Apcotex Industries Limited
Apcotex Industries Limited Q3 FY'25 Earnings Conference Call
January 29, 2025

Moderator: Ladies and gentlemen, good day and welcome to the Apcotex Industries Limited Q3 FY'25 Earnings Conference Call hosted by Valorem Advisors.

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 the "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Nupur Jainkunia. Thank you and over to you Ms. Jainkunia.

Nupur Jainkunia: Thank you. Good afternoon, everyone, and a warm welcome to you all. My name is Nupur Jainkunia 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 3rd Quarter and 9 months 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 of the company.

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

Sachin Karwa: Thank you, Nupur. Good afternoon, everyone. It is a pleasure to welcome you all to the Earnings Conference Call for the 3rd Quarter and 9 months of Financial Year 2025. I hope you had an opportunity to review the Financial Statements and Earnings 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 3rd Quarter ended 31st December 2024. The operating income for the Quarter was Rs. 355 crores, our highest ever quarterly revenue. The growth has been 38.2% on a year-on-year basis. EBITDA for the quarter was Rs. 27 crores which grew by approximately 6.7% on a year-on-year basis. The EBITDA margin stood at 7.63%. The profit after tax stood at Rs. 12 crores which grew by 4.5% on a year-on-year basis and 5.5% on a quarter-on-quarter basis. In Q3 FY25, we witnessed the highest ever quarterly volume and export volume with a growth of 23% and 30% respectively on year-on-year basis. Achieved highest quarterly revenue driven by increased volume, product mix and price realization. Operating EBITDA is higher by 6% due to volume increase. EBITDA percentage margin could have been higher by about 1 to 1.5% but we were hit with a steep raw material price fall in the middle of the quarter. We expect this to rebound in Q4. Capacity utilization of Nitrile Latex plant at Valia has reached 75% in December 2024 and for new SBR capacity in Taloja it is at 62-65% for the quarter.

Now coming to the "Financial Performance" for the 9 months ended 31st December 2024:

The revenue from operation increased by 28.1% year-on-year to Rs. 1043 crores. EBITDA was at Rs. 86 crores which increased by 4.2% on a year-on-year basis. EBITDA margin stood at 8.26%. For this period, we witnessed volume growth of 16% and export volume growth of 30% on a year-on-year basis. The revenue increase of 28.1% driven by increased volume, product mix and price realization.

With this, I open the floor for question-and-answer session. Thank you.

Moderator: Thank you. The first question comes from the line of Aditya Ramesh Iyer with Value Educator. Please go ahead.

Aditya Ramesh Iyer: Good afternoon, sir. Congratulations for your good numbers. I would like to know your perspective on some of my questions. So, my first question is, what is the criteria for getting approved as a latex vendor? Then, the margins in nitrile latex, once the situation normalizes, so what could be the normalized nitrile latex margins and the third is, we mentioned in our previous calls that we are seeing traction in other latex products. So, from which part we are seeing the traction and exactly what is the kind of opportunity we have over there? My fourth question is, what edge do we have over the global latex players as our capacity is quite small compared to them? My fifth question is, we have recently appointed Mr. Rajendra Mariwala. So, what kind of value and skill set does he bring onto the table and I just wanted to know about the utilisation of our plants currently. So, these are my questions.

Abhiraj Choksey: Okay, thanks Aditya. Lots of questions you've thrown in. I will try and do my best. I am not sure if I have got all of them, but I will try and do my best to answer. So, your first question was criteria for latex manufacturers. There are several criteria. Obviously, product quality is one of them and not only product quality, but consistent product quality. The second is being able to logistically deliver to the customers at large volumes. Because as a large volume kind of product for latex, it is 50% water on average, 45-55%. So, that's another big criteria. Understanding the technical nuances of the product or the application is the third criteria. So, I would say there are 4 or 5 different criteria. The sales cycle time is generally quite long. It takes anywhere between 2 to 3 years at least to break into a customer and that too, if they really need a second supplier or third supplier. As far as XNB margins are concerned, pre-COVID levels EBITDA margins would have been upwards of 15-20%. During COVID, of course, they were very high. We were making small quantities. They went maybe higher than 30-35% EBITDA margins and currently EBITDA margins are very, very low. Just about close to break-even or a little over. So, that's the reality of the XNB business. Although I must say it is now turning. I don't know if it is going to turn quickly, but it is turning because the US has imposed 50% duty on gloves from China. As a result of which, our customers, which are mainly in Southeast Asia, South Asia, and now India is also growing, are benefiting from that and therefore, demand for our latex in this region is definitely seeing a good rebound. And margins are also improving slowly. And this, I would say, is from really December-Jan onwards because these duties came into effect only from 1st-Jan-25. The third thing about global competitiveness. Of course, there are larger companies than us, but this business worldwide is quite regional, I would say, especially the latex side. So, from that point of view, we are one of the largest players in this region now. So, we are quite competitive from a raw material standpoint, power, manpower. From all angles, we are fairly competitive, I would say. And even if you compare our margins to some of our global competitors in this business, we are actually better than them. Even with these depressed margins in the last few quarters. I think utilization Sachin already mentioned earlier, so I won't repeat it. And the last thing about Mr. Rajendra Mariwala, he runs a large chemical company. He has been in business for many years and obviously brings absolutely incredible value to us. He is also on the board of a couple of very good companies with good corporate governance. So, from a governance angle as well, he brings a lot of value to us. So, he joins our board from the next board meeting.

