Apcotex Industries Limited
Q3 FY20 Earnings Conference Call
February 17, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY20 Earnings Conference Call of Apcotex Industries Limited. As a reminder all participant's 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 this conference call please signal an operator by pressing "0" followed by "*" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to handover the conference to Mr. Anuj Sonpal, CEO of Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Thank you. Good evening, everyone and a warm welcome to you all. My name is Anuj Sonpal 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 conference call for the third quarter of financial year 2020. Before we begin, I would like to mention a short cautionary statement as always.

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 those 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 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 with us in today's earnings call. We have with us Mr. Abhiraj Choksey - Managing Director and Mr. Anand Kumashi - Company Secretary. Without much delay, I request Mr. Kumashi to give his opening remarks. Thank you and over to you, sir.

Anand Kumashi: Thank you Anuj. Good evening and welcome everyone to this earning conference call for Q3 FY20 under the review. Along with me in today's earnings call I have Managing Director, Mr. Abhiraj Choksey, I hope you had an opportunity to look at the company's performance for Q3 FY20 as well as earning presentation, which has been circulated and uploaded on the website and the stock exchanges. Moving on to the financial performance for the third quarter, the net revenue stood at 110 crore, the operating EBITDA stood at 0.6 crore for the quarter and there was a loss recorded of around 1 crore. For nine months ended FY20 the net revenue stood at 380 crore and operating EBITDA stood at 25 crore. The operating EBITDA margin were 6.68%. The PAT was around 14 crore with PAT margin of around 3.58%.

Some of the key operating highlights for the quarter as under. From the numbers you can make out that this quarter definitely had a quite few challenges, which hit the company at the same time. We all are aware about the slowdown in the auto sector and other industries which are naturally had a trickled down the impact of the company as well as in the well affected entire values and margins.

The overall slowdown in the Indian market has also affected our values in the papers, carpet and construction industry. However, the signs of smart recovery has been showing up in the fourth quarter.

On the exports front too the company was adversely affected due to lower Monomer prices in Europe compared to Asia, which has now started correcting in Q4. The company is taking measures on all fronts to review the financial growth and profitability. Although it is difficult to say that at this time, how quickly the results of these efforts will show, but we are confident that it will happen, lastly we are happy to inform you that, out of INR investment of about 100 crore CAPEX for phase one, 85 crore has been deployed till 31st December 2019, and the rest will be completed by the end of this financial year. Captive power plant will be commissioned soon which is expected to save power cost in Valia plant from April 2020. Also our debottlenecking project is expected to be completed in Q1 FY21 which will increase our production capacity to about 20,000 metric tonne per annum and will further help us to reduce the operational cost. We are taking continuous efforts in implementing several other cost saving projects for next one or two quarters, which will enable us to save the cost. For our two major projects in the pipeline, which are XNBR Latex and Polymerization Line 2 designing and consent application finally started. With this I would like to open the line for question answers. Thank you.

Moderator: Thank you. We have a question from the line of Faruk from Avista. Line is unmuted.

Faruk Pandole: I just had a couple of questions. Firstly, I just wanted to know why we have these, continued delays on the CPP. And if you recall, we have discussed this in the last call as well. We were talking about the present time or a little bit before the present time as being a potential start date or commissioning date for the CPP. And now, in the presentation, I see that we're talking about April. So?

Abhiraj Choksey: Sorry can you identify yourself again?

Faruk Pandole: This is Faruk Pandole here from Avista. So on the commissioning of the CPP that was one question and sort of how confident are we about that. And also, what is our current net cash position? And just related to that, is the 240 crore that we are planning on spending on the two projects. Is that the sort of large CAPEX that we have been discussing all along?

