

**Apcotex Industries Limited**  
**Q1 FY20 Earnings Conference Call**  
**29<sup>th</sup> July, 2019**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY20 Earnings Conference Call of Apcotex Industries Limited. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal and operator by pressing \* then 0 on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over Anuj Sonpal, CEO of Valorem Advisors. Thank you and over to you sir.

**Anuj Sonpal:** Thanks David. Good evening, everybody 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 Q1 financially 2020.

Before we begin, I would like to mention a short cautionary statement. As always, some of the statements made in today's Earnings Conference Call may be forward looking in nature such statements are subject to risks and uncertainties which would 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 any undue reliance on these forward looking statements in making any investment decisions. The purpose of today's earnings 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 their earnings conference call with us today. We have with us Mr. Abhiraj Choksey, Managing Director and Mr. Anand Kumashi, Company Secretary. I request Mr. Anand Kumashi to now give his opening statements. Thank you and over to you sir.

**Anand Kumashi:** Thank you Anuj. Good evening and welcome everyone to this earning conference call for the quarter ended 30<sup>th</sup> June 2019 under review. I hope you had an opportunity to look at the company's performance for Q1 FY20 results as well as the earning presentation which has been circulated and uploaded on the website and stock exchanges.

In Q1 FY20 the net turnover stood at 147 crore in Q1 FY19. Operating EBITDA stood at around 18 crore as compared to 17 crore in Q1 FY19. Property EBITDA margin was 12.3% Q1 FY20 as against 11.4% in Q1 FY19 and 9.2% in Q4 FY19. The PAT was reported at around 11 crore as

against 12 crore in Q1 FY19 with PAT margin of around 7.7%. One significant change this year is that mark to market gains or losses has been considered in other comprehensive income from Q1 FY20 that is below the line whereas earlier we were considering under the other income. During the quarter revenue growth across the industry was reasonable. The company's margin has improved compared to the preceding quarter due to raw material price softening in Q1 FY20. The company has also spent about 60 crore till 30<sup>th</sup> June 2019 as against plan CAPEX of 90 crore remaining will be spend by 31<sup>st</sup> March 2020. With this I would like to open the call for question answers. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Abhishek Salunke from Trivikram Consultants. Please go ahead.

**Abhishek Salunke:** So, I have three questions and please educate me on this. First question is on the line of the accounting method which we use to account for this COGS, that is cost of goods sold and inventory. So, I want to understand which method do the company use to report its COGS and inventory. The reason I'm asking this question is because two of the raw material, which are imported and prices have fallen down. So, I want to understand which method do the company use. Second question is on the debottlenecking of NBR facility. So, I want to understand because the capacity is on stream and the capacity have move from 16,000 MPPA to 21,000, MTBA. And the third question is regarding the contribution by auto and ancillary in the top line. That's all sir over to you.

**Abhiraj Choksey:** Okay, as far as the accounting methodology is concerned, I believe we are following FIFO. I hope that answers your question. Second one is on debottlenecking from 15 to 21,000 ton. Yeah, we have almost, we have invested most of it there are a couple of equipment's that are still to go. So, I would say that we are, it's hard to exactly know the number because it depends on the product mix as well on what we manufacture. But you can we can safely say that 80% of the work is over and we are getting that benefit as well. The remaining will be completed by I think January 2020. So, by then we'll definitely be at around 21 is what we are aiming for and I think we should get there, 21,000 ton. And your last question was on contribution of auto and ancillaries, you hit the nail on the head that's one of the big concerns we have because approximately around 30% give or take of our overall turnover comes from auto and tyre industry.

**Abhishek Salunke:** 30%?

**Abhiraj Choksey:** Yes, which we all know is going through a slowdown. Fortunately for us at least up to Q1 you know even though the revenue as you may have noticed has come down a little compared to Q1 of last year. It's mainly because of the raw material prices having softened considerably. And our volume growth have been reasonable given the current situation while we don't give exact volume growth or volume numbers. As you know since you have attended our calls before we have grown in double digits in this quarter in terms of volume. But certainly auto

and tyre is a big component or a large component and therefore we are a little concerned about that going forward.