Moderator: Thank you. Next question comes from the line of Rudraksh Raheja with ithought Financial Consulting. Please go ahead.

Rudraksh Raheja: So, my first question is, I wanted to confirm about the peak revenue guidance that you gave around 1800 to 1900 crores as the existing capacity. Are we still sticking with that number? And if yes, what would be the segment contribution when we reach that level? My second question pertains to the nitrile latex segment. So, the current prices of nitrile latex, from what I could get, are only 8% lower than the pre-COVID levels, considering that this product used to make 15-20% margin in pre-COVID times and currently, we are only at EBITDA neutral level.

So, could you help us understand the economics of that? The third question is about nitrile latex only. Since many global players have mothballed their additional capacities, how do you see that affecting the market revival in this segment? So, global players in this nitrile latex, some of them have kept their additional capacities at a reserved state, the mothballed state, how do you see that affecting the market revival? Any timeline that you foresee when we could attain the 15% margin in this state? Yeah. That would be all.

Abhiraj Choksey: Okay. We had said that at current capacities that we have, of course, it depends on the selling price per kg of our materials as well, and the product mix, and so on. But if you see the run rate that we have for this year, itself is about 1400 to 1450 crores. It was 1050 crores for the first 3 quarters. So, just by extrapolating that, we will be at somewhere between 1400-1450 crores is what we expect and we still have a reasonable amount of capacity for both nitrile, on an annual basis. So, we still have nitrile latex, as well as for styrene butadiene and styrene acrylic latex in our Taloja plant. So, if you add the capacities at full capacity, of course. I mean, I don't know exactly now, but we will be around those levels, 1700 or so 1700 crores. That is correct. Your second question was on capacity utilization. You are right. Look, there have been some capacities that have been mothballed, some expansion plans that have been put on hold. But at the same time, there have been some capacities like ours that have come in the last couple of years. There is one large capacity also which was commissioned this year in Malaysia. So, those were already plants that were already in the works and the last bit of the commissioning was left. So, now we do not see any more new plants commissioning and given what is going to happen with China, we do not know how that will play out. Of course, we will have to see over the next 6months. But we think the capacity utilization overall in Southeast Asia should improve. It is still below that 80% to 85% level, which will get us to a healthy EBITDA margin state, we believe. So, I think how long it takes is anybody's guess. All I can say is it is improving slowly for us, for sure. I mean, I would say starting the last couple of months, we can see that improvement.

Moderator: **T**hank you. Richa with Equitymaster. Please go ahead.

Richa: My question is related to the impact of U.S. tariffs on nitrile latex. So, could you help me understand the effect of it? I think what I got from your commentary is that it is benefiting us, but, from what my understanding is, it should actually negatively impact us because China would end up dumping it in other Southeast Asian countries. So, if you would elaborate on that part, how we are benefiting from that.

Sachin Karwa: So, the U.S. tariffs is not on nitrile latex. It is on nitrile gloves. So, if the production of gloves in China, you are right, gloves can come out to other areas, but obviously gloves does not affect us. Latex, on the other hand, is harder to export from China into other countries just because of the larger distances involved, and the freight from China coming out of China is always more expensive than anywhere else. So, and it is obviously 55% water, you know, this nitrile latex. So, while gloves are easier to export, latex is not as easy to export and as I said, we don't know how it will play out. You never know. It is China, they find novel ways to do things. But as of now, from what we are hearing from our customers, they are at least seeing the short-term benefit, and we will see. It has just been the first month, so it is a little bit early to say because some of these duties led to some stocking up in October, November by U.S. customers that bought more materials from China, but then that will last only maybe 1 or 2 more months. So, we will have to see how the next 6 months play out.

Richa: Okay and, sir, any commentary on the freight rates that were impacting our margins last quarter? Have we seen any kind of softness and improvement and what is the outlook for this?

Abhiraj Choksey: Yeah, look, they have been slowly coming down and now, given that the war in Israel seems to be, Israel-Palestine seems to be thawing, the whole Red Sea issue also maybe, so we expect it to further fall in the next 1 or 2 months. Of course, it is a little sort of too recent, and we will have to see how the truth plays out. But certainly, freight rates have come down, and it will help the margins going forward, especially to countries like in the Egypt, Saudi, Turkey, basically everywhere that we are, we need to pass through the Suez Canal.

