Apcotex Industries Limited
Conference Call for H1 and Q2 FY20
October 24, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY20 Earnings Conference Call of Apcotex Industries Limited. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to handover the conference to Mr. Pranav Khandwala from Valorem Advisors. Thank you and over to you, sir!

Pranav Khandwala: Thank you, Tanvi. Good evening, everybody and a warm welcome to you all. My name is Pranav Khandwala from Valorem Advisors. We represent the Investor Relations for Apcotex Industries Limited. On behalf of the company and Valorem Advisors, I would like to thank you all for participating in the company's earning conference call for H1 and Q2 FY20. Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's conference call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from these anticipated. Such statements are based on management's beliefs as well as assumptions made by an information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

I would now like to introduce you to the management of Apcotex Industries Limited participating in today's con call. We have with us Mr. Abhiraj Choksey - Managing Director and Mr. Anand Kumashi - Company Secretary. Without much ado, I request Mr. Anand Kumashi to give his opening statements. Thank you and over to you, sir!

Anand Kumashi: Thank you, Pranav. Good afternoon and welcome to the company's performance for Q2 FY20 as well as earning presentation which has been circulated and uploaded on the website and stock exchanges. Moving on to the financial performance of the quarter the net turnover stood at 124 crores in Q2 FY20. The operating EBITDA stood at 6.8 crores for the quarter as compared to 19.7 crores in Q2 FY19. The operating EBITDA margin stood at 5.48% for Q2 FY20. The PAT for quarter was reported at around 3.6 crores with a PAT margin of around 2.9%. For the half year the net turnover stood at 271 crores in H1 FY20 and operating EBITDA stood at 24.9 crores for the quarter compared to 36.8 crores in H1 FY19. The operating EBITDA margins stood at

9.19% for H1 FY20. The PAT for H1 FY20 was reported at around 15 crores with a PAT margin of around 5.5%.

Some of the key operating highlights for the quarter as under. The factors that were encouraging during the quarter where the company was able to report highest ever quarterly VP Latex sale in the tyre cord industry. Also, there was reasonable equal volume growth which was seen in the paper industry. The company has also received a Responsible Care Award, a Certificate of Merit for Best Compliant Company for emergency response code year 2018 at Indian Chemical Council function. From the numbers you can also make that, this quarter definitely quite a few challenges which hit the company at the same time. We all are aware about the slowdown in the auto sector, which has naturally had trickle down the impact on our company as well as effect on the NBR volume sales. Also NBR and NVC margins had been adversely affected due to significant fall in the finished good prices. The overall slowdown in the Indian market will also affect in the other industry like construction. On the export front, the company was also adversely affected due to lower raw material prices in Europe particularly compared to Asia prices and also political issues like Pakistan and Kashmir. That said, the company is taking measures on all the fronts to revive the financial growth and profitability. Although it is a difficult to say at this time how quickly the result of these efforts will show, we are confident that it will happen.

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

Moderator: Thank you. We will now begin the question-answer session. The first question is from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: Sir, you had mentioned in the last quarter that your power plant would be commissioned in October. So, just wanted to get an update on the same?

Abhiraj Choksey: Yes, it is actually almost ready. We are in the last phases. We have had an extremely extended monsoon in Gujarat and it is been a few weeks delay I would say. So, I think and we are also waiting for the one last environmental consent. So, as of today it is not been commissioned yet but it is literally over the next 3 to 4 weeks any day, depending on a couple of things.

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

Udit Gajiwala: Just a couple of questions. Can you please let us know what was the e-growth in volumes and price as such?

Abhiraj Choksey: Actually there was no de-growth in volumes at our company level. In fact, we had marginal growth in volumes. So, I just wanted to clarify that off the back that the large, for the main reason for the reduction in topline has been not to really volume driven but more so in terms

of realization. Realization is come down in some of the products and also product mix where this quarter we have seen NBR volumes reduce somewhat and in fact latex volumes have grown. So because of product mix change the overall fall in net realizable value. And yes, in NBR we have had an issue with realizable value has fallen quite significantly, where we have been marginally up for the quarter against Q2 of last year.

Udit Gajiwala: And sir, lastly the other costs as a percentage of sales has again gone up close, so any specific reason for the same?

Abhiraj Choksey: Cost as a percentage of sales, whether the margin is you mean, margins have fallen. Topline has gone down and raw material prices have really not gone down as much in some of the products that we have.

Moderator: Thank you. The next question is from the line of Parth Chawda, individual investor. Please go ahead.

Parth Chawda: Sir, I wanted to ask about this market size of your synthetic rubber and synthetic latex and what markets where do you hold?

Abhiraj Choksey: Market size in terms of how would you … …

Parth Chawda: Like globally what would be roughly, you can tell me your market share.

