhiraj Choksey: Just again to answer the rubber gloves, it's called carboxylated nitrile latex for gloves. We have an already started sales, in fact Q1 was the first quarter where we have supplied a reasonable quantity. You are right, we are currently at a situation where supply can be an issue but especially on the latex side, we are through these projects as I was mentioning through these capex projects. We are going to debottleneck and we should have enough capacity for the next 2 to 3 years. During that time we are planning bigger project which will include rubber and latex both and will take about two years from the time we start or little less than two years from the time we start. We are in a designing phase right now. We are hoping that in the next few months we can move from the designing phase to actually starting implementation. Once we start it will take about year and a half to two. In Rubber we

are already in the constraint, nitrile rubber we already have supply situation even now. We could sell a lot more than what we are able to manufacture. As I just told the previous participant that Rs 70 crores project is that we are taking up, will certainly free up some capacity. We are not adding a line but because we are upgrading some equipments which are bottlenecks will be able to add to the current capacity but again that's not going to be enough. We can sell even more than what we will add and for that only the bigger project will help.

Farokh Pandole: And in terms of the timing of the bigger project is so even if presuming we start on the implementation by the end of this calendar year that's another two years out so that we will actually have the capacity at our disposal to be able to exploit commercially. So in the interim even if we have to grow at the rate of which we are presently growing that shouldn't be a supply side obstacle.

Abhiraj Choksey: On the latex side definitely not, on the nitrile rubber side as I said it will depend on how much capacity we are able to free up and how much we are able to debottleneck. We are hoping it will not be an issue but as I said it maybe. I'm not sure right now; I will be able to tell you in about six months.

Farokh Pandole: So I am presuming if it is just given the set of answer you gave me, even if it is an impediment it will be towards the end of where we hope to have the fresh capacity at our disposal.

Abhiraj Choksey: Absolutely and we will obviously try and see if we can expedite the dates on the new capacity as well.

Farokh Pandole: I'm just trying to get a sense of the worst case that in the worst case we should have a minor overlap if at all and that to a couple of years out of maybe not having enough capacity. There should be a very small overlap maybe for 3 or 6 months.

Abhiraj Choksey: Exactly.

Moderator: The next question is from the line of Sarvanand Vishwanathan from Unifi Capital. Please go ahead.

Sarvanand Vishwanathan: The bigger expansion that you just spoke about what sort of CAPEX would it entail?

Abhiraj Choksey: As I said we are in the designing phase, so lot of things can change in the next 6 months. But as I have given an indication even in the past we think it will be about 200 to 250 crores.

Sarvanand Vishwanathan: So which means along with the design you will also have to work out the funding plan also, right?

Abhiraj Choksey: Yeah we will.

Sarvanand Vishwanathan: Broadly would it be a mix of equity and debt so there will be...

Abhiraj Choksey: It will be internal accrual and debt.

Sarvanand Vishwanathan: You are not looking at any equity dilution at this point?

Abhiraj Choksey: Not immediately, no. We will take a call maybe next year because even that project once we start as I said we have 2 years so it's not going to be the entire investment immediately, it's going to be over a period of 2 years.

Sarvanand Vishwanathan: At this point what proportion of your business you have raw material pass-through to your end clients because we see a lot of volatility because of input costs?

Abhiraj Choksey: We are able to pass it along to our end clients for the most part. There is always a time lag but by and large the indication that we have given is even two years ago when we made the acquisition and our margins fell as low as I think if I remember correctly 6%-7% we wanted to get back up to 12%-13% and if you see on an average we are able to do that over the last 8-9 months, sometimes even better. In this kind of business you will have some quarters where there is some really good buying and because again on the price volatility we can take advantage of good buying for example in Q4 of last year we had much better margins than average that was expected. This time it's a little lower. Quarter-on-quarter that does happen.

Sarvanand Vishwanathan: So for a yearly perspective 12% to 30% is a reasonable range to expect.

Abhiraj Choksey: Yeah, we want to increase it to about 14% to 15% but which also should happen once this project goes through and if all goes well on the competitive front as well but yeah, the goal is about 15%.

