"Apcotex Industries Limited Q2 FY-17 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Apcotex Industries Limited Q2 FY17 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the believes, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

I now hand the conference over to Mr. Abhiraj Choksey, Managing Director, Apcotex Industries Limited. Thank you and over to you, sir.

Abhiraj Choksey: Good afternoon everybody. I welcome you all to the earnings conference call for the quarter and half year ended 30 September 2016. Along with me I have Mr. Anand Kumashi, Company Secretary and SGA, our Investor Relations Advisors.

I hope you had the opportunity to have a look at the company's Q2 FY17 results as well as the presentation which has been circulated and uploaded on our website. Before going on to the financial and operational performance I would like to inform you that recently we have received the approval on scheme of amalgamation of Apcotex Solutions India Private Limited, ASIPL, which is our 100% subsidiary with Apcotex Industries Limited from the High Court. We shall soon issue a separate intimation once this scheme becomes effective after filing of the order with MCA along with a copy of the order of the High Court approving the scheme of amalgamation.

Also, as we have mentioned in our previous call we have taken a temporary shutdown of the High Styrene Rubber Plant at Taloja for some major civil repair work in the middle of the first quarter. The manufacturing and sale of High Styrene Rubber has been transferred to the wholly-owned subsidiary ASIPL plant at Valia, Gujarat. As the production is being met completely in this quarter from Valia plant, compared to Q1 where it was only part sale and manufacturing from the subsidiary. The current standalone results are significantly skewed.

Therefore we feel the consolidated results more accurately reflect the performance of the company in Q2. And again from Q3 we expect the merger process to be completed. So only single results will be declared from Q3.

Now moving on to the performance of the company. Some of the positives. We are happy to inform you that the company has achieved the highest exports of around 21% in H1 FY17 which translates to about Rs. 22 crores on standalone basis with an increase of 52% year-on-year and a 31% increase as compared to Q2 FY16. We also have increased the market share in the tyre industry with volumes of VP latex up by 73% year-on-year in H1 and up by 61% year on year in Q2.

I would like to share with you few of the initiatives that company has taken to turnaround the recently acquired business which is ASIPL formerly known as Omnova Solutions India Private Limited. As I have told you in the previous calls, we have been constantly working on optimizing our working capital and I am happy to inform that we have been successful in bringing down the inventory levels of finished goods by 40% compared to March 2016.

We have achieved this by moving from a static inventory policy of 15 days to a more flexi inventory policy. We have also been successful in bringing down the debtor days from 84 days in March to 64 days as on September 30. Another major improvement that we have achieved is reduction of fixed expenses. We have been able to reduce the fixed overheads by around 30%.

We had announced the CAPEX of around Rs. 30 crores in Phase 1, which we have started incurring. A majority of this would happen over the next one year. This CAPEX will be utilized for improving the efficiencies, reducing operating costs and therefore our final goal is to improve margins. However there has been in Q2 a few significant challenges as well, the major issue was de-growth in volumes for products that we supply to the paper industry. One of the main reasons was that one of our largest customers in the paper industry due to financial issues, had a temporary shutdown. This has not only resulted in sort of payments being delayed but also resulted in significant loss of business for us in Q2.

We are told by the representatives of that company that the issues in the process are being resolved. And they have already picked up some volumes in Q3 starting October and then some payments have also been released. We expect to see more smooth flow of revenues from Q4. Of course one of the other reason has been that one of our raw materials saw significant increase in prices in this quarter due to the sudden shortage in Asia. This led to some margin erosion since the increase was dramatic and very quick and we were not able to pass it along very quickly to our customers.

This in a result is in a nutshell is a qualitative sort of key takeaways for the company in the last quarter.

I will now handover to Anand Kumashi to take you through the financials.

Anand Kumashi: First I would like to present the consolidated result for the quarter and half year ended 30 September 2016. In Q2 FY17 we had a turnover of Rs. 92.46 crores against turnover of Rs. 67.84 crores in Q2 of FY16, an increase of about 36% and EBITDA stood at Rs. 4.62 crores as compared to Rs. 9.52 crores in Q2 FY16 with a margin of 5% and a decrease of about 903 basis points.

The profit after tax of Q2 of FY17 were Rs. 3.56 crores as against Rs. 5.33 crores in Q2 FY16 with a margin of 3.85% and a decrease of 400 basis points.