Abhiraj Choksey: Sir, globally of course, we are a regional player, so globally we would be very small in both latex and rubber frankly. Our strategic market is of course India. So, in India we have fairly high market share as far as latex is concerned, in the sense depending on the industry we are catering to anywhere between 40% to 70%. We are either number one or joint number one in all the latex categories that we manufacture. In High Styrene Rubber we are number one. There are no other manufacturers of this product in India and NBR also we are the only manufacturer in India but there is a large amount of imports that come in. So, there we have about to, depending on, the average is about 25% to 30% market share currently, 25% to 27% market share.

Parth Chawda: Globally?

Abhiraj Choksey: No, in India.

Parth Chawda: India?

Abhiraj Choksey: Yes, this is only India. We are a much smaller player globally. So, we would be in the single digit globally.

Parth Chawda: So, you have future plans to grow global, in fact you are trying to export more and more?

Abhiraj Choksey: Yes, we are planning to expand and export, yes.

Parth Chawda: Sir, what would be your competitiveness when you go global?

Abhiraj Choksey: well some of the products frankly like in latex products where, on average 50% water logistics place a big issue. So, what we have seen is in that industry generally it is more regional. So, what would make sense in the latex industry is for us to focus on geography there are very close-by which is like Middle East or South Asia. Because anything longer than that it does not make sense, business tends to go because of the storage and transport costs of transporting 50% water. As far as the NBR business is concerned look, we have to grow, we are a small player. We had to have global size plants and one of the things maybe you are you have attending this conference call for the first time but before we have mentioned in one of our previous calls that we are looking at doubling capacity of NBR to make it about 30,000 tonnes - 35,000 tonnes which would make it somewhat of a global size plant, not the largest in the world but at least not the smallest either in the world. So, as we grow we will realize some of the economies of scale of growth and we feel India and where we are located in Gujarat close to a port, raw materials, one key raw material very available, very close. We have some good competitive advantages.

Parth Chawda: Sir, one last question. Would there be any benefit for you because of China slowdown and company shutting down over there?

Abhiraj Choksey: No, we have in our business we do not compete with China as of yet. On the latex side most of our competition is domestic and on the synthetic rubber side most of the competition is either from Korea, Europe, yes Korea or Europe these days is what we are seeing. And somewhat now a days from Japan a little bit. So, we are in this specialty synthetic rubber space and really so far China is not a competition that we see either in India or to some of the countries we export to. So, we are not really affected by that.

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

Rohit Sinha: Sir, just an outlook on the export market where we are facing problem and how severe this could be or how small this is?

Abhiraj Choksey: Yes, look there are 2-3 issues in the export market. We have had almost for the last 10 years we have a consistent, reasonably good growth of our export sales. This is the first quarter in fact where we have de-grown in exports. 2 or 3 main, 2 main reasons I would say. One is that the main reason is actually that in the last 2-3 months there has been the raw material prices of Butadiene, Styrene have been much lower in Europe than in Asia. As a result of which some of our markets like in the Middle East we are, we are finding it difficult to compete with this kind of advantage on raw materials that they have. At the same time unfortunately we are not

able to import these raw materials from Europe all the way to India because of the transport and storage costs. Now the differential just to give you an example, Butadiene is one raw material that we buy on average the European prices have been cheaper by about $100-$120 per tonnes. In the last 3 to 4 months it is around $350 per tonnes. Now, we have seen this in the past as well from time-to-time. Sometimes the Asian prices have been cheaper it does happen for few months and then it corrects itself. This is of course a very large differential but I do not think it is sustainable but because of this in the short term we had to suffer. The second big setback has been, over the last few years we have developed Pakistan or we had developed Pakistan as a market where we were exporting a reasonable amount to and that of course because of political reasons completely shut down, the revenue completely shut down for us from August.

Rohit Sinha: So, that means still I mean in next quarter also export could be slightly on the muted side?

Abhiraj Choksey: With the main reason as I said is this differential in pricing that sometimes takes 2-3 weeks to correct. So, we are hoping that that will correct because it is not sustainable.

Rohit Sinha: And sir, the growth which you have mentioning on the VP Latex sales, so how we should be reading this in respect with the automobile industry?

Abhiraj Choksey: No, actually the tyres have not at least as of now. Automobile is one thing and VP Latex goes into tyres. As you perhaps know the tyres the replacement market is larger than the OEM market. So, it is not as badly affected as auto industry as there are some challenges in the tyre industry as well and we are seeing a little bit of that challenge starting in September, October but nothing like margins dropping, volumes recently have been a little bit of a challenge as well. But even with that we have been able to do our highest ever sales in the domestic industry that we have ever done. We are clearly leader in the domestic industry now. And that has been big, that is over the years building confidence with customers and we have now long term agreements with most of these customers and develop that confidence with the customers. So, look structurally it is still a good business, of course there are these this autos industry hang over is there.

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

Vikrant Kashyap: 2-3 questions. Sir, you have said, you have grown in terms of volume, but realization has been, there has been pressure on realization. Does it stand true for automobile industry also? Have you grown in volumes there all?