Sarvanand Vishwanathan: Among your end user industries which is giving you the incremental growth or all the industries are growing or some industry is growing better like footwear, automobile to name a few?

Abhiraj Choksey: We have 7 or 8 different industries from construction, carpet, footwear, automobile as you said and honestly if you ask me the last 6 to 12 months we have seen growth across the board everywhere.

Sarvanand Vishwanathan: So you are not seeing any concentration building up because at this point you have a limited capacity, you are able to serve the growing markets of all the...

Abhiraj Choksey: For now we are and we are working through this debottlenecking project that should be done soon and should help us.

Sarvanand Vishwanthan: And this expansion next round, it is going to be completely organic or you're looking at some Brownfield type of opportunities also?

Abhiraj Choksey: Its Brownfield, it's within our current facility.

Sarvanand Vishwanthan: Any acquisition...

Abhiraj Choksey: Yeah if a strategic acquisition does come about we would be very much interested as well. But for the purpose of this call we are only talking about the plans that are already in place.

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

Suvarna Joshi: If you could just throw some light on two aspects, one is what is the kind of opportunity size that we are seeing in the new product that we have launched in this quarter that is specifically the XNBR gloves and if you could just indicate to us what kind of margins do these kind of products give us because I assume since these are more purpose oriented, they should have better margins than our existing products so that was my first question. And my second question would be on the trend that you would just want to highlight on the raw material front, how is the trend looking like at this point in time, you mentioned that there is pressure on margins, so can you just highlight the trend for the raw materials over the next 2 to 3 months or so and if possible for the whole financial year? I know it's difficult for the entire fiscal year but a directional trend would be really helpful from you.

Abhiraj Choksey: As far as the XNBR glove is concerned, the market is very large, in fact even if we take our entire current capacity and use it towards that product we would not even have maybe 3% or 4% of the world market. So it's very large and that was one question that you had. As far as the margins of that product would be, you may be right or little bit better than some of the products we currently make because again the competitive scenario there, there is only 2 or 3 big companies that are making this product, one in Malaysia, one in Taiwan and one in Korea. Otherwise it is not very widely made, it's a technology that is even harder to master, so we have done that. But we also have to see the reaction times of these products are longer, so we will have to wait against that but the margins will certainly be better. And the second question was on the trends and honestly is anybody's guess. We have seen Q1 prices were firming up, now the current where we are looking at right now things are stable. But it's very-very hard to look beyond 1 or 2 months honestly. Of course that you know that all our raw materials are petrochemicals that are linked to oil and today no one can predict what going to happen oil in September even. So it's very hard to predict. But right now things are stable. They have gone up substantially, they are stable. There were talks and the trend was expected for it to come down actually but it hasn't happened yet.

Suvarna Joshi: One follow-up on the margin bit, so would you be able to give us the differential because you are largely exporting, so how are we placed compared to the other companies that are present in this segment? What is our USP over there?

Abhiraj Choksey: One USP is our technology and process. We are doing it in a different way than everyone else is doing it. To believe it is more cost effective. Having said that it is Latex, that we will have to export, the domestic market is not very large for this product so we will have to export and the largest export market for this product is South East Asia.

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

Dhaval Shah: The Butadiene price has been increase to around Rs. 100 per kg last quarter as compared to around Rs. 80-85 per kg in Q4, so how much have you passed on, is one? Maybe 20%-25% is the increase in the raw material cost, so how much have we passed on?

Abhiraj Choksey: Hard to answer your question because Butadiene is only one raw material that we have, yes an important one but only one. We also buy styrene, acrylonitrile, butadiene and few other raw materials. So it's not just about passing on one raw material. As I said broadly we try and pass it along but sometimes if we have some commitments that we have to fulfill so there is therefore margins are sometimes under pressure. But in the long run we expect to pass along the 100% of the increase.

Dhaval Shah: The purpose is to understand the volume and priced growth because I think if there is an increase of 25% in raw material and Butadiene I suppose is contributing around 50% of COGS. So logically I think priced growth should be between 10% to 12%, is it so, the rest is volume?

Abhiraj Choksey: As I mentioned earlier we don't give the separate numbers of volume and pricing. I would say a majority of the growth would be volume and some amount is price, yes.

