Apcotex Industries Limited
Q2 FY25 Earnings Conference Call
October 25, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q2 & H1 FY25 Earnings Conference Call of Apcotex Industries Limited.

As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during this conference call, please signal for an operator by pressing "*" followed by "0" on your touchtone telephone. Please note that this conference call is being recorded.

I would now like to hand the conference over to Ms. Purvangi Jain, Valorem Advisors. Thank you and over to you, ma'am.

Purvangi Jain: Good evening everyone and a warm welcome to you all. My name is Purvangi Jain from Valorem Advisors.

We represent the Investor Relations of Apcotex Industries Limited. On behalf of the Company, I would like to thank you all for participating in the Company's Earnings Call for the 2nd Quarter and first half of the Financial Year 2025.

Before we begin, a quick cautionary statement. Some of the statements made in today's concall may be forward-looking in nature. Such forward-looking statements are subject to risk and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to the 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.

Now, I would like to introduce you to the management participating with us in today's Earnings Call and hand it over to them for their "Opening Remarks".

We have with us Mr. Abhiraj Choksey – Vice Chairman and Managing Director and Mr. Sachin Karwa – Chief Financial Officer.

Without any delay, I request Mr. Karwa to start with his "Opening Remarks". Thank you and over to you, sir.

Sachin Karwa: Thank you, Purvangi. Good evening everyone. It is a pleasure to welcome you all to the earning conference call for the 2nd Quarter and first half of the Financial Year 2025. I hope you had an opportunity to review the financial statements and earning presentations which have been circulated and uploaded on the website and the Stock Exchange.

Let me provide you with a brief overview of "Financial Performance" for the 2nd Quarter and First Half of the Financial Year ended 2025:

The operating revenue for the quarter under review was Rs.351 crore, which has grown by approximately 26% on a year-on-year basis. EBITDA for the quarter was Rs.28 crore, which declined by approximately 13% on year-on-year basis. The EBITDA margin stood at 7.83%, the net profit was Rs.11 crore which declined by 28% on year-on-year basis, with PAT margin reported at 3.13%.

In Q2 FY25 we witnessed highest ever quarterly volume and export volume, which grew by 12% and 31% year-on-year basis respectively. Subsequently, we also achieved the highest quarterly revenue driven by increased volume and product mix with export revenue surging by 48% on year-on-year. EBITDA declined due to margin pressures in nitrile latex on paper range of products due to market dynamics and also higher ocean freight rates.

For the first half of the Financial Year 2025 the operating revenue increased by 23.5% year-on-year to Rs.688 crore. EBITDA for the period was Rs.59 crore, which increased by 4% on year-on-year. EBITDA margin stood at 8.60%. Net profit for the first half was around Rs.26 crore, which declined by 6% on year-on-year.

For this period, we achieved the highest half yearly volume and export volumes, which grew by 13% and 22% year-on-year respectively. With this, I now open the floor for question-and-answer session. Thank you.

Moderator: Thank you very much, sir. We will now begin with the question-and-answer session. The first question is from the line of Aditya Khetan from SMIFS. Please go ahead.

Aditya Khetan: Sir my first question is on to the NBR. We all know that recently government. So, you all have represented to the government, on to the anti-dumping duty case. So, when are we expecting the outcome of this?

Abhiraj Choksey: Hi, Aditya good afternoon. Thanks for the question. So, the case has just been initiated. Of course, we have been working at it for the last few months providing all the data. So, the initiation is also an important part of the step, which means it's prima facie they feel that we do have some sort of case, and therefore they have accepted and decided to go ahead with the investigation. From what I am told, the investigation takes about nine months or so, give or take, one or two months. So, I would tell between eight and 12 months for the final findings.

Aditya Khetan: Okay. So, currently NBR imports are high into India, which is why the margins are lower. So, just want to know our contribution on EBITDA from the NBR segment. Are we able to achieve a positive EBITDA from this segment as of now?

Abhiraj Choksey: Yes, for sure. All across the board, we have no segment except the nitrile latex or gloves, where margins are fairly, EBITDA margins are reasonably positive. So, there's no question about that. And in fact, NBR compared to Q1 and even last year, the margins have already been sort of lowered and depressed, but our contention is that the margins are not healthy enough to sustainably grow this business. And so what we have applied to the DGTR saying is that look, we are okay competing. But if we are expecting Indian manufacturers to compete effectively that we need effective pricing mechanisms as well to have fair pricing in India, right now due to a couple of reasons. One is a China slow down a lot of NDR, from East Asia, especially Korea is being dumped into India, and also because of the sanctions to Russia, now we are finding Russian NBR being dumped into India. So, India has become an easy dumping ground where it's a large enough market and no local producer except for us. And therefore our contention is that we all want fair pricing in India as well. And therefore, we feel that we have a strong case. We will see how the next nine to 12 months go. It was just to remind everyone, we had earlier in 2020 DGTR had recommended a duty, but the finance ministry had not approved it or not notified it. So, we had gone into the courts, along with many others who were in the same boat. But now the strategy has changed, and the entire industry has decided to reapply. And now there is a good understanding with the finance ministry as well. So, the idea is to now stop legal proceedings and restart, the anti-dumping again and on merit I am sure DGTR and the finance ministry will look at our case on merit and all other cases on merit. So, but it will take about nine months from the time it initiated, which is last month.