Abhiraj Choksey: No, so just again to recap our overall volumes for Q2 have grown marginally. We at total sales of the company to automobile is only about 15% or so. I am not counting tyres as part of automobile. I am talking about auto. The main product that we supplied to the auto industry Acrylonitrile Butadiene Rubber (NBR) and the issue most in the volumes because we are

anyway we have low market share. We had about 25%-27% market shares. So, it is not so much about volumes but globally the prices of NBR have crashed and as a result of which of course, we have also had to suffer on margins. But to some extent volume is also because as the prices of NBR were crashing people were buying less and less over the last 2-3 months. Now things have, I think stable as in October, so we should see a little bit of a pickup starting next month is what I think having said that the bigger concern is still margins on NBR.

Vikrant Kashyap: So, it is not like that slowdown in automobile industry has impacted overall. It is like the prices of NBR fell in the market that has impacted your volume?

Abhiraj Choksey: Absolutely.

Vikrant Kashyap: And see, in the consequence …

Abhiraj Choksey: But having said that this is clearly a slowdown in automobile industry. There is no doubt about it, so to some extent we are affected but …

Vikrant Kashyap: Major impact was from NBR?

Abhiraj Choksey: Yes.

Vikrant Kashyap: So sir, in the event of 2-3 events that our impact on Pakistan sales impact due to European market and automobiles has, see clearly is given a dent. But what are the steps that we are taking? Should that internally that we can do to take care of our growth and margins going forward?

Abhiraj Choksey: So, one of the things that we are doing is we are introducing as we mentioned that Nitrile Latex will goes into gloves that we have introduced that product. We are continued to grow that we plan to invest more over the next year and build a larger capacity. So, those growth plans of course continue but that is something that not going to be short term in nature to correct immediately what the challenges you are currently facing. We are focusing more on non-auto segments, of course an application for NBR market that is the very clear thing they are doing. We are focusing on growing our latex sales and we have had very good growth in paper and carpet and tyres in the last quarter in the domestic market. Apart from that we are also working or talking to the government to intervene because we are seeing large amounts of dumping happening for NBR and some of the allied products. Just to give you an example, just a few months ago China had levied an anti-dumping duty on Korean and Japanese NBR ranging from 12% to 30% and US is done the same. And we hope that our government can also protect its companies when going is tough. So, we are working on that front as well.

Vikrant Kashyap: One more question since you are talking the plans of Nitrile latex. So, what is your update on CAPEX plans? Have things on ground or is still we are finalizing?

Abhiraj Choksey: No, we are still not hit, not in the ground there has been a couple of things. One is that we need some environmental consent that we are working on. So, one is the environmental consent for the CPP and frankly it was more complicated than we initially envisaged. So we are still waiting everything will be another 3 to 4 months before we get the consents to start breaking ground. Having said that it is going to take us, it is a 12 month lead time for us to once we start breaking ground. We have already finished the basic engineering and we will start the detail engineering soon, part of it is actually already started initially for detailed engineering. So, we are waiting for some consent before we break ground on the Nitrile latex project. But otherwise we are still convinced an optimistic about our long term strategy. There are of course the current headwinds and these environmental consent delays it may throw out of the timing of not only the Nitrile Latex projects but also expanding NBR by few months. But we stay on course to execute those projects.

Vikrant Kashyap: See, can give us some timeline if, so by 2021-2022 when?

Abhiraj Choksey: We had said that around in FY21, towards the FY21 we wanted to commission the Nitrile latex project. As of now we are still on target to do that - subject to these concerns coming in time and as far as the NBR project we had said FY22, that one may be delayed by a few months. Because we are also now waiting to one we need many more consents for that project which is now given the experience of the last 6-8 months of obtaining consents both at Ministry of Environment and Forest in Delhi as well as Gujarat Pollution Control Board, it is taking a lot longer than initially anticipated. So, if these kind of delays due to sort of government not giving, government delays that is something that is little unpredictable now.

Vikrant Kashyap: That is not in our hand?

Abhiraj Choksey: Well, it is in our hands. But it is a little unpredictable, I would say there is something we can always do better and learn from it or how to manage that better. But having said that the major issue is this headwinds that are come in the NBR market over the last 2-3 months. So, before we break ground we obviously do want to wait and watch and so, maybe in the next 2 to 3 months things will be clear on the second project in terms of timing. But we had a board meeting yesterday and the management and the board still feel extremely strongly that where we are today as the only manufacturer in India with overall NBR market growing, yes auto, EVs all these risks are there. But we have low market share and we do believe and we do believe we need to be globally sized plant and we do need to increase the capacity there for sure.

Vikrant Kashyap: One thing, does Korea is the major driven, major dumping in India or there is any other country there also?