Abhiraj Choksey: Yes, so starting the CPP first we are actually commissioning it in the next week. 26th or 27th is the date that we're looking at. And so the presentation says, by the time it sort of settles down, therefore conservatively we said we'll start sort of accruing the benefits of that fully from Q1 of next year. So that by and large all target are of February date. And the second question, yes, the 240 crore that we are talking about are the two projects of Nitrile Latex and NBR Line 2. The two things we are in the design phase as was mentioned last time, there's been some delay because the CPP has been delayed by three or four months from the original plan. There were a couple of reasons for that some internal, some one or the other reasons was that the monsoon this time, which we had budgeted for some time in October, November post monsoon, to do some civil work. Unfortunately, it rained in Gujarat till almost the middle of November, November 20 or so. And therefore, some of the civil work was delayed and therefore the project has been delayed to about Feb end because of that, our project team has been sort of busy and diverted to that for a bit till that is over, we are prioritizing that. But, as far as the basic designing of at least one of the projects is already, actually almost getting over i.e. Nitrile Latex project. And we will soon give detailed engineering for that project. The second thing, of course, has been the last three or four months has been extremely challenging and as far as the cash flow position where in a company is quite healthy in terms of the balance sheet, we are a net cash positive company as you would know from the balance sheet. But we were, of course looking at the accruals which haven't come in the last three, four months as expected in the last quarter as expected to also fund part of the project. Especially NBR Polymerization Line 2, we still believe in the long run it's a good project. But of course, in the short term we have to manage our cash flow. So it will be a combination of debt and internal accruals that we had planned to do. But given the recent challenges, obviously, that also we are sort of relooking at it. Having said that there is no rethinking strategically it may be in terms of timeline there may be a delay.

Faruk Pandole: So what is our current net cash position as of December?

Abhiraj Choksey: So you are subtracting working capital debt also?

Faruk Pandole: No, if we leave aside working capital?

Abhiraj Choksey: If you leave aside working capital it's about 70 crore is the cash position minus 20 crore is the term loan, so about 50 crore.

Faruk Pandole: Okay, got it. And just lastly you had mentioned in the presentation that the differentials between Europe and Asia, which were a big issue in the previous quarter, and I guess have also been an issue in this quarter have at the end of this quarter started to reverse. So could you just sort of describe with a little bit of data, you know how bad things were and where we're at right now and why you are more positive going forward?

Abhiraj Choksey: So typically we have seen that monomer prices are about 5 to 8% lower in Europe on average, some monomers are sometimes 10 or 12%, some are even higher than in India, that's typically. But last quarter, we saw two things, one is monomer prices were coming down. And so as a percentage, the difference and even on dollar to dollar basis and difference was as high as 25% for a period of two months, where Europe was much cheaper, so that resulted in not being able to export competitively in some of the markets where our European competitors also supply, namely Middle East, Southeast Asia, Europe, and that started reversing in December and now we're back to normal levels or less below normal levels. So, again, our Q4 exports are sort of extremely strong.

Faruk Pandole: So you expect the Q4 of the export side to be obviously much stronger than this quarter and the previous quarter?

Abhiraj Choksey: Absolutely, yes. And I'll just sort of preempt some questions that will come. This taking a few on that, there were three or more reasons. One is we export that I mentioned in Q3. The second one is slowdown in auto and allied industries that affected the entire Valia business, both in terms of volume and more so in terms of margin. So both for NBR and all are allied projects. Also, there was a period of two months where in fact, we had a situation where the finished goods prices were lower than our variable costs. We have not seen that in the last four years since the acquisition. There of course, started turning In December, so for some of our product it was negative margins and it was just not, it was better to shut the plant and do business here frankly. And then besides auto also at least in October, November and early parts of December there was overall sluggishness that we saw in the Indian market for the industries that we have catered to which is paper, carpet and construction and tyres all four. Again that is sharply recovered I would say towards the end of December, but more so in January. So besides the margins in the Valia business, the NBR business which are still fairly challenging compared to let's say, Q1 and FY18-19. At least right now in Q4 the rest of it seems to have reversed so we're quite sort of confident that Q4 will be reasonably better than to Q3. However, there are still some challenges that do remain mainly around the NBR margins business. I hope that answers your questions and for some of the other participants on the call.

Faruk Pandole: Yes, that makes things much more clear. Just given everything that you've said, would you be able to hazard the revenue number for the fourth quarter that you're looking at?

Abhiraj Choksey: No, I don't really give out exact numbers, we don't do that as a policy, but safe to say it will be significantly better than Q3 in terms of revenue. However, as I said in our kind of business revenue is also a functional oil prices and downstream petrochemical prices. So for us, revenue, to some extent is not the most critical number. It's the margin that's important. But in terms of volumes, we definitely see a significant growth in volume and of course that will affects revenue as well. There was one more reason we also saw significant fall in raw material prices over the last quarter, which led to some stock losses, which is normal. That just wasn't significant, but it added to the losses to some extent, just wanted to add that as an extra point. So there were total five things that went wrong in Q3 mostly around the business environment that unfortunately, all came together at one time.