Aditya Khetan: Got it sir. So, sir any change of plan like, so earlier we were looking to expand this NBR segment. So, any plans now, so we would be going ahead with the expansion which we had kept on hold?

Abhiraj Choksey: No, as of now the margins are still fairly suppressed. So, we would want to see the outcome of this DGTR case or this anti-dumping case, and the findings and the quantum of anti-dumping, and then take a final call on what to do with this NBR. We are also waiting to see what happens with the market currently with a geopolitical situation with China and Russia, as I mentioned, that's an additional challenge that we have had, so we also want to see how that plays out. So, yes, it is on hold right now.

Aditya Khetan: Got it, okay. Sir, onto the nitrile latex is it possible to quantify the volume or the utilization level during the quarter, and what is the outlook we are forcing, are we witnessing a surge in prices as compared to last quarter, because there could have been some inventory rationalization also. So, all these factors are playing out, or you are still witnessing that nitrile latex is still struggling with that lower margins?

Abhiraj Choksey: Look nitrile latex is still struggling with lower margins, but the reason for the last year and a half to two it's been higher inventory cause or higher gloves inventory caused by during COVID, and a lot of production happened, now that is definitely sort of cleaned out. But the issue was higher capacities that have been created in China, Malaysia, we for example have also entered in the last year and a half. So, a lot of capacity of latex and gloves has been created. So, that's being rationalized a little bit. The other small silver lining we will have to see how it plays out, as the US has recently imposed a 50% anti-dumping duty on gloves from China. So, pre-COVID, China was hardly 5%, 7% market share. Now they are up to 25% market share for gloves. And so they have created gloves and latex capacity to that extent very quickly. Now this anti-dumping duty from the US, which is the largest market, maybe 50% of their gloves consumed are in the US, medical gloves consumed. So, we will have to see how that plays out. And that duty comes into effect from January 25 and they are going to be increased to 100% from January 26th. So, the next 12 months should be interesting to see what happens and for us, maybe that's a, maybe I am not sure how it will play out as I said, but our customers all in South Asia and Southeast Asia. So, obviously they will be benefited we feel by this anti-dumping duty. So, overall, the supply demand without China may be better for the industry in Southeast Asia and therefore for us. But we will have to see how it plays out over the next few months as I said. The margins will remain low, capacity utilization currently is about 60% odd, approx. (+/- 60%). And we are telling that we are only doing business where we are getting reasonable margins at least somewhat positive and so that continues, and now the issue is excess capacity.

Aditya Khetan: Okay, but sir onto this anti-dumping duty, which you have mentioned, so you don't foresee this as a risk. So, China can dump their additional supplies into the X of the South Asian countries, wherein we are already like supplying to all the major players. So, can this impact us in some of the exports market, except for the US, definitely. So, US, I am not sure how much exposure we are having in terms of growth.

Abhiraj Choksey: But nitrile latex or NBR, because NBR is anti-dumping nitrile latex there is no anti-dumping duty, two different products. Nitrile, which goes for several rubber applications and nitrile latex is only for glove application.

Aditya Khetan: Sir this 50% anti-dumping duty US has imposed that is on gloves, right?

Abhiraj Choksey: On the final gloves, yes.

Aditya Khetan: Okay. So, that's what sir I was mentioning, so suppose we are exporting to other countries. So, when China export to other countries, like since US has put an anti-dumping duty, so wouldn't our export competitiveness will go down into the glove segment?

Abhiraj Choksey: Why would you say that, why?

Aditya Khetan: So, China will dump their excess supply into the other countries, ex of US wherein we are supplying.

Abhiraj Choksey: Exactly, as I said we have to see how that plays out latex from China. But, coming out latex export from China will be harder because one, their plants are a little bit inland, so they have to take it to the port, then the shipping freight rates from China to some of these countries, like Southeast Asia, and I am talking about latex exports not gloves exports. You are right, gloves exports to other countries will increase, and that may be an issue, but for us, we are more interested in what happens with the latex. So, latex is harder to export, especially from China, all the way to Southeast Asia and South Asia. So, our freight rates are much lower than that. So, therefore, I don't think our latex competitiveness will be affected, but we don't know, we will have to see how it plays out.