For half year ended 30 September 2016 the revenue stood at Rs. 198.9 crores as against Rs. 134.71 crores in first half of financial year 16, a growth of about 48%. The EBITDA for the period stood at Rs. 15.31 crores as compared to Rs. 19.05 crores with a margin of 7.7%, a decrease of 644 basis points.

The profit after tax for the half year ended is Rs. 10.41 crores with a margin of 5.23% a dip of 326 basis points. Moving to the balance sheet, the gross debt of the company on the consolidated basis as on 30 September 2016 stood at Rs. 32.36 crores wherein the company has no long-term borrowings as on the date. The net debt of the company stands at Rs. 7.37 crores and net debt to equity is 0.04 times.

Coming to the standalone performance of the company for the quarter ended and half year ended 30 September 2016. In Q2 FY17 while a turnover of Rs. 47.33 crores as against Rs. 67.84 crores in Q2 FY16, a de-growth of about 30% and EBITDA stood at Rs. 2.75 crores as compared to Rs. 9.52 crores in Q2 FY16 with a margin of 5.81% a decrease of about 822 basis points.

The profit after tax for Q2 FY17 was Rs. 2.74 crores as against Rs. 5.33 crores in Q2 FY16 with a margin of 5.79%, a decrease of 206 basis points. For the half year ended 30 September 2016 the revenue stood at Rs. 108.46 crores as against Rs. 134.71 crores in the first half of the financial year 16, a de-growth of about 19.5%.

The EBITDA for the year stood at Rs. 9.23 crores as compared to Rs. 19.05 crores with a margin of 8.51%, a decrease of 563 basis points. The profit after tax from the half year ended is Rs. 7.3 crores with a margin of 6.73% a dip of 176 basis points.

With this we are now open for question answers.

Moderator: Thank you very much. We will now begin the question-and-answer session.

We have the first question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: My first question is in terms of your sales mix, can you give user breakup in terms of various industries on a consolidated basis?

Abhiraj Choksey: You know we typically do not give detailed numbers in terms of breakup. However broadly I guess on a consolidated basis, I will give you that.

Rajesh Kothari: I am talking about your sales mix in terms of the various user industry. For example in case of paper industries, how much percent of your revenue mix on a consolidated basis does it make? If you can give me top three, five segments that would be useful?

Abhiraj Choksey: Sure of course as I mentioned earlier the paper segment this year in the first half has seen a significant dip and so therefore I am just trying to recalculate exactly. But approximately I would say on a consolidated basis about 50% would be synthetic rubbers which include high styrene rubber and nitrile rubber. And approximately 50% would be latex, out of that latex, around 25% to 30% would be paper and paper board which would be the largest for us. This is approximate numbers of course.

Rajesh Kothari: And the balance 25% would be?

Abhiraj Choksey: Other industries construction, carpet, tires, some specialty latex as well.

Rajesh Kothari: Okay so you are saying 50% is synthetic rubber, am I right?

Abhiraj Choksey: Nitrile rubber and high styrene rubber. Also includes nitrile powder and other polyblends but these are our solid rubber products. The others are latex products which are liquid emulsion polymers.

Rajesh Kothari: And this breakup what you are saying is as on last year or do you think it is after largest customer closed down?

Abhiraj Choksey: This is on an average for H1 of this year.

Rajesh Kothari: And if you can give us in terms of the overall industry outlook, in terms of the growth prospects, if you can just tell us in last five years or so what was the compounded growth of the user segments and how do you see that over next two to three years?

Abhiraj Choksey: You know every user segment has been different, so there has not been a standard sort of growth. For example, the construction industry wherein our products are going, on an average over the last five years have grown tremendously over 15%-20%, But of course if you see the last one, one and a half year it has been much more muted, because the construction industry has been a little down. Paper, paper board, Tire have again been up and down but on an average 8% to 10% for those industries. So it varies from industry to industry.

Rajesh Kothari: So I am just trying to understand is that over next three to four years, five years, where do you see the highest growth from your retail industry's perspective and are there no major competition which is coming into this segments more on the value added side?

Abhiraj Choksey: Look the industry growth rate overall if you take industries like paper, Tire; the paper for example which is one of our largest and expected to grow at about at least 8%. Construction of course it would depend and vary sometimes year-to-year but over the next five years it is a very optimistic picture there again with 15% plus growth rates. In construction chemicals, when I say construction, construction chemicals is what I mean.