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

Abhishek Salunke: Can you give us segment wise revenues like what percentage of revenue is attributable to NBR and what percentage of it is attributable to HSR it is contributing?

Abhiraj Choksey: We don't give numbers but broadly we have given the number that 50% of our business is synthetic latex, 50% is synthetic rubber and within synthetic rubber out of that 50%, 35% is NBR and like products and 15% is HSR. Out of the 50%, 20% is paper and all the rest are by and large equal which is so tyre cord, carpet, construction, specialty are by and large 8% to 10% each.

Abhishek Salunke: Why I want to understand is because if I'm not wrong for NBR we have 16,000 tonnes capacity and currently we are operating at 100% utilization, so the new capacity would be

coming around third quarter of FY18 if I'm not wrong which would say capacity expansion to be around 21,000 tonnes. So till then the growth would be like muted or if I'm not wrong it would be based on value growth and not the volume growth that is why I wanted to understand.

Abhiraj Choksey: But compared to last year there will certainly be volume growth because last year we were not at 100% capacity utilization.

Abhishek Salunke: And any plans on HSR and Latex capacity expansion?

Abhiraj Choksey: HSR we don't need, it's a market which is quite slag, it's not growing so we have enough capacity. Latex as I said we are also doing a debottlenecking project which is part of the 70 crores investment that I mentioned.

Abhishek Salunke: So 70 crores part of this project would be for latex and half part would be for NBR which would see a margin improvement?

Abhiraj Choksey: Margin improvement and some amount of debottlenecking for both products; latex and NBR.

Abhishek Salunke: And that 21,000 capacity expansion for NBR is different.

Abhiraj Choksey: No, same one.

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

Kamlesh Kotak: Just wanted to confirm, you said one of the major customers had a fire, so in what segment and product they were?

Abhiraj Choksey: Again, that's a little confidential. It's in the export market in the specialty segment. I cannot reveal the customer's name or anything but yeah its...

Kamlesh Kotak: So is it into latex?

Abhiraj Choksey: Yeah it's a latex product, one of our latex products that we are exporting.

Kamlesh Kotak: How has been the trend across the segment in terms of the paper, carpet, textile and construction, chemical, any pocket that has shown better growth or any one which is laggard for the latex?

Abhiraj Choksey: I would say compared to last year we have seen the growth across the board. Of course, the growth levels have been different. I would say construction has grown quite well, NBR

products have grown quite well, the rest have been reasonable. But NBR and construction have grown well in Q1.

Kamlesh Kotak: In that case and as we see going forward also we will have a higher capacity of NBR and also followed by latex, so the proportion of the mix which we are now having will certainly change as we see growth coming from these two categories vis-à-vis HS which should be more stagnant. So still the overall revenue contribution will remain the same like last year or would it change?

Abhiraj Choksey: We have to see what happens at the end of the year but yeah, certainly over time I can't comment quarter-on-quarter but over time with HSR not growing for example that would become a smaller and smaller percentage of our total revenue as rest of the business grows. With the rest of the latex is they are all growing, so it depends. In the past we have had some very good years for example for latex that we catered to for the construction industry and then there were 1 or 2 years where it's really been bad growth because the construction industry wasn't doing well. So it totally depends like I can't comment on the other but the rest of the industry whether it's carpet, construction, paper and paper board, NBR for automotive components and industry, everything is growing.

Kamlesh Kotak: So as we stand today for the year do you see the export growth will come back with the customers getting restored his plant, how you see the current years in terms of revenue growth and export growth?

Abhiraj Choksey: Overall besides this one said that that we have had where the customer's plant is shut and will continue to be for this quarter as well, the rest of the exports are growing quite well.

Kamlesh Kotak: Is the company as a whole can we look at somewhere upwards of 630 to 650 crores of revenue?

Abhiraj Choksey: We don't give any specific target but we have done 150 crores of sale in the first quarter. Our endeavor would be to continue to grow fast.

Kamlesh Kotak: What would be the margin profile, can it be better now, have we passed on some of the raw material cost per se in the first quarter now to second quarter so there will be some better margin profile?