Aditya Khetan: Okay. And sir just one last question on to the nitrile latex, has this contributed to positive EBITDA in this quarter since we had gone to 60% utilization level?

Abhiraj Choksey: It's a little bit negative EBITDA, but positive on the overall gross contribution.

Moderator: Thank you. The next question is from the line of Jatin Chawla, RTL Investments. Please go ahead.

Jatin Chawla: My first question is on, in your presentation you have mentioned pricing pressures on the carpet and paper range of products. So, just wanted to get some more understanding on that is this, linked to earlier our competitor in India had increased capacity and there was some margin pressure. But it seems this quarter that margin pressure has increased further. Just a comment on that.

Abhiraj Choksey: Yes, so for paper that's true, that exactly the reason, and also the paper industry in the last three, four months is really not from what we hear from our customers, not been doing so well as well in terms of overall revenue and volume. They are facing some dumping from China and all that. So, there is pressure on the paper industry and the entire paper supply chain, including us. So, we are buying for market share. And, I would say that's the primary reason is, increase in capacity by us and our competitor. So, the carpet is a different region, carpet the large chunk was coming from exports, and that's really due to this middle East war that's going on. And a lot of ships that were flying through the Red Sea have to now go around the Cape of Good Hope. Basically, shipping rates compared to exactly 12, I would say 12 months ago, 12 or 14 months ago have increased multi fold. And Q2 was really the highest that we have ever seen and in some of these routes, like from India to Turkey, India to Egypt, even India to UAE. Even though that, you don't have to pass through the Red Sea for UAE. But overall ships going through the UAE have reduced, because they are all going around now. So, suppliers dried up in terms of ships going through that area. So, all the freight rates were at a all time high, only in the month of October. Now we have seen it correcting, but it is still much higher than what it was about a year, year and a half ago, like at least six or seven times higher even now, and it went up to eight, 10, times higher just last quarter. So, that's the reason for the carpet. And lot of our contracts our CIF contracts, so either we have to honor them, while the pricing on raw materials, we can pass through. The pricing on freight is something that takes some time to renegotiate and pass through. As I have said before, when prices are going up, whether it's raw materials or freight, we are generally able to pass it through with a time lag. So, in the last quarter, we have seen a double whammy of ocean freight rates across the board, as well as raw material prices climbing as well. Both these are the reasons, like carpet has been affected. Third reason is also, one of our important monomer is butadiene for the last few months compared to Europe has been much higher in Asia. So, that's benefited our European competitors, it was exactly the other way around about two years ago, but now it's reversed that trend. So, that's also helped them, the European competitors, a little bit but the rest of our cost structure is, so both from the freight and monomer point of view. That's why the carpet margins are down, but our strategy has been very clear that we are going to push through with volumes as far as possible, even at lower margins and as and when overall the external scenarios change we will benefit from that. We did during the COVID years, post COVID years, 21-22 we benefited from a lot of the tailwinds now we are facing a lot of the headwinds that are together, not helped by the geopolitical tensions and situations, of course now.

Jatin Chawla: Got it. Just a quick follow up on this. You said, the freight cost have to be born, as long as I am assuming that is as long as the previous contracts are in place. So, what is the length of the contract that you do and how much time does it take to kind of negotiate?

Abhiraj Choksey: As I said, we are monthly pricing in that sense, we don't have contracts like long term committed contracts, but we do have a certain understanding. And it's also a case of competitiveness so for example for just to give for Turkey and Egypt, the customers are importing from Europe, the freight is much lower now than from India. So, we will ask, or we are even now asking for higher rates, but we have to be competitive against your European competitors. So, it's likely to continue even in the Q3.

Jatin Chawla: Got it. So, you expect this margin pressure to continue on the carpet side also in 3Q?

Abhiraj Choksey: I think so, as I said the freight rates have come down by about 20%, I would say in the last month that will help certainly, but it's still much, much higher, as I said six, seven times higher compared to a year ago.

Jatin Chawla: Six, seven times?

Abhiraj Choksey: Yes, in these routes. Routes that used to be $500 now in Q2 were at $3,500, $4,000 per container just to give you an example, now they have come down to $2000, $2,500.

Jatin Chawla: So, as a percentage of sales, in terms of percentage margin impact, what does that broadly come to?

Abhiraj Choksey: Overall, its almost 1% impact because of ocean freight this quarter for us. Right, Sachin that's what we analyzed?

Sachin Karwa: Yes.

Abhiraj Choksey: Of 0.75% to 1%.

Sachin Karwa: Yes.

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

Rohit: So, just wanted to understand, sir from a top line point of view with the expanded capacity, what is the total peak revenue possibility that you have now, I understand the prices are a bit low, but whatever they are at this point of time, can you share what is the peak utilization in terms of revenue that we can give?