Richa: Okay and, sir, I missed on the capacity utilization and current margin on nitrile latex. If you could repeat that, please.

Abhiraj Choksey: We are at a run rate capacity utilization of over 75% now in the last couple of December-Jan, and 75 to 80%, in fact and margins are still a challenge, partly because we are also growing in this space, and we are getting more and more approvals from customers. So, I would say margins are improving, but not substantially. We expect, I think we expect better margins in this Q4.

Richa: Okay and, sir, you had also mentioned that you would be looking at new products or specialized products where the consumption could be diverted. So, any progress on that front?

Abhiraj Choksey: No, we don't. I mean, look, for the current capacities, we are focusing on the current products that we have. We are looking at some new products and new chemistries, but as I said, as and when we have some significant news to share, we will share it at the right time.

Moderator: Thank you. Next question comes from the line of Farokh Pandole with Avestha Fund Management LLP. Please go ahead.

Farokh Pandole: Good to see the strong revenue growth. My first question was with respect to this duty. I gather this is a pre-Trump duty, and am I right in saying that this duty scales up to double, that is 100% next year?

Abhiraj Choksey: Yes, that is correct.

Farokh Pandole: Okay and I didn't relate to that question, I didn't catch your answer to the earlier participant quite clearly, is that what is the risk of gloves being the location being changed and then being supplied into the U.S., thereby sort of nullifying any impact of anti-dumping duty?

Abhiraj Choksey: Well, it is hard, because 40% to 50% of the market is the U.S. Another 20% to 30% would be Europe and then the rest is Asia. So, it is hard for China, in my opinion, to completely divert all their capacities to other areas. There is not that much of a market and even, don't forget that the Malaysians, the Thai, they have been in this business for much longer than China and they have also worked at several things in the last couple of years to improve their competitiveness. So, I think it, I mean, look, as I said, we will have to wait and see how it plays out, but it will certainly impact volumes from China coming out into the world. Certainly, they will look at other places to sort of focus on, but U.S. being the largest market for nitrile gloves, it is not going to be that hard, not going to be that easy for China to substitute that loss.

Farokh Pandole: Also, no, my question, the earlier question was also not just what you responded to, but also the China sort of, by subterfuge, camouflaging their end source and exporting it to another location and then from there, effectively accessing the U.S. market, without the effect of this anti-dumping duty. So, basically, just shopping for an appropriate source, jurisdiction from which, where they can export to the U.S.

Abhiraj Choksey: I mean, look, the Chinese companies are quite large and, it ia, I mean, we see this in India also, there are so many duties and all over the world, it is not very easy to hide the certificate of origin if you are a large company and most of these companies in China are large and they do not want a situation where they are banned completely, they perhaps want an option to at least export some amount to the U.S. So, it is not easy to divert from other geographies. Obviously there are competitors as well who will be keeping a watch and generally the competitive sort of landscape makes sure that the U.S. government is informed, something like that is happening at a large scale. On a small scale, that could happen.

Farokh Pandole: And my next question was on the, at the time of our expansion in nitrile latex, we also had the option to expand further as a second step at a very marginal cost. Is it possible that that expansion could be accessed by us, but given the situation in nitrile and the uncertainty, when margins will come back, that we could access that fresh capacity at a low cost and maybe repurpose that fresh capacity towards maybe other products or other areas that you may be looking at?

Abhiraj Choksey: Absolutely. So, we could do that and as I said, we have created the infrastructure, as I said in previous calls, we have created the infrastructure for a few more reactors in the same building, as well as enough space around that and we could make any kind of latex product in those buildings or in that space in those buildings that have been left open.

Farokh Pandole: Great and sorry, just one last question. In the introduction, there was a comment about, I think the reduction in raw material price for this Quarter resulted, I think what was said was in temporarily lower margin for this quarter, which hopefully can be recovered in the current quarter. So, exactly what was that? What was the extent of that, and did I catch it right? Was it 1% of margin?

Abhiraj Choksey: Yeah, about 1 to 1.5. So, what suddenly happened between November and December in the last month and a half, I would say the second half of the quarter was, we saw a sudden drop in one of our major petrochemicals, but in general, there was a significant drop, a little bit unexpected, I would say and there was no great reason for it to happen and already that is suddenly rebounding in January, towards the end of December and early January, that started rebounding. So, there was, I would say, 1 to 1.5 percent hit on our EBITDA margins because of the stock losses that we had. We had stocks that we had built up, obviously for finished goods and raw materials, whatever, regular stocks, not anything significant, but that did result in lower, a little bit of a lower EBITDA margin this quarter than what we would have expected. We see this rebound now in Q4, so I think that 1 and 1.5 percent will probably be a little bit of a bump in Q4.