And similarly on carpet side also, exports were growing every year so there also we see 10% to 12% at least. Overall the growth rates are fairly optimistic and as long as India is doing well 70% to 80% of our revenues come from India. So as long as India's growth rate is healthy we expect all our industries to grow reasonably well higher than GDP.

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

Amar Mourya: Sir, two questions from my side. Number one is what was the price impact on the raw material in terms of the basis point in margins?

Abhiraj Choksey: Yes go ahead ask your second question as well.

Amar Mourya: And secondly, when we talk about the product mix rationalization, what exactly like the product mix rationalization means we are actually hived off our loss making products or the low margin product? Because when I compute the overall revenue it looks relatively down even from the Omnova side as well as on the standalone basis. So is it that some product which we had actually hived off and we do not want to continue those products now?

Abhiraj Choksey: Okay so to answer your first question, overall if you compare and I think the fair numbers to compare would be Q1 and Q2 because it is a very similar consolidated basis there has been a drop in overall EBITDA margins. It is the reason as I told you has been one of our largest customers not having picked up much volume from us at all in the last quarter. And one more reason is that we had moved high styrene rubber production from Taloja to Valia to our other plant temporarily.

Unfortunately the cost of manufacturing in Valia is much higher than Taloja. But there has been some amount of margin erosion because one of the raw materials there was a sudden shortage and we had to buy at a much higher price.

Amar Mourya: So is it Butadiene?

Abhiraj Choksey: Yes. So the major impact is because of the first two reasons. The other one is a smaller impact.

Amar Mourya: Correct, so other two, the top two are basically the temporary impact, right? So I was worried more about the raw material part like you know how much it has contributed in terms of the margin de growth?

Abhiraj Choksey: Look I would say all three are temporary impact, even that was a temporary shortage that was created.

Amar Mourya: Okay so nothing on a long-term basis?

Abhiraj Choksey: Yes and there is always at least in our business we see and I mentioned this before even before the acquisition, we always saw anywhere between 12%, 13% to about 15% EBITDA margins. And quarter-on-quarter those numbers vary depending sometimes we are able to get better margins for better buying in raw materials or better prices.

Amar Mourya: Got this.

Abhiraj Choksey: 1% to 2% here or there does happen quarter-on-quarter. This is a regular phenomena quarter on quarter. That is as temporary. Your second question on product mix rationalization, we have done two kinds of rationalizations. One is we have done a product mix rationalization in terms of reduction in the number of different grades that we have from Valia plant.

That does not mean that we have reduced volumes. Overall volumes are quite intact as far as Valia is concerned. And as far as most of our other products are concerned tire industry we have grown significantly.

Amar Mourya: So sir, why I am asking this to you because if I see Omnova's Q1 number I am just doing the maths. So it was around Rs. 45 crores if I am not wrong and given that by that time the full transition of the high styrene rubber was not done in Omnova. Now despite that the full transition has happened in this particular quarter, the revenue what I am getting here is almost around Rs. 44 crores for Omnova.

So what I am trying to understand here is that some revenue loss Omnova had also done? I am okay with the standalone number that you know there is a shift which is happening and there is a delay from the client. That is well taken care, sir. But I am just trying to understand, is that any revenue loss which we had suffered at the Omnova because despite the shift of styrene rubber in the Omnova plant and one nitrile latex product in the Omnova brand, the number actually looks flat?

Abhiraj Choksey: Look on a volume side, no that is not been the issue.

Amar Mourya: Okay so meaning is that the realization coming down?

Abhiraj Choksey: It could be because of product mix and customer mix to some extent. I will have to recheck on that and get back to you.

Moderator: Thank you. The next question is from the line of Vikrant Kashyap from Kedia Securities.

Vikrant Kashyap: My question is, whether our Taloja plant is operational?

Abhiraj Choksey: Yes, overall of course it is operational as you will know, we have a range of products in our Taloja factory. One of the product line which is the high styrene rubber plant is where we have temporarily shut it down and moved the production to our Valia factory. But it will be coming back in Q3.

Vikrant Kashyap: It is coming back in Q3 so we expect like a month's time or two months' time how much?

Anand Kumashi: By end of November early December.

Vikrant Kashyap: And we have talked about higher conversion cost at Valia plant. So are we taking steps to just improve the costings and increase the margin at Valia plant because we are doing some operational activities at our Omnova solution. So do we see cost reduction going forward?