**Moderator:** The next question is from the line of Daman Shah from ICICI Securities. Please go ahead.

**Daman Shah:** Yes, I have two questions. Firstly, about the selective segment. So, we have around roughly 70 crore of revenue from the exports and we mainly export this construction latex and the carpet latex. So, because of the ongoing issues in Middle East and mainly carpet latex goes to Middle East. So, can we expect slowdown in the carpet latex because of this lower growth from the middle segment? And one more thing is about the construction latex. So, the poor construction activity in the global markets can also lead some slowdown in the construction latex segment revenue as well. So, if you can share thoughts on this?

**Abhiraj Choksey:** Okay, so as far as carpet latex in the export market is concerned, you know we are a very small component in our we are very small market share in that. So, while there is an overall slowdown, we are ensuring that our volumes and our target volumes are being achieved and we actually had pretty good carpet export sales in the first quarter all is well, latex exports to the carpet industry in the first quarter. As far as construction is concerned, certainly another segment where we have almost somewhere between 12 to 14% of our sales is probably construction in India and so that's another segment that is that is of a concern to us. Fortunately in Q1 again, we have seen good volume growth in construction, but going forward in Q2 onwards both auto and construction in India would be a concern. As far as export market is concerned as I mentioned again that we have a very small market share if you look at the global or forget global even Asian export market. So, while the slowdown is obviously not desirable for anyone, it doesn't really affect our volumes and sales at least I hope it won't affect in the future.

**Daman Shah:** Okay, and second question is about the realization. So, because of the fall in the raw material cost. So, can we expect this realization growth along with the poor volume growth, as well because of the subdued environment or sluggish environment in the global market for this FY20?

**Abhiraj Choksey:** Q1 as I mentioned, it has been reasonable volume growth, I am actually quite satisfied with the volume growth. But as you said, the realization is lower just because of raw material prices having crashed in Q1 or come down or crashed I would say stronger, but come down significantly in Q1 and that has helped us but at the same time we have also forced along to pass along part of that decrease. So, therefore, you have seen our top line also sort of come down marginally. Even though volume growth has gone up.

**Moderator:** The next question is from the line of Rohit Poti from Marshmallow Capital. Please go ahead.

**Rohit Poti:** Thank you for the opportunity. First off, I just want to express my admiration for the way the management runs the company and you have been as transparent as possible in all the concalls and educating all of us about the business. So, first, thank you for that. And my first question is on the other CAPEX that you had discussed in the past. So, I believe you have a 250 to 300 crore CAPEX for the latex and the NBR capacity expansion and you are awaiting, I believe certain customer approvals and environmental approvals. Could you speak to that?

**Abhiraj Choksey:** Sure. Thank you Rohit. We try to be as transparent as possible, or, as much as it would allow us, the process allows us. As far as a CAPEX is concerned for both projects. Yes, we are looking at about 200 to 250 crore. And we are working towards it we have already started work on in terms of designing and planning for both the phases that we mentioned, for both Carboxylated Nitrile Latex for gloves and a second line for NBR. Having said that, we will need certain environmental consents for which also work has started. So, does that answer your question? Unfortunately, we are still sticking by our timeline that we had given earlier, which was for the first phase which is the Nitra Latex with around December 2020, or early Jan 2021. And about a year later for the second phase, which is NBR line two, but the contingencies, there are certain things that are really out of our control, which is these environmental consensus and approvals which we are working on, that may delay by a few months, but we are quite confident that we will get it done.

**Rohit Poti:** Are the environmental approvals also separate for each of the phases or do they come together for both?

**Abhiraj Choksey:** No, they are separate.

**Rohit Poti:** Okay. Understood so if something comes, we can work on that, that's nice to know. Second question I have is, you did mention that the auto and auto com exposure is 30% so tyre and auto com exposure is 30%. So, within I was just curious to understand specifically X tyre, but auto com, over to ancillary what would be the exposure that you have? If that's possible to tell?

**Abhiraj Choksey:** Perhaps, out of that 30%, 60% is auto components and remaining is tyre. Approximately, I don't have the numbers in front of me, but I am just giving you approximate numbers.

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

**Rohit Sinha:** So, basically, I would say it's a good set of number and probably everyone is expecting a good number next quarter. But can we have a slight view on what kind of benefit was there from the power plant in this quarter? And going forward also, on a full year basis what kind of benefit we are expecting from the power plant?