Abhiraj Choksey: As I said the margin, our target is between 12% to 13%. There may be some quarters which are better than that, some maybe little worst but our target is 12% to 13%. And then of course from next year onwards once the 70 crores CAPEX goes through and it should be even better than that.

Kamlesh Kotak: Rs 70 crores capex we have, how much debottlenecking capacity is available for latex?

Abhiraj Choksey: We are working, frankly we don't know how some of the things will work out. But we think that the current capacity of 55,000 tonnes in latex we would be able to increase it by at least 20% to 25%.

Kamlesh Kotak: With this first phase of capex of 70 crores?

Abhiraj Choksey: Yes, correct.

Kamlesh Kotak: And the 16,000 will go to 21,000 in NBR, right?

Abhiraj Choksey: Correct.

Kamlesh Kotak: How much market share do we have in NBR in India now, are beginning further market share?

Abhiraj Choksey: Yeah as I said the issue right now is supply constraint, but we are approximately at around 20% market share.

Kamlesh Kotak: Calculated improving with more customers coming in?

Abhiraj Choksey: Yes it has improved. It was actually at 16%-17% when we took over, even lower than that when we took over two years ago. Now as I said the issue is—of course the market is also grown and the issue is—supply at our end. But we certainly can grow easily to 25%-30% because the rest of it is all imports and lot of our customers want a domestic supplier and want to buy more from a domestic supplier.

Kamlesh Kotak: So the capacity coming in would the thrust be on the domestic market or on the export market for NBR?

Abhiraj Choksey: Domestic market for sure. We have enough to do in the domestic market.

Kamlesh Kotak: And export also would be an opportunity down the line once we have Phase 2 of the CAPEX?

Abhiraj Choksey: Yeah that would be once Phase 2 comes.

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

Rohit Sinha: What was the growth in the dry latex and liquid latex if you can give us in volume or value term?

Abhiraj Choksey: We don't do that Rohit. We don't give separate numbers for volume...

Rohit Sinha: What kind of growth we have seen, majorly it was from the dry side or liquid side?

Abhiraj Choksey: Both, I mentioned that somebody asked me the same question. We have seen growth across the board.

Rohit Sinha: If you could quantify what kind of a contribution was there from the new product in this quarter, rubber gloves?

Abhiraj Choksey: It's very new, in terms of total revenue it will be very small percentage of our total revenue. We have just started selling, so it will be still a while because again the latex capacity wise we are also getting to full capacity so again for that when the big project comes in that's when we will see the major growth. For the next few months at least we will have only a few hundred tonnes every month or few thousand tonnes a year of that product.

Rohit Sinha: Could you just give the update on this power plant, how things are going on? In the last con call you had said that some approvals are still I mean got delayed.

Abhiraj Choksey: We got all the approvals now, yeah there were some delay in the approvals. We got all the approvals. We are on track to commissioning that plant sometime early next year in Q1 of 2019-20. Earlier our plan was trying to do it by March but because it got delayed by three months, so it will now be Q1 of 19-20.

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

Sharad Sharma: Couple of quarters ago we had some problem in our manufacturing, not been able to or partially shut down, right? Assuming if that was built or something and with ITC coming in the news again for an acquisition, do you see any stress on the uptake from either of these two clients?

Abhiraj Choksey: Both of these customers are our clients. I think as far as specifics, I don't know what's your question I didn't quite understand.

Sharad Sharma: Are you fully recovered from BILT, on the uptake of BILT?

Abhiraj Choksey: Its better, it's not it used to be. But everyone knows what the issue is in the public; it's all in the public domain. As a strategy of the company we have grown with other customers, the segments, other industries that we cater to.

Sharad Sharma: And that marquee client on the export market Q2 you are saying it should last....

Abhiraj Choksey: Marquee in the sense of course it's a significant client, not as big as some of the domestic plans that we have but it's certainly a setback.

Moderator: The next question is from the line of Punit Kumar from Reliable Investment. Please go ahead.

Punit Kumar: Debtors days of 65.2 days does not reflect the company's position being very strong, what are your views on it or what is the focus in coming quarters?