Abhiraj Choksey: But Korea is the largest import of NBR in the country. Having said that recently we have seen Japan as well because we have a free trade agreement signed with japan and so, they are able to imported 2% duty, less than 2%, 1.8% duty. And we are paying more to import our raw

materials like Acrylonitrile. And so, again we are working with the government to see how these kinds of things can be corrected. So, Japan, Korea and then Europe 1 or 2 countries we see imports more in the last 2-3 months just because they have some raw material price advantages. But I think that will correct soon, so, that is more temporary.

Vikrant Kashyap: One last question if may, can we expect that the loss of business in first half can we able to cover it in second half and are we working on new product launches in the market?

Abhiraj Choksey: First of all it has been no loss of business. Our overall volume has been up for the first half by, I do not know if I remember the exact number but at least in the high single digits, number one. So, yes the revenue has come down but that is because of the product mix and the realizable value. As I said the major concern is the margins on NBR which has been the real dampener as far as the bottomline is concerned and the EBITDA is concerned.

Vikrant Kashyap: And any new products launch, I mean working on a new product?

Abhiraj Choksey: Within our current industries we are always adding some new products 1 or 2 products with to, for significant, so increase in revenue we are working on this Nitrile latex products which we have started selling from our Taloja plant. And that will add about what we want to do is add about 250 crores to 300 crores in topline.

Moderator: Thank you. The next question is from the line of Arjun Sengar from Nippon India Mutual Fund. Please go ahead.

Arjun Sengar: So, you already mentioned the weak demand from the auto sectors which you stated that other sectors have done well like paper and carpets. So, is that the demand has been strong from these sectors or we have increase share within those segments?

Abhiraj Choksey: I think, a bit of both in the last quarter. Demand has been good, reasonably good and we have increased partly market share as well. So a combination of both has resulted in all 3 tyre cordcode, paper and carpets and we have seen growth in, I am just looking at the numbers anywhere between 15% - 25% for these 3 segments in the domestic market.

Arjun Sengar: And this decline in NBR realizations due to dumping particularly. So this dumping is happening because of weak demand in their own markets. Can you throw some more light on that?

Abhiraj Choksey: Yes, couple of reasons one is …

Arjun Sengar: To understand what can change this decline trajectory for NBR?

Abhiraj Choksey: Yes, so one of the thing has been looked the major application for NBR globally is auto. In India actually there are many other applications like textile machinery, rice roll application, LPG tubes and all host of other industrial and applications hoses. But if you see globally NBR is linked

to auto, China and India being too large auto markets have been going through a lull over the last 3-4 months in fact declining I would say. So, that is really thrown the NBR prices off. The third thing that the dumping is happening is because China is realizes quickly than India has and as I said there is an anti-dumping duty that China has imposed on Japan and Korea to the extent either from 12% to 30% depending or producer of manufacturer of NBR. So, they are given separate anti-dumping duties for each manufacturer. Whereas the Indian, we have a small anti-dumping duty of $57 which works out to be hardly to 2% to 3%. So, we are working with the government and trying to see how that can be protected. And we have seen the last, we have bid in the business for the last 3.5 years since we have acquired the company. And this is really been an aberration that we have not seen over the last 3.5 years what we have seen in the last 2 to 3 months. So, we are hopeful that this will turn at some point having said that, yes the headwinds are still there even as of today, the same auto head winds.

Arjun Sengar: we need a global kind of cyclical recovery in the auto sector, is that I think the correct understanding?

Abhiraj Choksey: That is important the other thing that now what is happening for example is the larger players of NBR are finding it difficult. So, we have had one large competitor who is announced that their plant is shut from October 15 to November 15th for a whole month. So, these kind of things will also happen which may also correct the sort of supply demand equationor price could soften as well. So, those are 2-3 things that could happen, that could help in the short term. But you are right in the long term auto is one of those things that is important.

Arjun Sengar: My last question is on the volume growth outlook based on your expansion that you have planned. Can you give us some color on that? What's your volume growth can we expect over the next 2 to 3 years?

Abhiraj Choksey: Volume in terms of value?

Arjun Sengar: Value or in terms of tonnage whatever is more relevant?

Abhiraj Choksey: So, for example our NBR and allied products capacity in Valia by the end of this, there are few last debottlenecking projects that are pending which will be over by, I think January or February of this year. And then will be able to sell somewhere between 20,000 tonnes and 21,000 tonnes depending on product mix. And we hope to increase that to about 35,000 tonnes-36,000 tonnes once we go with the NBR expansion project. And as I mentioned to the previous caller we also expanding in Nitrile latex for glove which is a new product line where we are looking at expanding in the first phase, is about 25,000 tonnes and the second phase about we will get to 40,000 tonnes. So, from 25,000 to 40,000, so another 15,000 tonnes. So, that would mean about 250 crores to 300 crores in revenue for Nitrile latex and another 250 crores for Nitrile rubber the expansion project.

Moderator: Thank you. The next question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

Nilesh Ghuge: Sir, just on NBR project how much CAPEX is required and how much capacity addition you will be doing?