Moderator: Thank you. Next question comes from the line of Rohit Sinha from Emkay Global. Your line is unmuted, you may go ahead.

Rohit Sinha: I think this quarter was a very much one off kind of the quarter everyone would be expecting. Just wanted to know how much was the overall volume this quarter and the price stretching in that and the revenue if you could share?

Abhiraj Choksey: Again we don't share exact numbers but what I'll give you is the broad indication, there has been a sort of low double digit and by low double digit I mean about 10 to 15% reduction in volume, the rest of it is just because of pricing, the pricing coming down. But we have certainly seen a hit in volumes compared to Q3 of last year corresponding.

Rohit Sinha: Okay. And in terms of exports side, if you are saying that Q4 would be better things from growth, so is it only from the carpet side or from other segment also and in carpet segment also I would like to know whether our major customer in the Middle East has been there or still you are looking for that?

Abhiraj Choksey: No, so that was actually not a carpet customer it was more of a specialty product customer that had a fire about two years ago they have not come back there is some legal issue and we are no longer considering them as part of our strategic plan anymore, as in when they do come up we'll see but as of now we have no hopes that they will back with some legal issues around that plant. We had an export growth across sectors, carpet has been especially strong, but across sectors in Q4 we've had good growth in export.

Rohit Sinha: Okay. And next on the margin side, as we are very much intended with the movement of the RM prices, so this quarter's margin product even in last quarter also there was a sharp margin contraction. So, I think everyone would be also be looking at least margin in the margin front would be able to sustain certain level. So just on the ballpark number, whether what kind of margins we will be looking at in the Q4 or going forward. We were anticipating 10, 15% kind of EBITDA margin for long time?

Abhiraj Choksey: Yes. Look it's hard to say, given the business environment especially around auto and our NBR business. So let me put it this way, the rest of the business we expect the margins to be back to normal around 11, 12% EBITDA margins, the only problem as a company we may not be able to achieve that immediately because the NBR business margins, contribution margins are fairly, it's fairly challenged right now. And so, I think it will take some more time, hard to predict how long but certainly Q4 margin will also be not back to normal, I would say 11, 12% that we've had, in fact, our last year FY18-19 was close to 11%, if I'm not mistaken. So Q4 will be definitely better than Q3. But we'll have to wait and see what happens in the business environment and see if that improves. And talking about the actions that we have taken, we certainly expect from Q1 of next year, so Q1 of 2021 as we mentioned, the CPP will be commissioned, that will help in reduction of costs. We'll also be completing finally completing all our debottlenecking projects which will take our capacity up to 20,000 tonne. So of course if productivity goes up per unit cost go down as well that will help in improving margins. We have certain other costsaving ideas that will be implemented over the next one or two quarters that will help to improve margins. We are also working with the government to, there is a little bit of dumping going on from abroad for the NBR. So we are working with the right authorities to try and see how we can rectify that. So, of course, that will take a little longer at least 6 to 8 months but these are the few things that we have done.

Rohit Sinha: And one last thing on the CAPEX side. As you mentioned, that around 85 crores is deployed so just what's the picture for FY20 and 21. On the CAPEX number?

Abhiraj Choksey: Frankly the CAPEX, it will be the major CAPEX of these Nitrile Latex project which is about 60 crore that we are budgeting for now. The basic engineering is going on final numbers will be out in a couple of months, couple of weeks maybe, maybe my next month. And other than that, we don't really have any major projects. Otherwise it will be maintenance CAPEX, as we call it which is generally about 10 - 12 crore a year. We don't have any other major CAPEX plans. We have not exactly worked our annual numbers for 20-21 and 21-22 just yet. We're just starting the process of budgeting for next year. So, I think I should have a clear answer by the next concall. Where we can give you exact breakup of the of the CAPEX over two years.

Moderator: Thank you Mr. Sinha for your question. Next question comes from the line of Ankit from Smart Singh Services. Your line is unmuted, you may go ahead.