Moderator: Thank you. Next question comes from the line of Jasdeep Walia with Clockvine Capital.

Jasdeep Walia: Sir, in the past few quarters, you have talked about pricing pressure in the SP Latex business. In India, due to your competitors setting up capacities and scaling them up, and in Europe, because last time you said in Europe, the price of butadiene is lower, so hence, it has increased their competitiveness versus Apcotex. So, what is the situation on the ground as of now with respect to both these, pricing issues?

Abhiraj Choksey: Yeah, I mean, look, both remain. I think as far as Europe is concerned, it has come down a little, although Asia is still higher for one of the raw materials. For the other important one, we are lower. So, on average, I would say it is now sort of fairly even with Europe. Maybe we are still at a disadvantage, but not as bad as it was 2-3 months ago. But again, in Asia, prices are going up, so we will have to see how this quarter plays out. This is against Europe as far as Europe is concerned. As far as India is concerned, we have added capacity, our competitors added compared capacity that still remains and it is likely to remain for the next one year for sure, because both of us do have excess capacity. So, we definitely, do not want to give up any market share at both. So, that is causing a little bit of a lower margin scenario. I think over the last few quarters and that is likely to remain for the next quarter or 2 for sure.

Jasdeep Walia: Got it, sir. So, in this year, you have seen significant growth in export. So, how sustainable is this growth going forward? What are your views on that?

Abhiraj Choksey: Yeah, look, I mean, if you see the first 9 months, YTD exports have grown by, I think, 35 percent. Difficult to keep that growth up, of course. It is on the back of 2 or 3 things. One is, of course, is nitrile latex, which is a new product and largely for exports, so that is obviously giving us that bump. Then the second reason is, of course, there have been a few other product groups where we have really pushed and some approvals have come through. Difficult to see this kind of percentage growth continuing. In terms of volume growth, of course, we have some plans to keep growing in the export market, but I am not sure if it will be at 35 percent for next year. We will have to see. We will try and do our best.

Jasdeep Walia: So, what kind of sustainable run rate of growth do you budget for future? What kind of sustainable growth rate do you budget for exports of SB Latex products?

Abhiraj Choksey: We don't give separately for each product group, but I would say that given, let me put it another way, that currently our total exports are one third of our total revenue. Over the next couple of years, we expect that to go to probably around 40, mid 40s, somewhere between 42 to 45 percent. So, obviously, export is going to grow faster, continue to grow faster than the domestic where we already have high market share. So, that is what I would say. Exact percentage growth, you know, guidance we don't typically give because honestly, I mean, we have not even worked it out yet properly, but it will continue to grow faster than the domestic.

Jasdeep Walia: Got it, sir and so what is the status on the NBR market? So, there was pricing pressure from imports that remains or you are seeing some easing in that?

Abhiraj Choksey: Look, in the last, again, this Q4 seems to be slightly better than before. We will just have to see how it plays out. We have filed for anti-dumping duties, of course, but they still remain, I mean, not as healthy as we would like and then the anti-dumping investigation and the findings should be clear in the next, I would say, 2 to 3 quarters. We already filed the application in September '24. So, typically it takes not more than a year.

Moderator: Thank you. Next question comes from the line of Ankit Kanodia with Smart Sync Services. Please go ahead.

Ankit Kanodia: My first question is related to the slide on the presentation where we mentioned that the higher realization is due to as in higher revenue is due to better volumes and also product mix. Can you throw some more light on the product mix this quarter?

Abhiraj Choksey: Overall I would say, the NBR and nitrile latex, so one is, of course, higher volumes across the board that obviously will increase the revenue. The second is product mix and the third is price realization. So, there is a combination of all of those. As far as product mix is concerned, typically nitrile latex is a little bit more is a higher price than styrene butadiene latex. Similarly, VP latex is a higher price than styrene butadiene latex. Those two have been the last driver for growth in the last quarter as well as NBR volumes have also gone up slightly. So, NBR is also the highest price, since it is all solid and not liquid. So, that is what we meant by product mix.

That could have a slight impact. But it is a combination of the 3 that have resulted in the higher value growth of, what, 38% for the quarter.

Ankit Kanodia: So, can you just help me understand one thing? So, when, at one end we are saying that the realization has gone up in this quarter, but on the other hand we are talking about the raw material prices facing a lot of pressure. So, from an industry perspective, how, I don't think this adds. I mean, how can raw material prices be so low and then also realization go up?

Abhiraj Choksey: No, no. Raw material prices are not low. So, if you compare Q3 of this quarter to Q3 of last year, raw material prices are higher than the realization. Therefore, the pressure and EBITDA percentage. I think, sorry, maybe it's a little confusing. So, one is, if you compare Q3 against Q3. The other thing that I was just mentioning is that, within that also, within the increase of raw material prices also, there was a significant drop for 1 month in between, which is what resulted in some stock loss, so that is what perhaps confused, but it is not low raw material prices at all, it is much higher than Q3 of last year.