Abhiraj Choksey: Yes, so there are two things. One is regarding the high styrene rubber plant which we have temporarily moved to Valia where the cost of conversion is higher. There of course we are not doing much work because it is only temporary and we are planning to shift it back. As far as nitrile rubber is concerned, nitrile rubber, nitrile powder and all the other products related to nitrile, the entire product list can be seen in the presentation that has been uploaded. There of course we are doing many things to try and reduce operating cost. One of which as I mentioned earlier in my speech is that we are investing Rs. 30 crores over the next few quarters to reduce operating costs there.

Vikrant Kashyap: Okay and what kind of growth do we see in exports going forward?

Abhiraj Choksey: Look exports remains a significant focus for us and we have seen some very good growth in the first half and I think it is upwards of 30%. And at least for this year things look quite optimistic and overall the opportunities are there.

Moderator: Thank you. The next question is from the line of Kalpesh Gothi from Veda Investments. Please go ahead.

Kalpesh Gothi: Can you give us the volume growth?

Abhiraj Choksey: You know volume as I told you has come down, that is what I think I just mentioned to you. Mainly because of the paper and paper board being one of our large segments and one of our largest customers is not having picked up much volumes in Q2. Having said that, we do not give detailed volume growths in any case you know that, Kalpesh.

Kalpesh Gothi: Now one of the customer's plant already started so did we start any traction there?

Abhiraj Choksey: Yes of course it has started already. And I just want to mention since you mentioned volume growth overall compared to YTD, this year compared to last year volume has been up by 24% of course that is with the acquisition. But overall on the paper and paper board side our volume has been down. So it would have been even better had the paper and paper board segment supported us. And yes, the customer in question has started operations again albeit at a slower pace not at a full scale but things have started from October.

Kalpesh Gothi: Sir, in your past many con calls you have said you are seeing the growth in the construction chemical to a tune of 15% to 20%. But it has not picked up as we expected. So can you throw some light on what is going on in construction chemical?

Abhiraj Choksey: I think if you see the last five, seven years we have grown perhaps faster than 15% to 20%. Of course the last year has been challenging. But as I said we do not give guidance as a policy again,. We talk about long term prospects of the company and construction chemicals remains a strategic focus and we expect and quite optimistic about the growth in that segment in the long term.

Kalpesh Gothi: So for the construction chemical we target Maharashtra only or we are targeting pan India?

Abhiraj Choksey: No, it is pan India. Even today we are doing business all over India. And this is as far as B2B. I think sorry maybe I understood B2B construction chemicals where we are supplying to other companies that is pan India. As you know we have.

Kalpesh Gothi: Yes, the Apcobuilt.

Abhiraj Choksey: We are talking about the B2C. So that is still actually in only a few parts of Maharashtra. There again this acquisition has taken up a lot of our management focus as well. But that is still on the cards as of now.

Kalpesh Gothi: Sir, so what is the price movement of the Butadiene in the starting of first half?

Abhiraj Choksey: Again we do not give detailed numbers but Butadiene in Q2 had significantly gone up especially over the last month, a month-and-a-half by over maybe 20%, 25% in close to a month, a month-and-a-half.

Moderator: Thank you. The next question is from the line of Kamalkant Sahu from IndiaNivesh. Please go ahead.

Kamalkant Sahu: I wonder if you can provide me the export figures and also if you can tell me, now we expect the better demand from paper and paper board from Q3 onwards?

Abhiraj Choksey: As far as export is concerned again we do not talk about volumes but in the first half we have seen percentage growth of over 50% and even in Q2 over 30% in terms of value. I will just take it out the numbers. So in H1 we have done a value of Rs. 27 crores of exports, on a consolidated basis. And of course what was your second question, sorry?

Kamalkant Sahu: May we expect better demand from paper and paper board from this quarter onwards?

Abhiraj Choksey: I think it is improving in Q3 but I would say we expect by Q4 it will go back to the original levels that we had earlier.

Kamalkant Sahu: Q4 onwards?

Abhiraj Choksey: Yes.

Moderator: Thank you. The next question is from the line of Jinal Fofalia from AlfAccurate Advisors. Please go ahead.

Jinal Fofalia: Is it possible to share segment wise margins any rough numbers?

Abhiraj Choksey: No, I am sorry we do not do segment wise. So I hope you will understand for proprietary reasons we do not talk about industry wise or product wise or customer wise or any of those margin break up from volumes.

Moderator: Thank you. Next question is from the line of Amar Mourya from Emkay Global. Please go ahead.