Ankit Kanodia: I wanted to know about your brand ApcoBuild so don't find any mention in the annual report or presentation so can you just throw some light how is it doing and in terms of revenue?

Abhiraj Choksey: Thanks for pointing out, will certainly mentioned it now, we are very excited about it. We've seen some good growth, actually it is of course, still a small part of the business. We don't give out separate numbers yet. But we've had our best years that we have had for ApcoBuild in a long time, last year and a year before. So, it was the best year in 19-20 will be our best. In terms of revenue as well as our bottom line. We should mention it in our annual report and we've been missing in doing that we will make that correction. So it's going well, do you have any specific question. I am sorry, I can't give you exact numbers. Yes, I can tell you that we have expanded from, we were earlier only in the Mumbai region, we have expanded to Pune and now to Gujarat as well some parts of Gujarat that we are looking at. So we're slowly expanding the region that we operate in. But so far, we've been more in the Mumbai region only Mumbai and Pune.

Ankit Kanodia: Is it possible for you to share as in, what kind of numbers, I am not asking for the exact number say, how much of your turnover it would be having in the next couple of years down the line?

Abhiraj Choksey: I don't want to venture again but I can safely say it's very small in terms of revenue. What we're excited about is actually the synergies between the two businesses because a lot of the materials were able to make or we are developed a business to outsource the ones that we don't and create new products out of the materials that we do make. So the idea would be to capture the margin and the profitability of the business is quite good, but it's still a very small part of our, in the single digits in terms of percentage of our total business.

Ankit Kanodia: Okay, and are we looking at expanding it in the next couple of years or three years?

Abhiraj Choksey: Yes, absolutely. So the expansion would be more in terms of entering new markets and building the team. And the B2B business would support it, of course.

Ankit Kanodia: And we don't need any extra capacity addition from our side, no CAPEX requirement from our side for this specifically right?

Abhiraj Choksey: No, it will be part of what we already have.

Moderator: Thank you Mr. Kanodia. Next question comes from the line of Dhavan Shah from ICICI Security. The line is unmuted you may ask your question.

Dhavan Shah: So, I have a question on the gross margins. So the Butadiene in prices have come down to around the $800 per tonne South Asia market versus around $1000 per tonne last quarter. So, firstly what is the inventory loss, this 11.6 crore mentioned in the changes inventory. So, this entire is the inventory loss and secondly, how much high cost inventory is there in the order books and given that the prices have come down So, can we see the gross margins moving to around 30% odd from the next one or two quarter?

Abhiraj Choksey: Difficult to predict what the what gross margin will come back to, but certainly we did have not so Butadiene stock but because of whenever and it's not just Butadiene, Butadiene is one of our raw materials, there is Styrene, acrylonitrile we have a bunch of other raw materials also now, that are equally as important and with the raw material prices coming down, it's not so much raw material stock that we had. It's more about the finished good stock at higher prices that we had certainly that was an impact as I mentioned in my earlier statement. As far as your I'm not sure where that 11.6 crore you?

Dhavan Shah: In the income statement, in the inventory this is minus 11.65 crore?

Abhiraj Choksey: That change in inventory.

Dhavan Shah: Inventory revaluation or something?

Abhiraj Choksey: It's not realization, it is difference between opening and closing inventory.

Dhavan Shah: Okay. And about the gross margins, given that Butadiene prices may remain at around this level. So is it safe to assume that with these two the earlier gross margin level?

Abhiraj Choksey: Well Butadiene has come down and as I mentioned, it's also a factor of what NBR prices and other finished goods prices are. The other finished good, we are quite happy with the gross margins for all of all of our other products. The only product where there is a challenge has been NBR where gross margins are not as good as it used to be and unlikely to recover, at least in Q4. We're not seeing that significant recovery. While it's improved a little bit we're not seeing a significant recovery in Q4. There's been a lot of dumping happening from imports, especially from Korea. So we did file and antidumping petition in early January, which was accepted and prima facie there is a good case is what the designated authority has ruled and the initiation for that cases has started just early February. But as I said, that'll take a few months before. at least 6 to 8 months before that will come into fruition.

Dhavan Shah: So what is the price differentiation between the dumping amount and your selling value?

Abhiraj Choksey: Sorry, can you repeat the question?

Dhavan Shah: What is the pricing differentiation between, the NBR imports from the South Korea and you're selling price, and if the antidumping comes in then what kind of antidumping duty do you envisage?