Ankit Kanodia: Okay and compared to Q2 and Q1 of this year, the raw material prices?

Abhiraj Choksey: Compared to Q2, it's about the same.

Ankit Kanodia: So, my simple question is this. So, one thing which we have seen in the last couple of quarters, or maybe even more, is that volumes have not been a problem for us. We have been growing well, we are growing all-time high. I think this is the 3rd Quarter on trot where our volumes have been all-time high. The only problem we are facing is the margin and the reason for margin is the raw material cost.

Abhiraj Choksey: No, there is a couple of reasons. One is that, look, some of the, a good chunk of the volume growth is coming from XNB latex, nitrile latex, where margins are close to, as I said, breakeven. Therefore, that's obviously pulling the overall margins down and, yes, there is a raw material pressure as well, and competitive pressure. More than the raw material pressure, it's competitive pressure. In good times, I mean, during COVID times, raw material prices after the pandemic, I would say in the year 2021 and 2022, were galloping. For about eight quarters in a row, we had raw material prices going up every quarter. But we were able to pass them along and more, because at that time, competitive pressures were less. We were running at full capacity, our competitors were running at full capacity, so we were getting better margins. Now, I would say the main reason is competitive pressures due to capacities built over the last couple of years post-COVID.

Ankit Kanodia: But in the last couple of quarters, we have been seeing that many people have actually either stopped their CAPEX or have probably gone out of the business because of the...

Abhiraj Choksey: But there is still enough capacity, in spite of all of that.

Ankit Kanodia: There is still excess capacity, that is what you say?

Abhiraj Choksey: Yes.

Ankit Kanodia: So, is it fair to assume that this margin pressure, given all these reasons, can continue to be a problem for the next few quarters?

Abhiraj Choksey: Look, as I said, it is improving for XNB latex, for sure, slowly and we are seeing, at least in Q4, we are seeing, margins improve for other products as well. We do not know if it is short-lived or not, but at least for Q4, we are seeing it. So, as capacity utilizations keep going up as the growth happens and capacity utilizations keep going up, I think margins will improve slowly.

Ankit Kanodia: Yeah, but I think nitrile latex is where the bulk of our revenues comes from.

Abhiraj Choksey: No, not really.

Ankit Kanodia: Nitrile latex and NBR, if we club both, NBR and nitrile latex, it would form somewhere around 40 to 50%, right?

Abhiraj Choksey: And 40%. NBR and nitrile latex together, it's 40%.

Ankit Kanodia: Yeah. So, only if we talk about these two categories, what is the margin? Directionally, how do we see the margin in Q4, Q1 and Q5?

Abhiraj Choksey: We assume it will keep growing slowly. For NBR, it will be choppy. There are months or quarters that are very good, months or quarters that are not so good. On average, they are not healthy. Therefore, we filed an anti-dumping case also, of course. So, for NBR, choppy should improve.

Ankit Kanodia: Okay. So, right now, if I got it correctly, in the immediate future, our margin expansion would be largely driven by expansion of capacity utilization. When the capacity utilization go up, it will definitely help you spread out your fixed cost among larger number of units and that will lead to.

Abhiraj Choksey: Not only that, but I think when capacity utilization for the industry goes up as a whole, pricing power also improves.

Ankit Kanodia: Okay. Got it. And any color on APCOBuild?

Abhiraj Choksey: Nothing new. It is still a small part of our business. We continue to grow it. Nothing significantly new there.

Ankit Kanodia: The growth would be in double digits?

Abhiraj Choksey: Yeah. It is a small thing. So, every year, we grow at 15-20% minimum. We are adding geography, we are adding cities, so that happens. We're still in the west coast only right now. West, MP, east of Maharashtra, Gujarat, little bit in Karnataka.

Ankit Kanodia: I think you said Goa, Karnataka, and..

Abhiraj Choksey: Goa, Karnataka. Within those states also, we are at a nascent stage. I mean, we were at a nascent stage. We continue to grow in different areas within those states.

Moderator: Thank you. Next question comes from the line of Aditya with Securities Investment Management.

Aditya: Sir, if you could just help us understand, what is our customer concentration in our nitrile latex segment? So, is it that we are dependent on 3-4 players, or is it pretty much well diversified?

Abhiraj Choksey: Look, I think we do have 4 or 5 large customers, and then we have a few small customers. We feel, at this stage, fairly comfortable now with the diversity of customers. But once we get to full capacity utilization, which we expect in the next 6 months, we will try and sort of add more customers. The problem is that some large customers, they are – so just to give you an example, I mean, there are customers that monthly capacity is more – I mean, I would say it is half of our Apcotex's annual capacity. So, their monthly consumption is so high. So, for those customers and we do want 1 or 2 large marquee customers, we need to ensure that those customers are – stay in our portfolio. At the same time, diversify and mix. So, our main objshould be more than I would say about 15% of our overall product portfolio and from a company point of view, no customer should be more than 2%. That is something we learned the hard way over the years. So, that's what we continue to do. That is what we will drive towards.