**Abhiraj Choksey:** The power plant has not yet been commissioned. Our original target was July, but I think it's been delayed by a couple of months. So, now we are looking at October actually, there were some delays due to certain civil construction issues and one or two other issues, mainly also related to consent, some environmental approvals that needed to be got but having said that, that's not the reason for the delay. So, there has been about a two month delay on the power plants. So, we will see that coming on stream only in Q3 unfortunately, I was hoping that I would be able to give you the good news in Q2 but that did not happen.

**Rohit Sinha:** Okay no issues. And what kind of benefit and margin improvement we will be expecting from that?

**Abhiraj Choksey:** I think I have mentioned this earlier that we are looking at least 1 to 2%, 1% margin improvement.

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

**Faruk Mandole:** Just a couple of questions. The power plant delay. Am I right in understanding from your response to the earlier question that those delays have now been sort of tackled and this October date seems highly likely date for commissioning or potential for delays still possible?

**Abhiraj Choksey:** No unlikely, highly unlikely because it was all related to the civil work that was going on and there were some delays in the civil work, which is actually almost complete now. So, now it's, there's a lot more visibility.

**Faruk Mandole:** That's excellent. And my second question was just if we could, I know Anand said that we have already spent 60 crore this year and the total for the years is 90 crore going forward for the next year and beyond do we have some sort of broad numbers that we have in mind for CAPEX for the following year or two. And also, last year I think at the start of last year, you were given a revenue guidance of if I am not mistaken 550 crore or possibly even 600 crore which we achieved quite comfortably. So, this year, given the circumstances around raw materials and low realizations, etc. Is there any kind of revenue guidance number that you could potentially share with us?

**Abhiraj Choksey:** Okay, so just to answer your questions one by one. So, just to mention the 90-crore number was actually after the acquisition which was three years ago, there were a lot of projects the major one being the CPP, and some the debottlenecking projects as well as overall up gradation of the plant where not a lot of CAPEX had gone in before we took over. So, that's what we estimated to be 90 crore over a three year period, which was from FY17 to FY20. So, this, out of the 90cr, 60 crore has been spent up to Q1 and the remaining 30 crore will be spent over the next three quarters. After that and there may be a little bit more as well, because you know new CAPEX requirements do keep coming up. After that, I think besides the regular maintenance CAPEX that does come about because our both our plants are now more than 25

years old. There will be some amount of maintenance CAPEX to the extent of 7 to 8 crore I think every year. But besides that the main two projects that we are looking at is about 200 to 250 crore that we are working on right now, the two projects we have been talking about over the last few Concall.

**Faruk Mandole:** That would be split equally in the ensuing two years?

**Abhiraj Choksey:** I don't have the granularity details with me now. But yes, we could assume equally. And your last question and revenue guidance, actually I don't remember ever having given any revenue guidance. In fact, we have always been saying look, we do not give any specific numbers for revenue guidance, we talk overall of the economy and the industry and where we see the company going without giving any specific numbers. We do give numbers only in percentage terms and growth, so maybe that was calculated by somebody or your team. Yes, but overall revenue in all kinds of business also depends a lot on the raw material pricing. So, we have had quarters like last in fact Q1 where we have had reasonable volume growth in double digits, but actually to see our revenues kind of flat. So, it's really hard to predict revenue in our kind of business given the volatility of raw materials prices, however it is a definitely a challenging environment, there's no doubt about it in this this year. And we will be happy if we grew it sort of double digit, low double digits even will be happening in the current environment, especially that almost 30% of our businesses is auto and tyres and another 12 to 15 is construction. So, both these are from what I understand fairly sort of affected in India, at least.

**Faruk Mandole:** Just a last clarification on my earlier question, this 200-250 crore which we are sort of estimating will be in the ensuing two years, what kind of asset turnover as a whole for the two I know, we will have to split it up, but as a whole what kind of asset turnover could we hope to have on average?

**Abhiraj Choksey:** I think it was between 2:1 and 3:1, almost 2.5 or 3:1 if I recall correctly.

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

**PJ Shah:** Yes, my all questions are answered. But I would like to congratulate in person that they would –19:59 the shares and given the better trading volume so that in days to come, the investor interest will be increase.