Abhiraj Choksey: So we have actually had to depress our prices to compete with them. But compared to 6 months ago, the prices are down by at least 20 to 25% in terms of what they should have been. So, unfortunately it's not for us to envisage what the dumping margins will be, the DA the designated authority in the Ministry of Commerce, part of the Ministry of Commerce, decides that.

Moderator: Thank you, Mr. Shah. Next question comes from the line of Karan Bhatelia from Asian Market Securities. Your line is unmuted.

Karan Bhatelia: If you can throw some light on the revenue mix how is that shaped, in this quarter in for nine months FY20?

Abhiraj Choksey: Can you be more specific in terms of what you're looking for?

Karan Bhatelia: In the previous quarter, we saw our Latex revenue share increasing and this is where we had some impact on realizations in margins. So like are we back to 50-50, 50 Latex and 50 Synthetic Rubber or we are still tilted to Latex?

Abhiraj Choksey: I am just looking at percentage number just one second. I would say that in the last quarter also, I think we are still more towards Latex because the NBR business has not done well in terms of volumes as well. Still a larger chunk would be Latex I don't have the exact number I'm sorry in terms of percentage. I am sorry, I don't have a it.

Karan Bhatelia: So is it to the similar number for 2Q?

Abhiraj Choksey: Yes, do you recall Q2 number sometimes you all know the numbers better than I do, what was that Q2 numbers that we have mentioned?

Karan Bhatelia: 55% coming so that number remains constant?

Abhiraj Choksey: I guess it will be about the same for Q3 as well.

Karan Bhatelia: Okay. And sir some light on the prices of our key raw materials, how much it was down for Q3 on an average basis and how much improvement or dip till date has happened?

Abhiraj Choksey: In the in the raw material price?

Karan Bhatelia: Correct in Q3 how much it was done for our key raw material?

Abhiraj Choksey: It varies but it was down by about 15 to 20% across the board for most of our raw material. No, actually it was down by about 20%.

Karan Bhatelia: And how it shaped up we are almost 40 days to 4Q and how it utilize?

Abhiraj Choksey: It's funny, actually January it went up marginally. But in February it's coming down again because of this whole coronavirus situation and oil coming down so it's hard to predict, it's up and down what the average will be it's hard to say.

Karan Bhatelia: Correct and any benefit of the corona thing directly or indirectly?

Abhiraj Choksey: No, not really we don't compete with China, nor do we have a lot of customers in China, we don't export much to China. So no real benefit as such. In fact, what we're worried about is in the long run if this coronavirus situation is not controlled is not good for the world economy, not good for the world supply chain because so much stuff made in China. We have some suppliers in China and they have already delayed their shipments. And if they delay it further then there is a big problem because we will have to then suddenly import this from US and Europe where the lead times are longer. So while we are okay till March end, if this coronavirus thing is not resolved soon, it will certainly have an impact on some of our supply chain temporarily and I would say worldwide, it will have an impact on a lot of supply chain. So it's really not good if it's not brought under control soon. And if ships from China don't start moving soon.

Karan Bhatelia: Correct. Sir any update on the new product launches. We had recently an XNBR Latex how has things shaped up there?

Abhiraj Choksey: Good we've had, fairly large part of trials that are going on the first set of trials in Malaysia and India have been very successful because there were some issues like any new product launch, but we have overcome those and we are going for a larger bulk trials that are going on. So we're selling good quantities from our Taloja plant. As mentioned in my previous statements, we have almost finished basic engineering for that project and we will soon start detailed engineering. And once we get some environmental concerns that we are waiting on, we will break ground, hopefully in Q1 of FY20-21.

Karan Bhatelia: Right, so FY20 CAPEX number will include the CAPEX for this XNBR Latex 50 crore?

Abhiraj Choksey: No, FY20 we have not started CAPEX besides some small cost or basic engineering we have not really done anything.

Karan Bhatelia: So I think the balance 15 crore is for the Valia plant and 10 - 12 crore of maintenance so somewhere 25 to 30 crore. CAPEX for 20 is doable?

Abhiraj Choksey: FY20?

Karan Bhatelia: Yes, we have 15 crore of balance CAPEX for Valia right, and apart from that 10 - 12 crore maintenance CAPEX you mentioned earlier.