Aditya: Sir, just one question. So, these top 3-4 customers, would it currently contribute around 70% to 80% of our revenues in nitrile latex and secondly, would these customers.

Abhiraj Choksey: I would say probably 7-8 customers probably have 70%. You are right.

Aditya: And would the sales of these customers majorly lead to US?

Abhiraj Choksey: I mean, as I said, the nitrile gloves market is largely US-Europe driven. That is also changing as we go along. There is more Asia coming along now as hospitals and as doctors and the protocols change in India, China, Southeast Asia, the Middle East. Those markets are, of course, growing very well. But still, I would say 60% to 70% of all these guys' sales would probably be coming from the West. All our customer sales, Europe and US.

Aditya: Sure and now, sir, now you mentioned that the US has imposed a duty on the glove market. So, we understood the implications on the glove market. But how would it impact the latex market? Because what we understand is China has also added quite a lot of latex capacities in the past few years. So, how do you think the latex market will play out while the glove players will, I think, enjoy higher margins? Would the same then translate to latex players as well?

Abhiraj Choksey: Yeah, look, they will be under pressure for sure. The latex will also be under pressure. There is one scenario where the latex could start getting exported from China into other countries. But it is harder to export latex because it's 55% water in nitrile latex's case. So, it is from a freight perspective to go long and the freight from China is much higher than the freight to China, going into China. Similarly, freight from China to Southeast Asia is much higher than from India to Southeast Asia. So, they may not be as competitive then as to come out of China. But it remains to be seen. As we know, and recent events have shown that China has some capabilities of doing things that could never be thought of. So, we will have to wait and watch. I mentioned that 2 or 3 times earlier in the call as well. The next 6 months will give us more clarity. But as of now, our customers in Southeast Asia and South Asia are quite bullish on this duty. There is 60% that is starting from Jan 1st on nitrile latex and this will become 100% from Jan 1st, 2026 and this is all pre-Trump. This all was announced 3-4 months ago.

Aditya: Now, sorry, just to harp on this issue again. So, now, these top 4-5 customers which we have, would they be buying the latex from China or they are little bit diversified.

Abhiraj Choksey: No, they are not buying any latex from China.

Aditya: Understood. Okay and so, next question was on NBR. So, now, for the last 3-4 quarters, we have been having issues in this segment. But, so, if you could just help us understand what is exactly happening in this segment. So, because, is the demand lower or the competition has increased? What is exactly happening in this segment?

Abhiraj Choksey: Nothing significant is happening. What do you mean?

Aditya: So, because the end users of the NBR segment, I presume it goes to automobiles and the industrial segment, which have been doing pretty well for the last 1 year. Yeah. Ideally, this segment should be doing well for us. So, what is exactly hampering the segment because the margins are lower in this segment?

Aditya: No, margins are not lower than last year. I would say the margins have been difficult in general for the last, I would say, 6-7 quarters for NBR and the reasons have been 2 things. One is see, look NBR is more of a global business than latex. So, for NBR its main competition is Korea and Russia. Now, what has happened on the Korea front is Korea's main export market for NBR used to be China. The China imports of NBR from Korea have become half in the last 3 years for 2 reasons. One is that China has maybe their own NBR plants. They have a couple of NBR plants which prove their capacity and number 2, the Chinese auto market, which is the largest consumer of NBR, has moved quite drastically towards EVs. So, there is a glut in the China market as far as NBR is concerned. So, obviously, this NBR has to come somewhere. India market is growing for NBR. There are 3 main segments in India, auto, industrial, and agricultural. So, industrial and agricultural are growing very well. Auto is also growing because EVs in India have not taken off the way they have in China. So, all 3 are growing in India. So, obviously, that is one reason why Korean material is coming into India and the second or the competitiveness in India, the competitive landscape is quite sort of intense and the second reason is Russia. Russia, because of all the sanctions, they have lost the entire U.S. market initially a few years ago. Now, Europe is also in the last year and a half. So, the only place they can export is China and India. Same issue in China. So, again, the Russian material is coming into India. So, these are the reasons why the India market has become very intensive in terms of competition for NBR. And that's why we have rightfully, we have filed this anti-dumping petition because we believe our case is very strong and just to complete, we want a level playing field. So, what is happening is because they have a glut of NBR and they do not have places dumping in the Indian market. So, we want to compete and we can compete. We just want a level playing field and so, Russia takes a view that, look, the cost of oil for us is not $70, $80, it is $20 and that is how we will price our NBR. Then there is very little we can do and that is not fair competition and that is one of the sort of our petition to the government or to the antidumping authorities.