**Abhiraj Choksey:** Okay, thank you, Mr. PJ Shah, yes the board took a decision to, and we do this time to time we have done split we have given a bonus recently. And now another split so this is just to improve liquidity and give opportunity to investors.

**Moderator:** Thank you. And next question is from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

**Vikrant Kashyap:** I have a couple of questions. So, what was our export growth and how do you see the spending over the rest of the years? And do you plan new product launches, and globes we have launched for exports market how it is doing?

**Abhiraj Choksey:** Yes, so export has been growing reasonably well as previously also, overall, I want to say I don't specifically remember for Q1, but the exports has grown reasonably well over the years. The carboxylated glove is a new product range that we have introduced, it's already out in the market but unfortunately we don't have much capacity. So, it's at much lower volume, till our new reactors come up in Valia a few quarters down the road. And within the industry that we do cater to right now, there are always new products and even new some applications that we look at from time to time, so that continue to happen. We are also adding new products in our new NBR line. In fact, we have in a way consolidated to some extent, but we have added one or two new products into the NBR line as well, which is the acquisition that we made three years ago.

**Vikrant Kashyap:** Right. And also you shared that auto and construction industry you are facing problem and you see softening growth in Q2 onward. So, where do you think that loss will be compensated from, which industry do you think will compensate the loss and we should not at least grow that double digit growth what do you think?

**Abhiraj Choksey:** What our strategy has been is we are actually trying to make sure even though as an industry auto and construction has is looking difficult right now, we are holding on to our volumes and increasing it. So, where we see is really the margins being affected because you know, when the slowdown does happen, there is a fight for volumes and fortunately for us, for some of the products, we are the Indian manufacturers whereas the rest is all important. So, we are fighting on our turf and ensuring that our volumes are protected and even growing. But yes the worries on margin more than volumes, frankly.

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

**Suvarna Joshi:** Just wanted to understand when you are mentioning that in volume terms we have grown reasonably double digit numbers and on the other hand we are seeing that both construction and auto and tyre, witnessing kind of a slowdown. So, wanted to understand where exactly is this growth coming from especially the double digit revenue growth that we are seeing, the volume growth that we are seeing, so that was my first question.

**Abhiraj Choksey:** So, again, I repeat that the slowdown which we are talking is at industry level overall. For the company level, even in auto we have grown this year, as I just mentioned to the previous speaker, Mr. Vikrant, as I told him that we are protecting our turf, and at least growing in volume terms, and we are ensuring the market share is actually going up. As I said a lot of the competition is from abroad and imports coming in, especially on the auto side the NBR

business. So, we have to find that out, so we are getting the growth from there. Having said that, as I said Q1 was actually the raw materials also came down so that was really beneficial for us. So, while there was some pressure to reduce the prices as well, but raw materials also came down so therefore we were actually able to improve our margins a little bit compared to Q4 and of last year in Q1 of last year. But going forward, yes certainly that's something that we are keeping a watch out on, we hope for the best. But you know, it's difficult to predict. I hope that answers your question.

**Suvarna Joshi:**

Yes, sure sir. Sir and the second question was on the margin front. So, since the acquisition of Omnova, we were always on track that we will come back to the Apcotex level kind of EBITDA margins, and given the scenario right now that we are facing under raw material price front. Alongside your comments, regards fighting for maintaining volumes, or rather, improving volume share, and sacrificing a bit on the profitability front. would that mean that this EBITDA margin target of about 13-14% that we held on to earlier would get a little delayed say maybe by FY22, or something is what we will actually try and achieve that?

**Abhiraj Choksey:**

Not really, because if you see even in Q1 this year, we are at about approximately 12.5% operating EBITDA margins. And once some of this investment, especially the power plant comes up, there will be certainly a little bit increase in the EBITDA margins, as well. And if all things remain, I mean, unless there is a major slowdown or even a recession globally, then of course things change. But all things being equal compared to three, four years ago while everything was good. We could, our goal was three years from the acquisition which is this year that will get back to 13-14%. And frankly, we would be on target, but that's the only thing that recently, the issue is this entire slowdown which is causing margin pressures. As I said fortunately in Q1 we were able to fight it, but going forward it's hard to predict. But had things been equal I am pretty sure by Q4, we would have got to 13-14%. This is raw material prices, pricing levels, as well as reasonable, industry and growth levels. So, if both those hold then we can do back, go back to 13-14% by the end of this year.