Abhiraj Choksey: No, 10 - 12 is for the whole year. For the quarter maybe another 1 or 2 crore around 16, 17 crore is left for Q4 and 17 crore is what we have left for Q4.

Karan Bhatelia: And slightly higher CAPEX for FY21?

Abhiraj Choksey: Not really. I will see, I don't know, it depends on how the NBT Polymerization Line 2 progresses and how quickly we can do that, because we will need an environmental clearance for that as well. But if that happens, yes maybe but without that, I don't think we'll have more than, 70, 75 crore CAPEX in FY20-21 assuming we finish our entire Nitrile Latex project also in FY20-21. So, as I said, I'll have more clarity in the next concall regarding all that but I don't think it will be more than 60, 70 crore.

Moderator: Thank you so much for your question. Next question comes from the line of Rohit Prakash from Marshmallow Capital. Your line is unmuted, you may go ahead.

Rohit Prakash: Following up on the previous participants question on the B2C business of ApcoBuild. Could you give us a little more flavor on how many products do we sell right now. What are the barriers to entry that you enjoy in the segment right now? And are you increasing the number of offerings to the customer in addition to expanding the distribution network?

Abhiraj Choksey: Yes, so we have about 20 to 25 products in this segment. We have two or three things that we working on because as you know, this segment is competitive. There are already players in place who have been there for many years before we started we are focusing on our strengths. Some of the products that we do have are extremely innovative and not offered in the markets we're looking at exclusive and value added products that are really adding value to the way construction chemicals are being used today, we are focusing on the regions where we are strong in, where are plants are in the West. So looking at Maharashtra and Gujarat, the market is large enough, and as I said, our main objective for this business is not really revenue, we don't expect a huge amount of revenue another 300 400 crore to come from this business, but it's more so using the synergies of both the businesses and really capturing the margin. And we are looking to growth in business we don't give out specific numbers of this business. But again, I am mentioning again that it's a much smaller business in terms of revenue.

Rohit Prakash: Understood. I remember I think in one concall in the past you had mentioned that concentrating the management bandwidth on the Latex as well as NBR project at that point of time, and this was not getting enough. So with the NBR project, sort of maybe in the back bone and now do you want to put a lot of energy into scaling this up profitability wise for much further?

Abhiraj Choksey: Absolutely and frankly, we have done that in the last year, year and a half. Once the acquisition sort of settled down, we did put in a lot of effort, and we have added a lot of manpower to sort of grow this business. But we also want to grow it smartly and profitably and not just grow for the sake of growth, because that's quite easy to do and we want to introduce with good smart products that are actually adding value that are in our own space, and we're not really competing head to head with some of the bigger players in this space. And in our own small way. I think we have been quite successful in the Mumbai region we have rolled up to Pune and we are now rolling out to Gujarat. So we'll focus on the few products that we do have and keep building on innovative products through R&D. And in the annual report, we'll make sure that we do give a little bit more information about ApcoBuild and tell you all about how that's going.

Rohit Prakash: Great. So, again following up on this, so, in addition to differentiated products using the in-house R&D, that you have do we also enjoy lower cost of production in the products or any other such advantage as well?

Abhiraj Choksey: Yes, because we are backward integrated for some of the products that we do have, with outsource some products, but for some of the products we do have a backward integration. So certainly we do have some cost advantages. In fact, we supply some products to the same people that we are competing with. In fact all the major B2C players today large and medium size all buy some of our Latex products for their waterproofing needs from us and they in turn rebrand it and sell it into the market but of course they have a much stronger worldwide, not worldwide I would say but nationwide distribution network and a much stronger brand.

Rohit Prakash: So you are not competing with them head on, on this product that you supplied to them, but differentiated products where the problem with the volumes are lower, and that's not lucrative for them as well you're playing is it?

Abhiraj Choksey: Right something like that.

Rohit Prakash: Understand, and could you give also a flavor on the, you did mention that the profitability is very good, but overall on a return capital is the working capital cycle better than for your mainstream business that is primarily B2B. So overall is the return characteristics of B2C, business much better than the B2B business what I am trying to under?