Abhiraj Choksey: So, the CAPEX that are estimate is after detail engineering will know more. But our estimate is about 180 crores and that will add about 15,000 tonnes to 16,000 tonnes in capacity.

Nilesh Ghuge: By end of this project how much will be your capacity?

Abhiraj Choksey: Will add about 15,000 tonnes to 16,000 tonnes from the current 20,000 tonnes-21,000 tonnes.

Nilesh Ghuge: As I rightly heard Nitrile latex you will be doing CAPEX of 200 crores to 300 crores and your capacity will become 40,000, I am right?

Abhiraj Choksey: No, there the estimate is about 60 crores and capacity is about initially 25,000 tonnes and then adding another 15,000 tonnes. So, 40,000 tonnes eventually.

Nilesh Ghuge: Eventually the 40,000?

Abhiraj Choksey: Yes, not 80crores investment for 40,000 tonnes, 60 crores for 26,000.

Nilesh Ghuge: Sir, you mentioned that there is a differential between the raw material cost in Europe and Asia. So, do you think it is a sustainable or I mean what is your take on that?

Abhiraj Choksey: We have seen this, we track it over the last 15 years, we have seen that there is always some difference. Sometimes positive sometime negative for some of our raw materials but what you have seen in the last 3 months has really been the highest differential that we have seen where Europe has been much cheaper. For example, for Butadiene whether I mentioned to the one of the previous callers where on an average we see $120-$130 per tonne cheaper than Asia which is let us say in percentage terms maybe about 10% cheaper is now currently about 30%-35% cheaper. So, that is really called the big dent for one of our raw materials. The other raw materials which is generally little higher is 5% to 10% lower. So, this according to us is not sustainable at all and this also will turn sooner than later.

Nilesh Ghuge: And on tax point sir, so you are still paying 30%-34% tax. So, any revision, I mean any guidance for the FY20 number?

Abhiraj Choksey: No, we are going to stick with the current regime as I thinking because we have some MAT entitlements from previous to merger that we have done. One was the acquisition and the other one was the merger of the holding company with Apcotex both those have left Apcotex

with sort of MAT credit entitlement. So, we believe if we stick to the current regime then our net tax will be lower than moving to the new regime of 25%.

Nilesh Ghuge: And sir, your debt has gone up significantly if I compare with the FY19 number the short term and long terms as well. So, what is the reason behind that and will it come down or will it remain …

Abhiraj Choksey: We took a small amount, I don't think it is significantly in percentage terms, yes. But in absolute terms I think we have taken a loan of about 20 crores the term loan for these projects are on-going. In fact we had, after the acquisition we made a plan for 100 crores out of which 74 crores have been spent so far. And so, we took a loan of 20 crores, rest has been all through internal accrual, so far. There has been the only long term CAPEX, long term loan that we have taken. I do not recall why others.

Nilesh Ghuge: Yes, but it will go further because still you are pending with the 25 crores of CAPEX. So, will it go further in the current environment?

Abhiraj Choksey: Not really, we have the cash for it and maybe by 5 crores-10 crores you are there first some bridge sort of funding. But we also have cash in the books, so which we have left specially for maybe potential opportunities and acquisitions or some amount for CAPEX and some amount to tied-over difficult times in case they do a tie. So, we strongly feel that balance sheet is extremely healthy and our debt levels are very low relatively.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Singh Services. Please go ahead.

Ankit Kanodia: If I got it right, volumes increased marginally for us and realization went down due to change in product mix. So, can you please explain us to what was the product mix earlier compared to this quarter as in …

Abhiraj Choksey: So, product mix is one thing and also for NBR realization has come down and prices have not come down. So, that has been a real problem. So, we did compare to Q2 of last year Q2 of last year as I mentioned before in previous calls, on average our business is 50% synthetic rubber, 50% synthetic latex. Q2 of last year for whatever I think synthetic rubber was a little bit more maybe 50% to 53%. And this year we have seen synthetic rubber fall from 50% to 53% to 45% in Q2 of this year. So, synthetic rubber is more than twice the value per KG of latex. As a result of which we are selling more latex but selling less rubber and so, overall because of that product mix our overall value has come down. In addition to that rubber which sells us in, NBR especially the prices are really crashed over the last 2-3 months. So, that definitely one of the reasons why the overall topline is down.

Ankit Kanodia: So, do we expect that to change in the next couple of quarters for the year?

Abhiraj Choksey: No, I think so because it is not sustainable, number one. And I think if the last 3.5 years and I think we know what margins are supposed to be. We have done so many things to reduce costs at our end**.** For example, in CPP will also, once the CPP is commissioned that will help in reducing cost further improving. So, we move what margins are supposed to be and there are obviously, months where there are margins can be higher and some months there are lower but this last 3 months period which is August, September last 2 to 3 months period is there has been the lowest that you have ever seen it. So, I think it, for example we have seen it 10 years ago during the 2008-2009 crises where both volumes and margins really hit badly for our company and not only our company of course, worldwide when that happened and that lasted for about 4-5 months, that period. So, typically we see 1 or 2 quarters these kinds of things we have seen. Therefore history is anything to go by typically in 1 or 2 quarters things do correct.