**Suvarna Joshi:**

Alright, so that was really helpful. And lastly, if you could just help us understand how much was export growth as a percent of total revenues? I mean, how much did export contribute as a percent of total revenues?

**Abhiraj Choksey:**

It's about again, I don't know the exact number but approximately 15-16% I think.

**Suvarna Joshi:**

So, I believe on the export front we have been at that level. And our target was to come to about 20-25% odd kind of revenue contribution from exports. So, where do we stand on that we still hold on to that or?

**Abhiraj Choksey:**

The target is 20 and once a new project come on stream, it will be even higher than that. But 20% was, I don't know if you attended one of our earlier calls, but we lost one major customer due to a big fire and they have not come back on stream. They are still stuck in, so we have no



hope that in the near future, they will come back on stream. So, if they had been around maybe it would have been closer to 20%. Unfortunately, you know, they we lost them due to fire so they were significant portion of our business.

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

**Karan Bhatia:** Sir how is the pricing trajectory for our key raw materials now which is 30 days in July so still there is some improvement or it's on the downside now?

**Abhiraj Choksey:** I think it's kind of plateaued out almost at the bottom. It's not going down further currently.

**Karan Bhatia:** So, we can have that benefits of low-cost inventory?

**Abhiraj Choksey:** But the problem is that, there is still pressure on our finished goods prices. So, that's what I said that it's too early to say what will happen in Q2 or future, but certainly there is pressure on pricing.

**Karan Bhatia:** Right, also talking about the customer that there was fire at his location. So, that fire was in April 2018 and still the order off take looks weak?

**Abhiraj Choksey:** For that particular company, because they were supplying a large chunk of our export for large checkout, reasonable amount of volume of our exports was going to that customer in the Middle East. Unfortunately, because of them shutting down and being stuck in some insurance process, they have not been able to restart the plant, or even rebuild it I believe. So, now going forward we are not counting them in our future plans for the next year or two at least.

**Abhiraj Choksey:** Okay, and you mentioned that there is good growth apart from this location. So, which are the other newer geographies that you were talking off?

**Abhiraj Choksey:** Geography will remain the same but we have added a few more customers within those geographies. A sweet spot is somewhere around Middle East Southeast Asia, where they are anyway importing these materials that we supply either from Europe or Far East. So, this is where were able to see most of the growth. We have also added some customers in Europe for some specialty chemicals this quarter.

**Moderator:** Thank you. The next question is from the line of Rohit Poti from Marshmallow Capital. Please go ahead.

**Rohit Poti:** My question was broadly on what you mentioned about the fact that you are trying to maintain volume, share, and sacrifice in the margins a little bit. If I remember correctly, in the past, you had mentioned that, broadly the company focus would be on maintaining profitability, and that is helped by the fact that the general competitive environment is, the competitors in the

industry are generally sensible, and they don't try to undercut each other. So, is there a strategy change at the senior management level to maintain volume market share, in comparison to profitability?

**Abhiraj Choksey:**

In the current context. Yes, to some extent, there is while we want to maximize our margins, of course but these are not normal time, if you have been reading the papers auto 15-20%, down, construction because of the NBFC crisis a lot of issues in the new construction as well. Overall, in the economy there seems to be a slowdown, the moods and the sentiment clearly is not great right now. So, given the context, look in business you have to be nimble and change with the time. And while it's true that we do want to maintain margins or we would love to maintain margin sometimes, extreme situations call for different measures or difficult situations call for difficult measures.

**Rohit Poti:**

Understood. But the medium to long term goal remains a target return on capital employed, which you want to generate for the business?

**Abhiraj Choksey:**

Of course.

**Rohit Poti:**

Great, the second question I have is which the government push for electric vehicles I am not talking about the short term, but you have generally been very long term in how you have thought about the business and have you designed the business. So, the increase incentive towards electrification sort of do you see it as a major risk five to eight years down the line given we generate from what you said around 18% of our revenues from auto com currently?