Amar Mourya: Sir, I have a couple of more if you allow. So what is the rationale behind transferring one grade of latex from Taloja to Valia? So it is primarily because of freeing the capacity in Taloja or it has some strategic impact rather than chemical impact, to transfer this product to Valia?

Abhiraj Choksey: Yes, I think a bit of both. I would say the main reason being this product uses a chemical called acrylonitrile. This product by the way was being manufactured in both Valia and Taloja before or when we took over. And then we decided to rationalize because it did not make sense to produce it in both places. And since the much larger quality of acrylonitrile is purchased for nitrile rubber in Valia, it makes sense to make this product in Valia. So that is from a technical angle. And of course what it does is freeze up some capacity here in Taloja, But as I said it is a smaller product for us, small value and volume.

Amar Mourya: So is it a textile?

Abhiraj Choksey: So, it is called nitrile latex. Again if you go through the presentation, it is there in the presentation it is used in automotive components.

Amar Mourya: Yes, we have two products, yes, I know that. And sir, when we talk about the quality improvement in NBR Latex so what kind of quality improvement it is more from the operational angle or it is launching newer products, identifying newer industries?

Abhiraj Choksey: I think you mean nitrile rubber, right?

Amar Mourya: Yes, NBR latex. We had mentioned something that quality improvement in NBR Latex side. So is it to improve the existing line of our product like the rationalization which we are doing, reducing the grades and all those things? These are the kind of improvement which we are talking about or also looking some newer industries where you know NBR latex could be applied because in terms of application NBR latex has a wider application probably than what we are covering today?

Abhiraj Choksey: I think you may have misunderstood. Improving quality of NBR when we said NBR we are talking about NBR bales which is the new acquired product. And what we mean by improving quality is like when we took over, some of the products were not widely accepted in the Indian markets. Therefore imports were and still are about 80% of the total market size all imports. The remaining 20% is ours.

So our first endeavor was to iron out all kinds of quality issues and which we have been largely successful at doing. But still we are in the last leg of that quality improvement project. The other is the number of grades. Number of grades causes unnecessary complication in the plant more changeovers, more number of grades. So we have reduced the number of grades and we are trying to get products that will cater to a larger number of customers.

Amar Mourya: Okay, because why I am asking this to you, sir, is that the addressable market size for the NBR Latex today is around 35,000 to 40,000 MTPA, right. Is it because of the reduction of grades your addressable market size anywhere impacting?

Abhiraj Choksey: Not at all. And again, I would like to correct you. It is not NBR latex, it is NBR bales.

Amar Mourya: NBR bales. I am sorry, NBR bale. Thank you for correcting me, sir.

Abhiraj Choksey: Not at all, no it does not impact at all. The same existing customers have been transferred to other products.

Amar Mourya: Okay and now because of this quality improvement we will be able to address that and fill the gap of the import market?

Abhiraj Choksey: To some extent, yes. But to some extent we will have to increase capacity of course to be able to address that as well which will as again I have mentioned to you in our previous conference call there is going to be Phase 2 of the investment and expansion projects.

Amar Mourya: So this is other than the Rs. 30 crores?

Abhiraj Choksey: Yes, that will be other than the Rs. 30 crores. The Rs. 30 crores is only for reduction of costs and improvements mainly.

Amar Mourya: Okay so with this correct, you will be able to address at least 25% of the market?

Abhiraj Choksey: That is our endeavor, yes. In the next year, not current year meaning we are already in the loop.

Amar Mourya: Yes, in financial the year 18 I am talking about?

Abhiraj Choksey: Yes, that is the idea.

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

Suvarna Joshi: I had two questions. One, you mentioned that we have experienced some higher conversion cost at the Valia plant which has led to impact in the margins. So can you just throw some light on what these conversion costs were actually I mean were they in terms of some operating expenses or was it in terms of the raw materials that we have sourced from? So some thoughts on that would be helpful. That was the first question.

The second question was if you could help us with the capacity utilization levels at Omnova because we mentioned that Omnova in terms of volumes we have not seen any kind of degrowth or any pressure there. So if you could just help us understand the utilization levels at Valia as well as Taloja, will be helpful?

Abhiraj Choksey: Sure, so first on the higher conversion cost I was again just to repeat. I was referring to the high styrene rubber product range that we moved from Taloja to Valia. The main reason for costs being higher there is because of the equipment they have there are more inefficient in terms of power consumption. Therefore the power cost is one of the major reasons why the margins are lower for that product range. The other is also in terms of raw material yields where in Taloja it is a little bit better than Valia. So that is the reason for the higher conversion costs.