Abhiraj Choksey: Currently, we are at a run rate as you can see from our financials, we finished the H1 at almost 700 crores. So, we are at a rate of about 1400 crores. And we think this, at the current prices and so on we could, Sachin we could add another 300, 400 crores, 1700, 1800 crores?

Sachin Karwa: Yes. So, total, we should be around 1800 to 1900.

Abhiraj Choksey: Depending on the price range 17 to 18, I would say maybe 19.

Rohit: Got it. And this is at these levels, this is not factoring any improvement in realization that may happen at some point?

Abhiraj Choksey: At this current pricing level average pricing level for the first half.

Rohit: Got it. Also, this also does not include what you were also thinking of doing another debottlenecking of NBR in Taloja if I am not wrong. I am saying this was also, this also does not include another CAPEX that you would.

Abhiraj Choksey: No, this is just all the CAPEX that has been already done. Some minor things may be required some debottlenecking a tank here or there, but nothing major.

Rohit: Right. And sir are you quantifying the loss that you are seeing in nitrile latex at this point of time?

Abhiraj Choksey: So, we are not seeing a loss as such, it's not a loss but EBITDA margins are zero to a little bit negative, I guess right now currently between zero to (-1%).

Rohit: Okay. So, you are broadly breaking even at about 60% utilization there?

Abhiraj Choksey: Yes.

Rohit: Alright. And sir historically you were articulating this few quarterback that, typically in the last seven, eight years or probably even before that, structurally you have taken the business from low like high single digit to close to 14%, 15% margin obviously, right now we are going through a bad cycle. But anything that has changed in the last two, three years in terms of or maybe last 12, 15 months in terms of competition or in terms of renewable supply, et cetera where you think that what you had talked about 14%, 15% kind of margin is what you think your business can do, has that changed or you still hold on to those numbers?

Abhiraj Choksey: So, look I don't think, and I have always said this before as well, like what in our business quarter-on-quarter it's very hard to predict very consistent margins. This is the nature of our business, having said that obviously these kinds of margins of 8%, 9% or anything in the single digit is something that we would never hope for or we wouldn't think would happen. But unfortunately, because of three or four headwinds coming together, or three or four issues rather, and all put together as multiple headwinds, like as I mentioned ocean freight, nitrile latex for gloves that business continues to be difficult. Extra capacity in the Indian market for SB latex, these are three main reasons, I would say why margins are a little depressed. But in the long run we are quite still the competitive intensity of the industry is not significantly changed, as far as except for nitrile latex. Nitrile latex will come to, but the rest of it is the same, in NBR we are the only manufacturer here in India. We are facing dumping for the last year, year and a half mainly due to geo political reason from China and Russia. And the other two, three things I don't want to repeat again. So, once those things turn and the external environment is more in our favor, then things could look better, but in the short term it's certainly, the most challenging environment that we have faced now in four years. The last time was COVID, which was a little bit difficult when COVID initially hit in the Q4 of 19-20.

Moderator: Thank you. The next question is from the line of Jasdeep Walia from Clockvine Capital. Please go ahead.

Jasdeep Walia: Sir how is the exports done in first half, if we exclude nitrile latex, so primarily in the SB latex, how have exports progress in first half?

Abhiraj Choksey: Look overall, this continues to grow obviously, nitrile latex has been one of the reasons, the drivers for growth. But I would say in terms of percentage, when you say how exports have progressed, as I said margins have been affected, but volumes we continue to push through. I don't have the exact data in terms of without nitrile latex what it would have been, but I am assuming that instead, Sachin do you have that data maybe, what is our percentage of sales for H1, 32% or 34%, 32% right?

Sachin Karwa: Yes, 32%.

Abhiraj Choksey: Okay. And how much would it have been without that, is that the question Jasdeep?

Jasdeep Walia: Yes. Sir my question is, how have SB latex exports grown in the first half of this year?

Abhiraj Choksey: We have the data separately.

Sachin Karwa: I just pulled it off, so we have grown by almost 16% to 17%.

Jasdeep Walia: This is by volumes?

Sachin Karwa: By value.

Jasdeep Walia: Okay. And what would be approximate volume growth?

Sachin Karwa: I need to find out.

Abhiraj Choksey: Maybe half that, because we are seeing volume growth and value was half so 7%, 8% probably, I am just guessing, but we will come back to you Jasdeep.

Jasdeep Walia: Got it. And how are SP latex margin right now, let's say versus what the normalized margin which you used to see pre-COVID?

Abhiraj Choksey: For textile specialty and construction, similar compared to last year, oh pre-COVID you are asking. So, I don’t have the number of pre-COVID Jasdeep, but I can talk about the last year compared to this year. I know for a fact that construction, specialty, textiles, those are still good, because they are more, for different reasons but paper certainly has been more challenging this quarter especially.

Jasdeep Walia: I am asking on the overall portfolio level, not separately by segment, just on the overall portfolio level. How are SB latex margins this year versus last year?