Ankit Kanodia: And the second question is how much of our percentage export was to Pakistan earlier?

Abhiraj Choksey: We do not give exact numbers but obviously it was a reasonably good amount. And we said that not that it was very significant as a total of exports but it was enough that whatever efforts we have put in it suddenly gone to zero. So, obviously it was, in that sense of strategic market because Pakistan has no production of the products that we manufacture. So, they were importing from East Asia, from Europe and we were able to substitute that over the last 2-3 years. But we see the reason that market is no longer available for us right now.

Ankit Kanodia: So, given the political situation do we see that coming back to us

Abhiraj Choksey: Tough to predict, what happens politically.

Moderator: Thank you. The next question is from the line of Jigar Shroff from Financial Research. Please go ahead.

Jigar Shroff: Sir, in your perception, I mean do you think this has been a tough quarter in terms of volumes and realization. That is my first question? Secondly, when do you anticipate a normalized margin of getting back to 10%-11% more so after the CPP getting commissioned in November? Because I think the last con call you mentioned you expect to end Q4 with an EBITDA margin of 13%-14%, sir. Thank you.

Abhiraj Choksey: So, as I mentioned to some of the previous callers that volume and margins have certainly been affected. It is a tough, there is no doubt about it. But having said that volumes for latex are quite healthy for Q2 where we have seen a real hit is on NBR business. And what was your second question, I am sorry. Again, difficult to predict but typically we have seen in the cycle like is it 1 or 2 quarters if history is anything to go by. These 1 or 2 quarters it does happen and then things correct itself, whether it is on the margin front or the volume front at least in my experience over the last 15 years, I mean we have had couple of quarters that has been difficult and I think we are going through that period right now.

Jigar Shroff: It is continuing in this quarter as well?

Abhiraj Choksey: Yes, so far yes. It is, the challenge remains, the headwinds are still there.

Jigar Shroff: So, but you would believe say by the fourth quarter I think, things should be normalized?

Abhiraj Choksey: I hope so.

Jigar Shroff: From your experiences?

Abhiraj Choksey: I hope so, yes. I mean, if history is anything to go by we have not seen more than 2 quarters such a dip. Again I want to, again reiterate the look as a business overall there are pockets which we are doing very well in. But there is one pocket that is obviously affected the results of the company significantly.

Jigar Shroff: And you will also get a leg up from the CPP plant, right?

Abhiraj Choksey: Sure, yes that is of course but having said that, that was over and above what you are already seen about 11%-12%, right. So, when you are that itself is in question, CPP will certainly help either way.

Jigar Shroff: That is how you are predicted around 13%-14% EBITDA margins on Q4?

Abhiraj Choksey: Correct.

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

Dhavan Shah: I have few questions. Firstly, about the NBR prices, so our realization for NBR was around $2,400 per tonnes if I remember correctly. So, what is the pricing difference our finished product price and the imported price from Europe, right now? I mean, what is the selling price from Europe for NBR?

Abhiraj Choksey: Frankly, is on the pricing eventually evens out because once the pricing comes, I mean this is public knowledge, so I can mentioned it. But the current price of NBR in the market in India and in India is about $1,700 to $1,750 per tonnes. So, what you are saying is right that at some point few months ago it was 2,200-2,300 maybe as high 2,400 I do not exactly recall. And that price has come crashing down to $1,700. Now, we have forced to compete $1,700 is not a viable price given the current raw material prices for NBR. But we are forced to compete, so prices from Europe par at 1,650-1,700-1,750 generally in a range plus minus $50 of $1,700. So, we are forced to compete that price.

Dhavan Shah: And quality wise is there any mentality for the Indian the consumers that the we are getting European quality at lesser price, so I think we should prefer the European product right now rather than the Indian ones even though you reduce the prices.

Abhiraj Choksey: We have worked really hard over the last 3.5 years since we acquired the company to break that mentality. And I think in most applications and most customers we have been quite successful in doing so. So, I do not think the current case is that we need to give a discount just because we are an Indian supplier. As long as we are competing at a similar price level they are happy to take from us because we do provide certain advantages. For example, logistics, today they want to buy from us they pick up the phone and the material is with Indian customers in anywhere between 1 to 5 days. Whereas, buy from Europe they have plan 1.5 to 2 months in advance. And in this kind of scenario not a lot of customers want to take that inventory risk of planning 1.5 and 2 months in advance. So, we offer certain advantages in fact to the customers and in some cases we have been able to charge a premium to European supplier.

Dhavan Shah: So, who is the player from the European market producing the NBR?

Abhiraj Choksey: There are only 2 players in Europe that manufacturer NBR, I request you to look it up online.