Suvarna Joshi: Sure. Just a follow up on that. So if we see the other expenses for Omnova I mean if I just deduce the numbers of consolidated and standalone I see the other expenditure has gone up quite significantly over there as a percentage of sales. I mean last quarter we were able to contain it down to 13.7%. Now this quarter we have gone back to 16.5% odd level. So that is quite, I mean almost a 300 bps, more than 300 bps kind of a jump. So is this the power cost that you are talking of being reported on the other expenditure?

Abhiraj Choksey: I will have to again look at the numbers what you mean by other expenditures and what that includes. But Yes, so one is power of course. Just one second. I am not sure whether you are referring to other expenditure, then that probably includes power as well. And since we have moved high styrene rubber production there that might be one of the reasons of higher expenditure there. Other than that, if you see in terms of the fixed expenses and fixed overheads in fact that Omnova compared to Q1 and even before that we have brought it down. So I will have to go through the details of other expenditure.

Suvarna Joshi: Sure sir, what I will do is I will touch base with you offline maybe post the con call or something?

Abhiraj Choksey: You are referring to because right now I think we are not able to figure out where you are getting this thing.

Suvarna Joshi: Sir, basically I was referring to these other expenditures if I see it stands at Rs. 14 odd crores on the consolidated level for this particular quarter the Q2, right? And for Q1 also it is Rs. 14 crores. But if I deduce the standalone from the consolidated numbers so I get the Omnova numbers, right. So there I am seeing a sharp jump as a percentage of sales. So that is where I wanted some clarity on that?

Abhiraj Choksey: You know just off the top of my head I think volumes have gone up, this is what I can, I do not have the exact, but I think but volumes have gone up between Q2 and Q1. And therefore, the overall cost has gone up. In terms of volumes that is not a concern.

Suvarna Joshi: Alright, sir and the second question that I had asked was on the utilization levels?

Abhiraj Choksey: Sure, it is around the same. I would not say changed a lot I think utilization levels in Valia would be around 65%, 70% and in Taloja of course have gone down because of.

Suvarna Joshi: Yes, I understand. So at Taloja it would be around 40%, 45%?

Abhiraj Choksey: No, much higher than that, about 60%, 65%.

Suvarna Joshi: Sure. Sir, when we say we intend to bring our margins at the level of Apcotex Industries' of 14%, 15% this product rationalization exercise that we are continuing to undertake, are we then saying that we will look at products only which have margins in excess of 12% or so?

Abhiraj Choksey: No, what the idea was at the time of acquisition and I assume you were on one of the previous call, because the thing I said is we want to bring overall margins back to about 13%, 14%. But that would be over a period of two years. Now assuming everything, unfortunately we had a quarter where as I explained to you there are two, three things that happened together which we believe are temporary in nature overall the structural strength of the business remains intact. So our first goal would be to come back to the Q1 margin levels which is in double-digits. That is our first goal and we feel fairly confident that as long as these one or two issues are sorted out it will come back very quickly on to those levels.

As far as coming back to 13%, 14% it would happen over a period of two years and once we have invested this Rs. 30 crores initial CAPEX, reduced operating costs and done some product rationalization wherever there are unprofitable products we will try and improve profit there or decide on what to do with those. We have also seen how to move customers that are on unprofitable products towards more profitable products. That is also possible technically to do. So multiple initiatives to do that. But that is a more long term goal.

Moderator: Thank you. Our next question is from the line of Shekhar Singh from Excelsior Research. Please go ahead.

Shekhar Singh: You just mentioned about your margins coming back to around 13, 14% levels so it will take almost two years, was that right? Were you referring to the entire company or?

Abhiraj Choksey: Yes, because I am sorry what is your name again?

Shekhar Singh: Shekhar Singh.

Abhiraj Choksey: Yes Shekhar, when we took over the new company this is on a consolidated basis of course. When we took over the company it was a loss making unit. So obviously when you consolidate margins of 13%, 14% of the parent company and then you take a loss making unit, automatically they come down drastically. And then in Q1 and by reducing some cost we have been able to keep it at about 10% plus EBITDA margins. Q2 of course there has been a drop for the reasons that I mentioned which we believe are temporary in nature because we do not think there is any structural change overall in the business strategy. But Yes, to take it back up to 13%, 14% levels we would have to ensure that even our subsidiary company reaches a stage from loss six months ago to reasonable profits which obviously is not going to be an overnight exercise.