Abhiraj Choksey: Lower by about on average, because of carpet and paper, that probably about 15%, 20% contribution margin.

Jasdeep Walia: Okay. So, they are lower by how much this year?

Abhiraj Choksey: Do you have that number Sachin, I am just venturing a guess 15%, 20% lower than last year, H1 of this year compared to H1 of last year for SG latex margins, we will come back to you. My guess is about 15%, 20% lower.

Jasdeep Walia: Got it. And sir have you decided about CAPEX that you are going to put in, let's say next year or in the second half of this year?

Abhiraj Choksey: There is no CAPEX, no major growth CAPEX plan for this year. There is going to be capital expenditure, but we are focusing more on the future so we are building a new R&D building for example, it won't be that much, but obviously that's one CAPEX that we are looking forward to, and then it is going to be more maintenance CAPEX and debottlenecking CAPEX, some small projects here and there. As far as major CAPEX right now we have enough SB latex capacity for a year and a half. So, we are looking at different options of building SB latex capacity, either in Taloja or in Valia or in a third location. So, all those sea are open, we will take a call in the next three to four months by the end of this year regarding that to start that project by early next year. So, SB latex is one part that we definitely looking to expand. As far as far as nitrile latex for gloves is concerned, we are not going to expand currently given the current market scenario, and NBR also is on hold. So, we are looking at other inorganic options as well and looking at newer product lines that we could add the value.

Moderator: Thank you. The next question is from the line of Manav Vijay from MV Investments. Please go ahead.

Manav Vijay: So, first question is regarding the quarter-on-quarter. So, our sales has grown by approximately 5%, if you can just help us to understand that some of your customers in Southeast Asia, for them the pricing on the metal glove side, it has become at least constant prices are no longer falling. So, how is that translating to you in terms of your latex prices, have they moved up on quarter-on-quarter or are they still constant?

Abhiraj Choksey: Well, they have moved up because raw material prices slightly moved up. But by and large, margins have not improved. So, more than the pricing, margin is the issue and the reason why margins have not improved as I mentioned earlier, there is a lot of overcapacity. Some new capacity has come this year into Malaysia, like us people that have started building as they are finishing their plants. So, that's come up now between last year and this year, there's one plant in Malaysia that's recently come up. So, as a result of which, there is pressure on the latex margins but the glove industry is definitely doing much better than they were last year in Southeast Asia. They were making losses last year let me put it that way, they were making losses till last year at least they are now in the green. So, if you read some of the big glove companies who are, if you read some of their financial results they are quite upbeat and positive now.

Manav Vijay: Yes. So, except, I would say one player, almost everybody has turned into black.

Abhiraj Choksey: Yes, exactly. And especially with this recent announcement of US anti-dumping duty against China, that will play out over the next few months, from the glove industry at least. I don't know about the latex industry.

Manav Vijay: Okay. Sir my second question is regarding so in your PPT you talked about three pain point nitrile latex, paper and carpet. Nitrile latex and carpet you talked about so you explained well, sir regarding the paper industry. So, some of the paper companies who have declared their results so far numbers are not good so actually, so there is pressure both on the raw material, the demand, as well as the pricing of the finished product. So, do you believe that this pressure can continue even in H2 which in turn, will continue to put pressure even on our fresh product prices?

Manav Vijay: Yes, there is pressure in the entire supply chain, in the paper industry currently. When the market is bullish and there is good growth then the supply chain benefits as well. Currently, its the other way round as you rightly have said, a lot of the paper companies have not done too well in the last quarter or so, and that's put pressure on us. And that looks like it's at least, I can't speak for H2, but at least in the next, in Q3 that we expect the challenge to continue. Nothing is going to happen overnight, they are also in some cases facing dumping issues, and I am sure the industry as a whole is working towards correcting that.

Manav Vijay: Okay. Sir my last question is regarding, so on Y-o-Y basis, our sales have moved up around 25%, 26% whereas our other expenses are down by approximately 5%. Now, within our other expenses roughly 50% are basically variable cost, your power and your freight. These two are a major line items, and you have also mentioned that majority of the Y-o-Y growth is actually volume growth. So, I just could not, so simply help in understand that if majority of the Y-o-Y growth is actually volume led growth, then how your other expenses can come down by 5%?

Abhiraj Choksey: First of all, it's not entire majority volume led growth, I would say it's partly volume led growth, probably 50%, or 60% is volume led, the rest is due to pricing. Product mix plus the cost of material that has gone up which we have then passed along to as much as we could, obviously we have not pass it along enough now. When you say other expenses, I don't have an answer, Sachin would you know the answer to this question?