Moderator: Thank you. Next question comes from the line of Manav Vijay with MV Investments, please.

Manav Vijay: Sir, my first question is regarding the gross margins that we have. So, we have 22.8% in this quarter and 24.6% in first 9 months of this year. Now, these margins are the lowest that you have done in last 10 years. So, last time you had these margins actually in 2013. So, now you have mentioned about all the pressure points that you are facing. In last 9 months only, we have lost at least 400 basis points on gross margins. Now, you have been able to squeeze out some, I would say, some efficiencies from your labor, some from your other expenses. Now, beyond a point in time, I believe that it becomes impossible. So, I want to understand that this 22.8% or 23%, so beyond what point it becomes difficult to take a hit in terms of doing a sale?

Abhiraj Choksey: So, look, see, one of the reasons for this gross margin, as I mentioned, is XNB, right, where our margins are much lower and we expect that to improve. So, the nitrile latex has dragged EBITDA margins as well as gross margins down. So, that's one major reason. The other reason is, of course, as I mentioned to the previous caller, is NBR margins also not healthy that we would expect. So, with the anti-dumping that we have petitioned, that definitely will help also and the third is for paper, four reasons. Third is for in the paper industry, mainly because of the capacity expansion that we have done, our competitors have done. Suddenly, a lot of capacities came in on the last quarter. So, as the capacity utilization goes up, our pricing power will go up, our negotiation power will go up and again gross margins should improve and the last reason is carpet, which is mainly exports. We have seen freight rates really skyrocket upwards. Now, they are coming down slowly. Now, I expect it to come down even further. Hopefully, if the truce holds between Israel and Palestine and the Red Sea crisis is averted. Again, we will know in the next 3-4 months. So, these 4 reasons are the reason for this together sort of perfect storm on gross margins and therefore EBITDA margins. Each of them, we have an action plan on how they will improve. Some will improve automatically as capacity utilizations go up. The others will improve and of course, we are also focusing on now the next one year focusing on more specialty products with higher margins and we will try and see if we can cut down on lower margin customers to improve gross margins again.

Manav Vijay: Sure. Okay. Sir, in 9 months, what is the amount of total sales that you have done on the nitrile latex as a percentage of total sales that you have done? So, of the total sales that you have done, what is the nitrile latex sales that you have done in the first 9 months?

Abhiraj Choksey: About 15%. Okay.

Manav Vijay: So, that means in first 9 months, you have done roughly around less than 150 to 160 crores of sales where you are actually EBITDA margins are zero.

Abhiraj Choksey: Yeah. Okay, perfect. So, as per our calculation, EBITDA margins would have been at least 2.5 percent higher for the first 9 months without nitrile latex. I mean, had nitrile latex not been in the portfolio.

Moderator: Thank you. Next question comes from the line of Chaitanya Sharma with TradeWalk Research, LLP. Please go ahead.

Chaitanya Sharma: Yeah. So, my first question was, do you have any updates on your expansion plans and what are the updates? When are you expecting any updates on all the anti-dumping cases that you filed?

Abhiraj Choksey: Expansion plans, right now, as I said, we have some runway. We are looking at some projects to improve productivity. So, I think for next year and a half, we should be okay. As I mentioned to a previous caller, 1,700 crores or so should be possible with what we currently have, plus with some minor investments, another 2-300 crores. So, we are working on further expansion plans, which, you know, some clarity will emerge over the next 3 to 6 months. As far as the anti-dumping case is concerned, we filed in September 2024. Typically, it takes about 12 months to reach a conclusion. That is what we have seen in the past with other cases. So, we should have some clarity in the next 2 to 3 quarters.

Chaitanya Sharma: Okay and the borrowings of the companies have gone up quite drastically in the last few years. What is your view on that and how is the company looking and reducing it?

Abhiraj Choksey: Yeah, but look, it is not gone up that drastically in a sense. I think currently, we have about 200 crores of all longterm and short-term loans put together. Against that, we have 110 crores of cash. So, our net borrowing is only 90 crores, which includes working capital, long-term, everything. So, for a company with an overall turnover of 1400 crores. EBITDA, we expect it

120-130 crores. It is okay. It is not high at all. Debt-equity ratios are very, very low, in fact. We are not at all concerned. In fact, I think the balance sheet is very healthy. We may, in fact, for future expansion plans, think of taking more debt because our balance sheet can easily afford it.

Moderator: Thank you. Next question comes from the line of Sukhbir Singh with SMIFS Limited.

Sukhbir Singh: My first question is, like, can we consider the demand to be, like, muted for the, like, from the paper and carpet segment in the near future?