Abhiraj Choksey: Yes, certainly, because we don't give the kind of credit we give in the B2B business. In the B2B business, we are forced to give credit of, 60 days or so sometimes higher, mainly because some of our competitors do the same. And some of the important competitors actually have 90 days LC, 120 days LC in B2B business. Whereas in our B2C business, we actually barely give any credit. So it's negative cash, I don't think it's negative but because we do have inventory, but the working capital cycle is definitely much better than a B2B.

Rohit Prakash: And the margin profile is similar?

Abhiraj Choksey: Margin profile is better in contribution margin and yes, the B2C.

Rohit Prakash: Okay. And I am assuming the operational expenses the decision man power would be higher. So even the EBITDA margin are broadly similar, or is it better still?

Abhiraj Choksey: EBITDA margins are also better.

Rohit Prakash: Understood, okay. So, could you then, strategically I would like to understand the board and the management point of view. With the profile of the business is so much better, why not focus these bandwidth that you have here and scale this part of it that you don't see, this is business scaling up as quickly as probably the B2B NBR business being able to scale up.

Abhiraj Choksey: We are doing both. now we are doing both we are focusing on both but the nature of this business is such that building a distribution network, building a sales network, building a sales team internally takes some time. Getting the product approved, marketing these products take some time. So it's, and we're doing it in the best way possible, but again, as I said we don't want to do it by slashing prices and just throwing it in the market. I don't think that's good in the long run. So we are building a long term business profitably and in a healthy manner.

Moderator: Next question comes from the line of Umang Parikh from Excel Group Investment. The line is unmuted.

Umang Parikh: My question has been answered.

Moderator: Thank you. Next question comes from the line of Nikhil Porwal from Perpetual Wealth Management. The line is unmuted, you may go ahead.

Nikhil Porwal: I would just like to continue asking about ApcoBuild. If I may ask, can you tell me how does the product portfolio ApcoBuild differentiate itself from the likes of Dr. Fixit or any other company?

Abhiraj Choksey: Well obviously, some of the products we have are similar. Where we are differentiated is that today we are selling some of the B2B products to some of the companies that you know and you mentioned and obviously we are backward integrated so we have that advantage. The other thing is, we do have some specialty products that we do not sell in a B2B space that we are only focusing on through our B2C space. And we are looking at growing those through demonstrations and marketing and we're doing that quite well so far. But of course, as I said in terms of percentage the growth we see in the last couple of years has been pretty good. But in absolute terms, it's a much smaller percentage of the Apcotex business.

Nikhil Porwal: Okay, and if I may again ask how does it differ in terms of pricing as compared to your competitors?

Abhiraj Choksey: There are so many different products so it's hard to say for each product, we have a different pricing strategy. In some products, we have to compete head on, in some products, we have really good innovative products by which pricing is almost immaterial for the customer because of the value that we are giving them. So, it's a question of convincing them building the distribution and sales and marketing network.

Nikhil Porwal: Okay, and you are targeting primarily B2B customers or this?

Abhiraj Choksey: This is all B2C and you would understand, you will appreciate that the construction segment in India, it's fairly fragmented, highly regional and fairly fragmented. So, we are focusing only on the western region for now, because one of the other challenges is freight, the freight component is also important and we have to see how we can be as competitive in the south, East and North, but beside there is a market that is big enough in the West itself. So we're just going to focus on the Western states for now. And we continue to do that.

Nikhil Porwal: That's because our plants are primarily based in Maharashtra and Gujarat. And how many dealers do you currently have for ApcoBuild?

Abhiraj Choksey: These are things that we don't really give out in public.

Nikhil Porwal: Okay. And the margin profile you answered this before, but can I ask what is the range of the EBITDA margin, if you can share that?

Abhiraj Choksey: It varies from year to year, but for the first nine, I don't have the exact numbers in front of me but certainly above 20, 25%.

Nikhil Porwal: Okay. I hope that this grows faster than the rest of the business.

Abhiraj Choksey: Sometimes specialty businesses are art to grow fast that's the nature of the speciality.

Nikhil Porwal: I understand since this is B2B it will take some time.

Moderator: Thank you for your question sir. We have a question from the line Rohit Prakash from Marshmallow Capital. Your line is unmuted.