Sachin Karwa: So, if you remember Abhiraj JI we have done cost saving expenses, basically what you have done is, we have also changed the power mix. So, the power mix cost has come down in our case. So, that is helping us to also reduce the cost. Major of the cost which is power and fuel has come down compared to what it was in the last H1, so that has supported us.

Abhiraj Choksey: So, your question. The main issue, if I have understood what you are asking, is that while our revenue has gone up, our raw material costs have gone up by higher than our revenue, right. And we have not been able to pass along the entire cost increase, and therefore our margins are down. Main issue is raw material costing versus pricing.

Manav Vijay: Okay. So, my question was very simple that, actually on a Y-o-Y basis, your sales have moved up around 26% and majority of that is led by the volumes.

Abhiraj Choksey: Not majority, 50%.

Manav Vijay: 50%, whereas actually our other expenses they have actually come down by 5% where I would say 50% to 60% or the total cost comes over from only two line items which is power and freight. And these two line items are completely variable. So, if your volumes moves up, these two cost also moves up.

Sachin Karwa: Abhiraj can I take this question?

Abhiraj Choksey: Yes, please.

Sachin Karwa: Manav, we understand that what you are trying to make a point to, but however the major thing is when we change the power mix, we used to co-generate the power in the plant earlier, which we have now only, which we only use for boiler purposes. We have moved on to grid because the power cost is much more lower than generating the power. So, that has supported us in reducing the power cost.

Abhiraj Choksey: And Sachin is talking about Gujarat plant. So, at least in Gujarat, that has been the case of reducing the power cost. Yes, that's one. But sorry, just one thing is, I don't agree with the analysis Manav, because other expenses besides power and freight, there are other expenses as well. That we have sort of control those and given the difficulty in margins, just to give you an example, there could be repairs and maintenance, printing and some of those kinds of costs, which we have definitely held back on given the more challenging environment. So, there are other ways to reduce costs as well.

Manav Vijay: Sounds good. My last question, last quarter or maybe last to that you talked about putting up a solar capacity, is there any let say further steps that we have taken in that regard?

Abhiraj Choksey: Yes, I am glad you asked. So, yes, we will be, we just had a board meeting yesterday, and we have got approval in principle from the board to go ahead and explore and we have sort of narrowed down. In the next three to six months we will be investing in I would not say the next three to six, I would say next one to two years eventually, the investment would happen over the next one to two years. We will start the project in the next three to six months, over the next one to two years, to invest in solar and wind with the objective obviously, one is savings, but the other is also we expect that our power consumption would be anywhere between 60% to 70% renewable, and our target is there within the next two to three years around 60% power consumption to be through renewable sources, which today standards in a single digits, maybe 5%, 6% total.

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

Shivani More: Sir, do we see an improvement in EBITDA margin from here onwards, and what efforts or measures has been taken care by us to improve it. And my second question is, we invested around 150, 160 crores in Valia plant for glove project. So, how it is progressing and what is the capacity utilization for the same?

Abhiraj Choksey: Shivani, I answered some of the questions earlier. So, the nitrile latex, in terms of volume and revenue, its progressing reasonably well we had about 60% capacity utilization, but in terms of margin it's still been very challenging environment. As far as EBITDA margin is concerned, as Sachin just mentioned, we have implemented some projects only in the last two, three months to try and improve some cost saving projects to improve every EBITDA margins. The other thing is external factors, like sea ocean freight and also are coming down right now, so that will help. And third is, of course focus more on specialty products and really pushing those sales. And the fourth is, anti-dumping duty on NBR. So, on several fronts, whether it's cost savings or anti-dumping duties, focusing more on specialty products to improve overall product and margin profile, customers with better margin. So, all that is, of course, part of it as well but as of now, the external environment is such that overall capacity utilization for SBR and XNB as an industry, there is enough capacity. So, capacity utilization is a little lower than what we would expect, but growth that changes. So, every industry and every business goes through a cycle and we feel like this is a difficult, it's more difficult cycle for our industry and our business specifically. And it will turn, at some point we are quite hopeful that in the next couple of quarters things should turn.

Shivani More: And sir one last question, what is the percentage to total sales contributed by nitrile latex?

Abhiraj Choksey: It's less than 15% currently.

Moderator: Thank you. The next question is from the line of Aditya Khetan from SMIFS. Please go ahead.

Aditya Khetan: Sir on to the raw material prices. You had mentioned that butadiene prices were a bit higher in Asia market as compared to the European players. So, has that correction been happened right now, first point. And second sir, I believe. So, butadiene is only around 15% to 20% of the total RN cost, whereas your 80% comes from the acrylonitrile and styrene. So, how was the price trend so during the quarter, and we know that because of the crude prices having a good volatility today. So, how well are we managing the prices and what is your outlook on the per tonne margins can be maintained at this level, or we see some improvement in second half from here on?