Shekhar Singh: Right. And can you just tell me what percentage of your total revenue comes from construction industry?

Abhiraj Choksey: I think around 5%, 10% between 5% and 10% probably closer to 10%.

Shekhar Singh: And the largest industry will be paper?

Abhiraj Choksey: Well, currently Nitrile, rubber and associated products obviously would be now one of the largest and paper, paperboard also. Yes, both those put together would be the two largest industries in terms of revenue.

Moderator: Thank you. The next question is from the line of Mr. Dinesh Pathak from Goldman Sachs. Please go ahead.

Dinesh Pathak: I joined in late. Can you give me volume growth numbers for the standalone business after you adjust for the client specific issues that you called out and also the volume growth for the Omnova business for the first half?

Abhiraj Choksey: See as I told you it is a little difficult to give those kinds of numbers. Of course number one, we do not give volume numbers. I can talk little bit in percentage terms. But if you see we have first of all transferred some products from the parent company to the subsidiary. And you again may have missed it if you joined late. That is one of the reasons why standalone numbers are a little skewed. Having said that on the parent company’s level of course there has been a de growth because of one of our largest customers having shut down their factory temporarily in all of Q2 actually.

So that has a hit on the paper and paper board industry. But overall of course if you see consolidated numbers for H1, I think compared to last year, again this includes the acquisition, we are up by about 25% volume growth. And had this issue not happened, we would have perhaps been up by maybe another 4%, 5%; 30% plus.

Dinesh Pathak: So would it be fair to understand that the volume growth for your paper chemical business would be in line with the paper production in India and that would whatever that growth is, that would be a proxy to your growth, on a large part of your revenue which you said is about 70% of your revenue, right?

Abhiraj Choksey: No, that is not right because on a consolidated basis, again you might have missed the first part of the call. One of the questions that was asked on a consolidated basis paper, paperboard would not be more than now about 25% to 30% of the overall business.

Dinesh Pathak: No, but construction you said is 10%, paper is 30%?

Abhiraj Choksey: 25% to 30% is paper and construction is between 5% to 10%.

Dinesh Pathak: Okay, and then large part is what carpet is small, right?

Abhiraj Choksey: Carpet is also again 5% to 10%.

Dinesh Pathak: So what is the other bigger piece?

Abhiraj Choksey: Synthetic rubber, right. The nitrile rubber and high styrene rubber, nitrile powder that makes up 50%. All the solid parts, so again maybe you are first time on the call and maybe you have not seen the presentation sort of in detail. But we mentioned all our products ranges. We have the synthetic rubber products which are the solid synthetic rubber products which make up 50% of our business and the Latex makes up the remaining 50% of our business. Out of the 50% of the solid rubber business, there is nitrile rubber and nitrile powder and nitrile poly blends, high styrene rubber. So there is four different product ranges there.

Dinesh Pathak: No, I just wanted from an end consumer point of view so end industry point of view?

Abhiraj Choksey: Yes so end industry automotive components and rubber products make up 50%. Automotive components, footwear, miscellaneous rubber products, hoses all kinds of anywhere you see rubber would probably have one of our synthetic rubber grades.

Dinesh Pathak: Okay, so the domestic as a mix I would assume that your market share would be very high in the categories that you are present. So just a weighted mix of the end consumers would be a good proxy for the domestic business which you said is about 80% of revenue, right?

Abhiraj Choksey: Yes.

Dinesh Pathak: But on an average, maybe a difficult number but on an average your market share in the categories that you are present is very high I would assume, right?

Abhiraj Choksey: It depends now for example in some categories it is as high as 65%, 70%; in some category in some industry it is 40%, 45% and in a situation like this nitrile rubber which goes into automotive components which we have recently acquired. We are the only producer in India, but our market share is less than or around 20%. 80% is imported. So it varies.

Dinesh Pathak: Okay and that market share apart from the recent acquisition the market share would have been reasonably stable over last three years or you have been gaining market share consistently?

Abhiraj Choksey: Over the last five, six years we have been gaining market share consistently across all our industries we cater to.

Moderator: Thank you. Next question is from the line of Mr. TJ Shah, who is an individual investor. Please go ahead.

TJ Shah: Yes, I just wanted to know what will be the turnover in next five years along with the profit? And second question is why the liquidity is so low in the stock of our shares so that the stock up and down is not affected very quickly?