Rohit Prakash: So this is my absolutely last question for the ApcoBuild part of the business. So given the attractive economies of the business, so what I respect about the management here is that you really think long term so would I go head thinking that over the next let say 5 to 7 years you want to make this committed portion of the business. Or do you think it's too special of a meter right now to see out that far?

Abhiraj Choksey: Absolutely, we don't want to make it a significant business where there is a value for not only for the shareholders, but also for the employees and our team internally that, it's a reasonably significant part of our business. Now in value terms, who knows, it still maybe a small part of the Apcotex total turnover five years from now. But it should still be substantial enough to make it an exciting independent business and therefore create shareholder value. And we think we can do that.

Rohit Prakash: Fair enough, that was helpful and coming back to be NBR business. So, I believe there are multiple headwinds. You mentioned the dumping. And then I believe that the auto slowdown is not helping. Other than that, overall are the prices stables right now, last year you mentioned that the realization from NRB had gone on quite dramatically?

Abhiraj Choksey: The realization had gone down, is that what you are saying?

Rohit Prakash: Yes, last concall you had mentioned that the realizations have gone down quite drastically?

Abhiraj Choksey: Yes, so it started from end of Q2 and continued on to Q3 as well. And therefore as you can see Q3 margins were for with the profitability it has been affected. One of the major reasons it has been NBR business, I would say that has been the number one significant reason. The margins continue to be challenging, they are little better than what Q3 were, but they continue to be challenging theirs is no question that it's still a tough environment for NBR.

Rohit Prakash: And I believe you are increasing the capacity here to 20, 21,000 depending on the quarter?

Abhiraj Choksey: Again there is a long term view we have already invested in. We had already done that and we have taken those steps while ago.

Rohit Prakash: So, what I was wanting to know was that with the increased scale probably thing that you would have improved the efficiency or productivity, do you see some benefit accruing from that in this environment and hopefully the profile not be as bad as Q2, Q3 for this business.

Abhiraj Choksey: Absolutely so it's starting Q1 of FY21 we will see because of this increased productivity, of course it will help our operating cost per unit deduction as well plus the CPP coming in will also help overall in terms of profitability, we will see most of the benefits in Q1 of next year.

Moderator: Thank you. Next question comes from the line of Karan Bhatelia from Asian Market Securities. Your line is unmuted.

Karan Bhatelia: Will increase capacity by 20,000 metric tonnes, but we have been highlighting that there will be increase of 5000 metric tonne in each of the product vertical so like from 10,000 metric tonne to 20,000. So, what is the rationale for that?

Abhiraj Choksey: I am sorry I missed the first part of your question maybe your voice?

Karan Bhatelia: Our latest presentation mentions that the debottlenecking exercise will increase capacity by 20,000 metric tonnes from Q1. But till last concall we were highlighting that there will be capacity expansion of 10,000 metric tonne in total for both the verticals.

Abhiraj Choksey: No, no, we never said so. It was always it is not by 20,000 it is to 20,000 tonne. So earlier we were at about 15, 16,000 tonnes. 16,000 tonnes.

Karan Bhatelia: Is it for the NBR portfolio?

Abhiraj Choksey: Yes, NBR portfolio which is going up to 20,000 tonnes.

Karan Bhatelia: Okay, and there was some expansion in Latex as well small, small portion of it. Because debottlenecking was supposed to happen for both the verticals?

Abhiraj Choksey: Yes, Latex capacity is 55,000 tonnes currently, and we're making Nitrile Latex in our, we didn't debottleneck that as well but we are using Nitrile Latex is being made there. And once we move Nitrile Latex to our Gujarat facility, then we will have significantly more capacity in the Taloja for Latex as well, which I think is a little premature we're working on it, but we'll come back to you with the right numbers on that front.

Karan Bhatelia: Correct. Okay, I thought it is a combined capacity expansion of 20,000?

Abhiraj Choksey: No.

Moderator: Sir that was the last question in the queue.

Abhiraj Choksey: Okay. So thank you everyone for joining us in our Q3 concall. As I mentioned, these are challenging times and we are quite confident that with the steps that we have taken, and with some of the business environment already changing worldwide and in India, we think that Q4 will definitely be better than Q3 and Q1, again with some of the CAPEX that we have made will be even stronger. I think we're quite confident of improvement in performance over the next couple of quarters. And we look forward to see you in Q4 during the Q4 concall again. Thank you.

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