Abhiraj Choksey: So, first of all to answer your question, butadiene is actually a much higher percentage than the 15%, 20% that you mentioned. For us as a Company, I don't have the exact number. I don't know, Sachin if you have it ready, but my guess would be that out of the total raw material cost, butadiene would be a number one spend at about maybe 30% to 40% of our total cost, 40% even. As far as Europe and Asia is concerned, it continues to be, Asia prices continue to be maybe 25% higher, 25% to 30% higher than Europe. Things are expected to turn but last six months we have seen this is the situation, but from all analyst reports. And obviously we are not butadiene manufacturers so, but we keep track of what's going on, and it's typically these kind of arbitrage things correct over a period of a few months so, it should correct in this second half.

Aditya Khetan: Okay. And sir what is the outlook on acrylonitrile and styrene, how was the prices during the quarter versus last quarter?

Abhiraj Choksey: They have all gone up a little bit compared to Q1 and certainly this first half has been a lot higher than the first half of last year. Quarter-on-quarter also, there's been a slight increase, on average. I don't know each raw material specifically, but there's been a slight increase overall.

Aditya Khetan: Okay. And we have not passed on all the cost to the end user industry considering the weakness in demands from paper and carpet, which we can subsequently pass on in second?

Abhiraj Choksey: We have not been able to.

Moderator: Thank you. The next question is from the line of Aditya from Securities Investment Management. Please go ahead.

Aditya: Sir in the presentation you have mentioned that revenue growth was partly because of volumes and partly because of product mix. So, if you just elaborate what kind of products have higher realization for us, which has contributed to higher revenue growth?

Abhiraj Choksey: It is partly due to overall pricing going up also. I mean costing, the cost goes up, then price also goes up right Q2 against Q2 of last year. Sorry, so what's your question?

Aditya: So, my question was, you mentioned that product mix has also improved, has also helped us improve our revenue. So, what kind of products have higher realization which has helped us to post the higher revenue growth?

Abhiraj Choksey: So, NBR for example, NBR we have grown reasonably well in this quarter compared to Q2 of last year or first half compared to last year. So, NBR being a solid rubber product the pricing is higher. I am just talking about revenue and not margins. Then tire cords for example, latex for tire cords, we make a latex called vinyl pyridine latex for the tire cord industry. There the pricing compared to SB latex is typically 30% to 40% higher there we have seen very good growth, and we have also invested in a new reactor for that product. So, that's another example, and in the construction industry we have some specialty products for the oil application and some other application where we have seen good growth, where again the pricing is at least 15%, 20% higher compared to paper and carpet and nitrile latex and so on. So, that the growth in those industries will help to some extent in improving the revenue as well. I hope that answers your question.

Aditya: Understood, sir. Now, if I look at your exports, so majorly we are catering to the carpet industry. So, do our exports majorly cater to distributors, or we are giving it to carpet manufacturers?

Abhiraj Choksey: So, just to correct you, carpet is not a, obviously carpet is an important export product, but nitrile latex, carpet and construction and tire cords all four, we have significant exports in all four so 32% of our sales overall as a Company's export. So, it's not just one segment that does this. And to answer your question, it's a combination of the two, direct as well as with a distributor. See, today we don't have any sales, people outside for carpet. So, we do work through distributors, and they work on two levels. One they act like our sales agents, where we just pay them a commission and they take care of the sales relationship of course, our guys from India also, our sales and marketing team, we have a strong sales and marketing team based out of India, and they go visit once every few months. There is a relationship manager in charge of each customer, but day-to-day like if you are in Egypt or Turkey some of our distributors have local offices, so that only helps with day-to-day relationships and day-to-day logistics that they help us with, and we give them a commission for that. In some cases where we don't want to take any payment risks and smaller customers, then we supply to the distributor and the distributor stocks it and then sells it in turn. So, I hope that answer your question is partly but in carpet, I would say larger majority would be direct and giving commission to the distributor.

Aditya: So, my question was majorly related to synthetic latex exports, and now for this segment, synthetic latex exports, now who would be the major players we would be competing against so, are these majorly European based players, or these are Chinese or Southeast Asian base players?

Abhiraj Choksey: Mostly European.

Aditya: Okay. So, because the export growth, which we have whiteness.

Abhiraj Choksey: The latex for the carpet industry is European, nitrile latex for, so it's different so for carpet and construction its all-European competitors for nitrile latex, it's Southeast Asian and East Asian competitor.

Aditya: Understood sir. And sir just last one question. Now this, you have mentioned that higher freight cost has impacted our margins. Was part of the reason that has impacted margins, but then I look at your other expenses, those have come down on a year-to-year basis. So, how have the higher freight.

Abhiraj Choksey: The freight has definitely gone up. The other expenses, as Sachin mentioned to one of the previous callers, is on account of other fixed costs that we have held back or reduced. And a lot of the power cost is Valia that has really helped us as well. But we can next time, we will be more prepared in terms of line item wise we will tell you exactly how much percentage reduction in power, percentage increase in freight and so on especially since those two are the highest.