Dhavan Shah: And do you have the capacity that overall NBR capacity?

Abhiraj Choksey: Capacity of?

Dhavan Shah: I mean, those 2 producers NBR capacity do you have that number?

Abhiraj Choksey: I have it somewhere, yes sure but again it is easily available online,. I am sure you can.

Dhavan Shah: And normally, I mean what price level do you see for NBR, I mean maybe we may have made some operational losses at the NBR Indian behind segment for this quarter maybe the low single digit margin? So, what price level can you, I mean that can help you to reach around 8% to 10% operating margin?

Abhiraj Choksey: Look again the finished goods price is in relation to raw material prices. So, for example if raw material as you said finished goods prices over the last 3-4 months probably dropped by maybe I am just trying to see in percentage terms were about 15% to 20% and little bit more than that as well .And so we would, ideally like it go back to that level. The all raw material prices to drop by that level.

Dhavan Shah: But Butadiene cost for Asia is up, right? And the same for Europe is down, so our prices is link to the Asian prices, right?

Abhiraj Choksey: Yes, but that was of Q2, in Q3 that changing slowly.

Dhavan Shah: But in Europe, I mean if you see the auto demand is also not that good. So, do you still foresee that the European prices may, I mean go up or maybe raw material prices for Asia should go down? I mean, what is your take on that?

Abhiraj Choksey: Again hard to predict but over if you see the last 10 to 15 years and we have studied this is that eventually there is a delta, an average delta between European Asian raw material prices. And right now that is much higher than the average delta. We are hoping that we will correct an average itself out over the next 1 or 2 months.

Dhavan Shah: And one last question is how much price …

Abhiraj Choksey: Again this is public information, so in October we were seeing the trend where Asian raw material prices are correcting somewhat slowly. But they are correcting marginally and European prices are marginally going up. So, it is happening slowly at least as of today.

Dhavan Shah: And one last question is the pricing. I mean, how much price decline have we taken for NBR last quarter and we were operating at around 100% utilization, around 16,000 tonnes. So, what was the utilization level last quarter if you can share?

Abhiraj Choksey: As far as production utilization is concerned, we were almost at 100% capacity utilization even last quarter. And we took a conscious call to not stop production in Q2 and therefore if you see our inventory levels are also little higher. We made all the specialty products, we also, so that for the next 3 to 4 months we wanted to have enough inventory because you were anticipating some complete plant shutdowns to hook up the CPP as well as some debottlenecking projects. So, we were expecting that in Q3. In addition to that, of course volumes have been softer, so in Q2 we did not have any major reduction in capacity utilization, production wise.

Dhavan Shah: And price wise?

Abhiraj Choksey: Price wise again it is public information you can track the NBR prices what they were in let us June and what they are in today. So, while as I said 20% lower.

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

Faruk Mandole: I just had a couple of questions on raw material. In the last call we had spoken about high cost raw material impacting margins. I just wanted to know has that continued in this quarter as well or are we over that impact, in raw material inventory impact? And in terms of the absolute prices of raw materials how much have they come off in currently from the last quarter?

Abhiraj Choksey: So, as far as cost of raw material is concerned, yes it has been pretty stable in Q2 marginally gone up. We have not really had that kind of impact as I said the main issue has been NBR prices crashing nothing else. Raw material prices have been fairly stable in Q2 between July

and September. Your second question, I did not understand if you can explain to me about absolute prices?

Faruk Mandole: No, so the high cost cost of inventory you had of raw materials in the last quarter that has sort of worked itself through the system at this point in time.

Abhiraj Choksey: Yes, by, I think by middle of October it has been all utilized.

Faruk Mandole: In the last 3 months how much have raw material or last 4 months how much have raw material prices come off?

Abhiraj Choksey: They really have not come off much. It has been, well it depends, so we have 3 or 4 major raw materials. I would say 2 of them have been largely stable and one of them that we got stuck with inventory Acrylonitrile that is come off, of course. That has come down by about 20% and that will help us in October, I guess going forward.

Faruk Mandole: NBR prices have come off from 2,400 to 1,700 but the raw material prices have still remain relatively stable apart from the one that you mentioned.

Abhiraj Choksey: Yes, exactly.

Faruk Mandole: Obviously, I am presuming you guys are more efficient in most other producers and to that extent as we see more shutdowns and that could help the overall dynamics of the market.

Abhiraj Choksey: Yes, I mean look it is early in the game, right. I mean, I just mentioned to a previous caller that one of our competitors in Korea has shut down, I mean, announced to shut down of their plant for one month. That could help, I am not sure. Having said that structurally currently there is an issue with the auto industry that was an NBR, auto industry we were the largest consumer NBR globally, not in India but globally has an impact. So, if I answered your question.

Faruk Mandole: Also if there is any visibility you could give to us for the second half? I know, it is difficult and I know there are so many moving parts and I know you guys do not give guidance but any color you can share of the second half as you see in today's sitting at the end of October would be very useful in light of…..