**Abhiraj Choksey:**

Certainly look we have gone pretty in depth in studying the long term impact of EV. We do believe EVs will come at some point, the question is when and to what extent and how much, right? So, from what we hear two wheelers, three wheelers there is a target of 2025-27. And as far as passenger cars it may be much further down the road. There's a lot of stuff required it's not just the push of by the government, but also infrastructure to charge EVs so there are a lot of issues that are there. Having said that, **for this auto com business we are at around 25-27% market share. So, in India and the rest of 73-75% is being imported into India.** So, even if EVs do come and there are many other applications for this business as well. So, we feel for our business, we are fairly well protective because our market share is much lower. And so we are continuing to be bullish on this business and we are going to expand and become the dominant player and that's our aspiration. Today, we are not the number one player in India and but I think that's our aspiration to become one. So, we are devising a strategy notwithstanding what happens with EVs because there is enough other applications out there. And even when EVs do come in, there will be certain components in the auto or in the car that will be made from Nitrile so it's not like they are going to vanish. The other thing is, please remember that EVs is going to commercial vehicle. So, trucks, tractors, those are unlikely to be electric vehicles even in next 15-20 years. So, passenger cars also the government has announced 30% by 2030. So, you can assume, if you work the numbers backwards, just the

overall growth from 2020 to 2030 vehicles, you will see ICE which is internal combustion engine vehicle which will be more in 2030 compared to what they are today. Sorry, we have done a detailed study.

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

**Suvarna Joshi:** You mentioned about the NBR market share in the auto com business to be around 25-27%. So, overall, how much would that be because when we acquired we were at 16, then we improved it to 20 as the overall market share in NBR segment. So, today, where would we stand at the overall level?

**Abhiraj Choksey:** So, I would not just say auto com, overall in the NBR segment, we would be at 25-27% currently, which includes other applications like rice, dehusking rollers, printing rollers, several industrial components, it will go into several industrial machinery. Hoses, LPG hoses, tubes there are many other components or many other applications for these products. Our overall market share currently is about 25 to 27%. And even if EVs do come in, as I said, we are such low market share the market is growing, the rest of the market is growing. So, rest of the applications are growing. So, we are not too concerned frankly about EVs while we are keeping a watch of course but for our business strategy, we are not very concerned. But we continue to look at it every six months.

**Suvarna Joshi:** Sir would you be able to break this market share of 25% in terms of the industries that we cater to? Like how much of that would be, you know, auto com? Or how much of that how much of it would be coming from industrial or rice dehusking rolls or something of that sort will be really helpful.

**Suvarna Joshi:** I would be able to but I am not going to because that's proprietary information. I am sorry.

**Moderator:** Thank you. Next question is from Rohit Poti from Marshmallow Capital. Please go ahead.

**Rohit Poti:** I just wanted to get a sense of how you see raw material availability over the long term, because if I understand correctly, you have one particular material which you get in India. But that to from three or four supplies but majority is input so do you see any risk on that front over the medium to long term?

**Abhiraj Choksey:** It is a risk there is no question about it because in India Butadiene we have two manufacturers. However, we have signed contracts with both of them and also in case one goes down we also have an arrangement with the other two to at least provide us the raw material albeit probably at a higher cost. As far as the imports are concerned, we have multiple suppliers and while there is a risk to it, I think in the current context the risk is quite manageable, I would say.

**Rohit Poti:** So, Butadiene is entirely from the domestic sources is it?

**Abhiraj Choksey:** That's right.

**Rohit Poti:** And it is not feasible cost wise to increase the number of supplies there as well?

**Abhiraj Choksey:** No it is. We are looking at our import options. But more of an insurance point of view because neither the pricing nor the logistics of storing in an inventory and all that is worth it to import however, for insurance we may look at adding one more supplier we are all constantly in touch with imported supplies of BD. There are other suppliers in India of BD as well. But there is one other supplier which is all the way in the East. So, that's another option that we have as well, frankly. But is this carting BD all the way from Bengal to the West Coast is difficult, it's not difficult but it's costly I would say. So, raw material availability as such for Butadiene is not an issue and for Styrene and the rest AC and many of the others we typically have a proper policy an inventory policy as well as multiple suppliers to provide that. So, pricing may in terms of non if there is a plant of one of our major suppliers does go down for whatever reason, client shut down all plant, there may be an issue on pricing of the raw materials. But I think availability, at least in the current context is not an issue, is not much of an issue.