Moderator: Thank you. The next question is from the line of Hemesh Shah, who is an Individual Investor. Please go ahead.

Hemesh Shah: So, since we are facing three or four headwinds that we faced in Q2 do you really think that over the last decade or so, this is one of the most challenging situations or times that you are facing for the Company?

Abhiraj Choksey: Yes, look COVID, nothing was more challenging than those four, five months of the first few months of the COVID period. But even pre-COVID, pre-19-20, FY19-20 was a challenging time. There the major issue was NBR dumping, we have tried anti-dumping which didn't work out. And then of course two years we had two reasonably good years in the middle, two to three good years. But I would say, this is definitely one challenging time. And look, every period is different, and the reasons are different, this time it's partly geopolitical, partly post COVID nitrile latex which is a business we invested in and that is, pre-COVID, during COVID, there were always very healthy margins. We still believe in the long run, it's a good business to be in, because it's growing at 10%, 12% a year, 10% to 15% a year. It's just that a lot of over capacity has been created thanks to COVID. It would not have happened that it's not been for COVID people got very excited because of COVID in our case, it was a natural progression. We were anyway going to invest we had invested in this project, started investing in 2018-19, developing this product. And so, since then a different set of challenges this time, but sure it is one of the challenging periods. Having said that, look I have been with the Company for almost 20 years now, we have gone through several challenging periods, some caused by external circumstances, some caused by internal circumstances. In this case, it's certainly mostly external circumstances that are causing this. Having said that, even with this, our Company is very well positioned. We feel very happy with where we are, because we feel the competitive intensity of this industry is still not changed significantly, except in nitrile latex recently. And we still feel, in the long run it's a good business to be in, we don't need margins of 20%, 30% EBITDA margins to have good ROCE and even 13% to 15% ROCE, and that's our main goal to have margin of 13% to 15% so ROCE is around 25% and if we can do that, we are in good shape and we continue to grow and we can have sustainable growth that was ROCEs and EBITDA margins.

Hemesh Shah: So, definitely, the current scenario in the industry, this is for the entire industry, this is unsustainable, because if all players in industry are not making good margins, then this has to change because then there is not going to be any CAPEX, demand, supply will balance out at some point of time correct?

Abhiraj Choksey: Yes, exactly. The question is, when?

Hemesh Shah: Got it.

Abhiraj Choksey: The next question is when and I would say it's tough to say, so as I said, and we have also created a business which is quite well diversified. Now, if you see, from a geography standpoint India is certainly one of our strategic markets, and it will continue to be, and that's where our real strength is. But we are still diversified 30% to 35% of our sales in two other markets. From an industry standpoint, compared to 10 years ago, we are in eight different industries, earlier we were only three or four. So, we have really grown in geography, in diversity, at the same time we have kept our balance sheet clean. Today we have, as on 30th September, we have probably around 210 crores or so. Sachin, correct me, if I am wrong, but about 200 to 220 crores of debt, all including long term and short term debt. Against that, we have about 120 crores of liquid investment. So, we are conservative Company, we have grown with our internal accruals, with a little bit of debt. And, knowing full that this business goes through cycles like these, they go through cycles of low EBITDA margins. There can be some quarters that are very low, some quarters that are very high. And so we have to ensure that quarters or periods like this, a financial ability to withstand this is there. And not only withstand, but also invest, in fact putting money in solar, we will be putting money in R&D, we will be putting money in perhaps some growth projects as well over the next six to 12 months. So, we feel pretty confident, given our current debt, equity ratio, EBITDA serviceability ratios. And so we feel pretty good overall.

Hemesh Shah: And how much would the volume growth be the nitrile latex business compared to last year?

Abhiraj Choksey: Compared to last year, H1 to H1, Sachin would have been, what about 100%, nitrile latex growth?

Hemesh Shah: No, excluding nitrile latex, other businesses have they grown in volumes in Q2?

Abhiraj Choksey: Excluding nitrile latex, yes sure. there is grown in nitrile latex excluding, yes of course because nitrile latex existed, it's a small base. So, overall, we have grown at about 12%, 13% volume as a Company for H1. I don't have the exact number, but I am going to say about 7%, 8% is for other products, Sachin do you have that?

Hemesh Shah: Okay. So, we are protecting our market share and we have not given away any market share.

Abhiraj Choksey: Exactly right, we will protect it and grow it in some cases. Sachin anything to add with the last caller?

Sachin Karwa: No, you are right, perfect.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Sachin Karwa: Thank you investors for joining our earning call. We wish you and your family a Happy and the same Diwali. Thank you so much.

Abhiraj Choksey: Thank you. Happy Diwali to everyone.

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