Abhiraj Choksey: Look, the paper industry in India, for sure, has had a challenging period for the last 6 to 8 months, maybe longer. I think, look, we are looking at expanding in the export front on the paper side where we have not really focused on that. There are also a few product gaps that we have had in the paper industry, so we are looking to bridge that over the next 6 to 12 months and grow there. So, we expect to grow in the paper industry, although overall the paper industry has not done so well. The carpet industry overall as I said, the main issue was freight for us, which is sort of improving. So, that we should see improving again over the next 3 to 6 months.

Sukhbir Singh: Okay and sir my second question is, like, on the CAPEX, like, that you are still under discussion, like, regarding the expansion. So, can we assume, like, in the – for Q4 and for FY, like, early six, it will be, like, maintaining CAPEX only on any – is there any growth CAPEX related to it?

Abhiraj Choksey: Yeah, I know there will certainly be some growth CAPEX, because we envision that at some point in the next few quarters, maybe 5-6 quarters, we will run out of all capacities that we have. In some cases, maybe even sooner than that, like in nitrile latex, should be sooner than that. So, then we will look at – well, we are already planning different options for CAPEXs. We have not pulled the trigger on any of them. Of course, we will inform our investors and analysts as and when we have any significant news to share and as I mentioned, we are also always looking at potential acquisition opportunities or partnership opportunities. Something of that also works out that could be an option for further growth.

Moderator: Thank you. Next question comes from the line of T.K. Pandya with Ganesh Stock Investments.

T.K. Pandya: Good evening, sir. But I think it is disappointing that the share value, at least for the small investors, you are putting a lot of faith in your company. The share value is not going up. It is continuously decreasing. The market is going downhill. How do you explain that?

Abhiraj Choksey: Well, we would hope that investors can see the long term and not look at 1 or 2 years or a few quarters. If you see a period of 15 years, the company has been, I would say, done fairly well and beaten most of the indices that you could look at. Sure, the company is going through a difficult period in terms of margins. But if you can see, as you can see with the growth. With growth in the chemical industry, we have been one of the few companies that has grown quarter on quarter for the last 6 quarters every year and we are really pushing through with growth at this time. So, we feel fairly confident that when the margin story turns, we will be in the right place at the right time and it will turn quickly. So, the balance sheet is very healthy. We have not taken on huge amounts of debt or anything of that sort. We remain focused on our businesses, focused on our core competencies and sure, in the short term, look at the stock market. I cannot comment for that. I mean, there are some very good companies over 40-50 years and I am going to always go through some bad patches. There is not a single company I know that has not gone through a bad patch in terms of stock market. A lot of it is out of the control of the companies as well. So, that is where I leave that.

T.K. Pandya: Okay. Because one more point I would like to point, your profit after tax is around about 53 crores at this year, maybe about 60 crores or so and your debt is about 90 crores. So, that is where you can repay the debt within 1 and 1.5 years. That, of course, is a very good position, which can allow you to take, if you want to go for some capital expenditure, you can take loans and your debt position will be, equity to debt will be quite good.

Abhiraj Choksey: Yeah, absolutely correct. That Is correct. That is what I meant by that balance sheet is quite strong. We have no worry on that front at all.

Moderator: Thank you. Next question comes from the line of Himali Gandhi, an individual investor. Please go ahead.

Himali Gandhi: Thank you for the opportunity, sir. I wanted to ask, which product gives us the highest realizations and highest margins, usually?

Abhiraj Choksey: Highest realization, obviously, are rubber products, NBR. Realization, what I mean by realization is sales realization in terms of rupees per kg, they are rupees per ton, they are dollar per ton, they are the highest, because it's 100% polymer. Some of the other products that we have are liquid polymers or emulsions, which are obviously lower. So, NBR would be the product with the highest sort of price. As far as margin is concerned and I mentioned this before, we do not have, it varies from quarter to quarter, year on year, depending on what's going on. Percentage margin-wise, we have seen things go up and down. I would say it is more customer-driven, larger customers in each product group is able to obviously negotiate better with us, and those margins are lower. Some margins are higher. So, it is quite even, if you look at it, over a period of 3 to 4 years. Obviously, some specialty segments, which are only 10%, 15%, 20% of our total revenue, those would be higher margins. But again, I don't want to sort of mention specifically what those products are or anything of that sort. Each application that are specialty and that have higher margins.

Himali Gandhi: Okay. Are you seeing any recovery signs in nitrile latex? How much do you think it will contribute to the revenue in the near to medium future?

Abhiraj Choksey: Yeah, look, eventually, it will probably be around between 20 and 25% of our total revenue at full capacity. It depends on how the other segments grow as well, or the other areas or the products grow as well and margins, as I said, are improving slowly and we expect them to improve as capacity utilizations keep going up globally.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we have reached the end of question and answer session. I would now like to hand the conference over to the management for closing comments.

Abhiraj Choksey: Thank you, everyone. Thank you for joining us for the Q3 concall. We look forward to having you all for our Q4 and FY'24-25 concall sometime in early May. Have a good evening. Thank you.

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