**Rohit Poti:** Okay, thank you for that. And the last question, absolutely last I promise this time. You have been quite opportunistic in the acquisition of Omnova that you did. So, if there is something else, which is equally compelling is it something that you are open to current context or right now you are fully focused on the next major CAPEX that you have lined up for the next couple of years?

**Abhiraj Choksey:** No, fortunately for us our balance sheet is quite strong and healthy. We are pretty much debt free and opportunity does come along which makes sense to us and of course there are opportunities that come along almost every month. But many of them don't make sense, either in terms of strategic value or financially the price that's being asked for it. But if it does come across I will be very open to it.

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

**Ankit Kanodia:** I wanted to know something more about the competitive intensity right now during the slowdown which we are anticipating in the auto segment. So, how are we positioned against our competitors?

**Abhiraj Choksey:** Yes, that's, I guess absolutely, but as I said one of the advantages is that we do have and our customers realize that too, is that we are a domestic manufacturer here in India. You know, imports has its own risks, which is you know somebody has to important one to two months prior. There is a risk of currency, there's a risk of inventory, there's a risk of getting stuck with

much higher cost inventory. So, we do have several competitive advantages. We have also improved quality considerably, and over the next six to nine months, we are looking at certain aspects of our quality which will be superior or we are trying to get that superior to our competition as well. At the same time, we are looking at reducing costs, so we are trying to do everything we can to improve our competitive advantage, at least for the Indian market, and protect our tuff and grow on our tuff. And this is as far as the NBR business is concerned. As far as the latex business is concerned there is very little imports it's largely in India. But you know, in the short term, anytime there is a slowdown in volumes of customers do come down. There is short term reaction, I would say not panic, but some reaction that competition does have to try and hold on the volume. But as I said, a lot of our competitors are good multinationals and an unlikely to do something silly. So, short term, there could be some consequences. But in the long term, I don't think it's a big issue.

**Ankit Kanodia:** My second question would be regarding the margin, as we have mentioned in our call that we expect some slow down, do we see margin going down as in from this level?

**Abhiraj Choksey:** Certainly in this kind of situation, you know, where we are seeing a lot of pressure, reduce our prices, and luckily in Q1 raw material prices also came down. But if that does not happen in Q2, and in July, we did not see that raw material prices come down, but there is pressure to reduce our prices, and certainly margins will be affected. Yes there is no question in the short term.

**Moderator:** Thank you. The next question is from the line of Kuldeep Yadav an Individual Investor. Please go ahead.

**Kuldeep Yadav:** Sir I have only one question, in the past because of crude prices being volatile we had a large inventory loss so currently we are discussing this call not about margin wouldn't the accrued forecast for crude prices make a lot of difference to you. And how do you see it panning out?

**Abhiraj Choksey:** So, crude prices is just one aspect of it on our business and fortunately of course crude has been by and large plus minus 10% right, It's not been very volatile. But if you see that our raw material prices, which are downstream petrochemicals they must have been a lot more volatile, so for our business, we keep a close watch not only on crude prices, but also and more honor on our immediate raw materials that we need which are the petrochemicals and there the volatility is definitely much more than crude over the last six months.

**Kuldeep Yadav:** How do you see it's panning out because that could be an important forecast for your margin?

**Abhiraj Choksey:** Again, very difficult to predict in the short term. In the long term, of course, they would look given in the current context, what's happening in the Indian economy as well as the global economy. I doubt we would see any major spikes, but as I said it's very hard to predict because if one major supplier, has a shutdown planned or unplanned, sometimes in the short run, one month, six weeks, suddenly prices do spike up. But in the long run, longer run I am talking about

mid to long run. Given the current context, I don't think there will be any major spike in prices of raw materials.

**Moderator:** Thank you. As there are no further question, I would now like to hand the conference over to Mr. Abhiraj Choksey for closing comments.

**Abhiraj Choksey:** Thank you, everybody for joining our Q1 investor concall. We look forward to see you again after the Q2 results are announced. If there are any questions meanwhile, you may email us and we would be happy to answer to the best of our ability. Thank you again very much for your time.

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