Abhiraj Choksey: Of course, any company would like to reduce the debtor days. But the reality of the situation is that lot of our MNC competitors offer about 60 days debtor days and therefore we are forced to do the same. Our endeavor is to keep improving on that and we have to some extent improved over the last couple of years. But it is difficult to do under 60 days right now.

Punit Kumar: Are you sure that the multinationals are offering 60 days plus?

Abhiraj Choksey: Absolutely sure.

Punit Kumar: So I will write to you separately and then probably we'll debate.

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

Suvarna Joshi: Basically, a follow up to what the earlier participant was asking regarding our working capital cycle. So, I think when we had acquired our working capital days had significantly shot up and our endeavor was to get it down to the levels of what Apcotex initially was reporting to around 35 to almost 40 odd days. So, what is the strategy over there that was one question and second question is would you just help us understand what is the contribution of key clients in percent terms in each of the segments that we operate that would be really helpful if you could share that?

Abhiraj Choksey: To answer your first question we have already done a lot of work after the acquisition and reduced overall for example I remember before the acquisition the company that we acquired had debtor days of 84-85 days which we brought it down to current levels of 60 odd days, this is I'm talking about debtor days and overall working capital also we have increased the credit which we received from suppliers. So net-net we feel that this is I would call it a steady-state working capital cycle for Apcotex. We are of course trying to improve it but it will be incremental, there is nothing major left to try and improve. Unless something substantially changes comparatively but we are looking at, we have to follow. To some extent we have to also be competitive in payment terms that some of our competitors offer our customers. So we feel we are quite competitive now. And what was your second question?

Suvarna Joshi: The second question was on contribution of some of the key client segment wise meaning how much would be the contribution of our top client in percentage terms in Construction, NBR, etc?

Abhiraj Choksey: It varies from industry to industry for example on the NBR side, there are lot of small-clients. We don't have any top clients in double digits in total in NBR business. But on the other side, if you look at Tyre chords, we only have 8 or 9 clients for the entire business. So it varies for

the industry. I would say that it is different. But if you see overall in terms of the broad spectrum of industries and customers that we have as of today, we are in a much better place than we were 3 years ago before the acquisition because we have grown in the current latex market, we have grown in exports. We have this NBR business which is new, so in terms of risk it's highly diverse right now.

Suvarna Joshi:

So when we mean our key customer in the paper industry witnessed some troubles at their end we had been impacted. Now in the export market one of our bigger clients again has seen some problems that is because of which they had to have a plant shutdown. I'm just trying to understand is there any way where we can probably diversify risk of client concentration.

Abhiraj Choksey:

That's what we have done. Three years ago when this happened and our key client in paper industry had 15%-20% of the entire company sales. Now I don't think we have even one client that is even in the high single digit sales. So we had diversified by adding new customers, new products and through acquisition also it helped. So we are doing it through growth in different areas. So now if you see even with this client in export that I mentioned has a fire in their plant, the overall growth for the company compared to Q1 of last year has been 24%. So while it is impacted the company not significantly at all.

Suvarna Joshi:

That's where I wanted to understand that from. And just one final question from my end, any thoughts on any new products being launched besides the one which we've just recently launched because I understand that couple of quarters back when we had discussed over a con-call you had mentioned some exciting products will likely to be in pipeline and could see some momentum there, so any thoughts on that.

Abhiraj Choksey:

So that's the product that we have now mentioned is XNBR Latex for gloves is what we have just launched over the few months ago. And that has enough growth potential, our current business is growing and also we are adding a lot of clients on the export side as well. So I think our hands are quite full for the next year or two. Of course, at the backend on the R&D side we are working on newer products which will be for future growth, but I think will not for the next year or two. Within each industry that we cater to for example paper or construction, we are always been adding new products but that's more incremental growth.

Moderator:

Thank you. Ladies and gentlemen that was the last question for today's conference. I now hand the conference over to the management for closing comments. Thank you and over to you sir.

Abhiraj Choksey:

Thank you all for participating. We appreciate your time. We will see you again in the in Q2 investor conference call. In the meanwhile, if you all need anything you can always feel free to e-mail Anand Kumashi or myself and we will be happy to answer.

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