Abhiraj Choksey: Yes, but 2 things I will mention to you. One is, as you said there are many moving parts and difficult to predict. Having said that there are certainly headwinds again I do not want to repeat but the same thing that I mentioned. But there are some sort of, there are some lights at the end of the tunnel as well. One of which being raw material prices slowly softening. Second being the differential between European and Asian raw material prices coming down. The third and this may not be immediate but third thing about India and the Indian auto industry one is the BS VI Norms that some of you may be aware off that is from April 1st 2020 all vehicles that supposed to adhere to BS VI Norms and no car companies are allowed to sell any other, the BS

IV cars any more. So, there is a correction of inventory happening at the car company level at least that will be behind us, I think, somewhere between after 7 March. Because those inventory should be exhaust and all the new BS VI car should come. So, I know, a lot of consumers are waiting for the new cars with the BS VI norms. I know a lot of producers are cutting down on inventory because they do not want to be stuck with cars with the old norms they will not be able to sell post April 1st. So, some of those uncertainties around that BS VI will come down. There is also an issue of this NBFC crisis and we are hoping with all the clean-up happening again in the next 3 to 4 months liquidity should improve with all the stuff that the government is doing. That should make loans easy it should help the demand side. There are some talks about GST and the government looking at some of the GST rates on autos and some other products. So, there are a lot of things happening that are positive. And also from a long term perspective again I mentioned for this. So this is in the short term since you asked about the next 6 months and this is just a general outlook. So, we are quite positive for the next 6 months even in spite of the current headwinds. In the long term nothing changes for us and the management and the Board both are fairly, are very bullish about the strategy of Nitrile Latex which is going well as well as the Nitrile Rubber expansion which you believe in the long run we still have a good opportunity. However, yes this we have to wait and watch what happened in the short term.

Faruk Mandole: Having said that given that we are where we are and all of the questions that you field in on this call. I remember from previous calls you mentioned that there was some amount of sort of flexibility in terms of your manufacturing between latex and rubber. And so, could you use this as an opportunity to sort of accelerate your gloves project and may be throw some more capacity that way and sort of accelerate that whole process given that market is so attractive and large and again import substitutable in India, etc. Is that at all a possibility?

Abhiraj Choksey: See, Faruk that kind of stuff happen has to be almost…. So just to give you an example, you have a series of reactors that make Nitrile Latex and then we dry to make Nitrile rubber. I think, I had mentioned some of these technicalities due in the previous call. Now, we could take out a couple of reactors to make Nitrile Latex. But we have to make some modifications that would take a few months, 2 to 3 months to do and then it is a permanent nature. So, we do not like doing that because we, so unless we know for a fact that look we are reducing the capacity for NBR and giving to NBR latex that is the different issue. But as of today we have not reach that conclusion. So, we would not like to sort of godown that path because that will reduce capacity somewhere else. Taloja we are completely flexible where we are making Nitrile Latex. That is how we are able to do it, so.

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

Suvarna Joshi: Just if you could throw some light on your working capital cash conversion cycle because I see now compared to your March balance sheet and September balance sheet, there has been

quite a good amount of reduction in trade receivables that I see. So, if you could just share your thoughts on that will be really helpful.

Abhiraj Choksey: I am just trying to see trade receivables. Just give me one second. I am just looking at the data.

As the realizable value goes down and as revenue has dropped automatically the receivables also drop on absolute basis, right. They have not done anything special to reduce our trade receivables.

Suvarna Joshi: That is the only reason is what I want to understand.

Abhiraj Choksey: Yes, absolutely.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: Sir, I was just going through your balance sheet and if I see the other long term liabilities has shot up from 1 crores to 18 crores for first half 2020. So, what is this?

Abhiraj Choksey: We have taken one term loan for these current projects that are going on. That is about it.

Karan Bhatelia: So, total debt on balance sheet is 14 crores for short term debts and how much for long term?

Abhiraj Choksey: 18 crores no, that is what you mentioned.

Karan Bhatelia: So, total of 32 crores debt as on balance sheet.

Abhiraj Choksey: Yes, this is including working capital, of course.

Moderator: Thank you. Due to time constrain that was the last question for this conference. I would now like to hand the conference over to management for closing comments.

Abhiraj Choksey: I would like to thank everyone that participates in this call. We do understand is a challenging times and I really appreciate everyone taking the time off and really listening to us and understanding the point of view .And as I mentioned we are quite bullish and optimistic about the long term prospects about our business. However, in every business and we have seen it in the last few decades we have been in business that these kind of cycles and these kind of issues do happen. We have to wait and watch and guided out. Once again thank you and we really appreciate you coming out and spending one hour with us on the call. Look forward to catching up with all of you in Q3. Thanks.

Moderator: Thank you so much. On behalf of Apcotex Industries, we conclude this conference. Thank you for joining us and you may now disconnect your lines.