Abhiraj Choksey: Yes, thank you Mr. Shah. So overall, we do not give any guidances or our detail numbers we give a broad plans. Our plan is of course to keep growing in the industries that we are currently in growing exports and there is significant upside if we are able to grow and debottleneck and of course add capacity on the nitrile rubber side. I do not have the exact numbers for you over three year, five year period but obviously we want to grow at least 15% to 20% year-on-year, over the next five years on an average if all goes well.

Because the industries that we currently cater to itself we believe and even where we have high market share will grow at 8% to 9%. We have some opportunities to grow in exports we have opportunities to improve our market share considerably in the nitrile rubber side over the next five years. And we have a pipeline of new products that we are considering introducing as well.

So given all that, we do want to grow at 15% to 20% year-on-year. So you can extrapolate yourself then. As far as liquidity is concerned I wish I could control that, I do not think I control that. I mean that is I will leave it at that.

TJ Shah: No, you cannot leave it. For liquidity either you have to split the share or you have to give right or you have to give bonus then only the liquidity increases?

Abhiraj Choksey: Over the last four, five years we have already done one split and one bonus but I will take it back to the Board and take your suggestion on the consideration again.

Moderator: Thank you. Next question is from the line of Harnish Doshi who is also an individual investor. Please go ahead.

Harnish Doshi: My question is, do we have any impact of crude prices on raw materials and if yes, what would be that impact?

Abhiraj Choksey: It is a yes and no answer. Yes, of course crude prices affect us. Say all our raw materials are based on crude, they are all petrochemicals. So they do impact but overall the kind of industry that we are in, whether it is an increase or a decrease of our petrochemicals we are able to pass it along for the most part. Sometimes there is a time lag of course and fortunately we are able to pass it along. Of course when it comes down, we prefer or our industry prefers the crude prices to be low because then you know working capital is low, customers are also happier when the price of a product is Rs. 60 versus Rs. 100 per kg, all that is of course.

Harnish Doshi: And the top line also would be down, right?

Abhiraj Choksey: This is what has happened last year if you see, when crude was a $100 the top line was much higher and if you even though in last year our volumes may have improved our top line actually came down. And that is okay. I think that is completely acceptable in this kind of business, any oil based.

Moderator: Thank you. The next question is from the line of Sharad Sharma, who is an individual investor. Please go ahead.

Sharad Sharma: Hi sir, sorry I joined late but if it is a repeat question do apologize. Are the bottlenecks at our own plants and the client customer paperboard one plant are they resolved for Q3? Would it be full three months cleaned?

Abhiraj Choksey: I am sorry, I did not understand. There is no issue at our plant. There is no bottleneck in our factory.

Sharad Sharma: No, the Valia versus Taloja, is that resolved for Q3?

Abhiraj Choksey: Are you talking about High Styrene Rubber shifting of production from Valia?

Sharad Sharma: Yes, shifting of production. Has it reverted back to the regular?

Abhiraj Choksey: Not yet. We expect it to happen in Q3.

Sharad Sharma: Correct so as you speak in Q3 all three months of Q3 will be a clean back to Taloja or would it be?

Abhiraj Choksey: No, in fact we expect this October and November to still be from Valia. Sometime in early December we would probably move to Taloja.

Sharad Sharma: And the customer, the paperboard customer is it on track for Q3 all three months?

Abhiraj Choksey: Again they have started their factory. They have started their plant and they are taking some volumes from us. They are still facing some cash issues. From what we had told and what we expect Q3 is not expected to be normalized although they are expected to be better than Q2. But we are told that from Q4 things should return to normal.

Sharad Sharma: Sir, any part of your sales are dedicated to the roads or the pace of construction that is happening on the government spending?

Abhiraj Choksey: To some extent indirectly because we do supply a certain construction chemicals to construction chemical company's / formulators who then in turn supply to the infrastructure companies or the contractors. So to some extent yes, that does help. But a large chunk of raw materials that we sell goes more into waterproofing and so more into buildings.

Sharad Sharma: Sir, just the final question. What is the time lag between the inventory that you are having at possibly low crude price? What is the lag between which you are passing the price increases to the customers?

Abhiraj Choksey: It depends, it could vary between one to three months.

Moderator: Thank you. The next question is from the line of Sudhindra Ballal from ACSYS Investment Private Limited. Please go ahead.

Sudhindra Ballal: Two questions from my side. You mentioned that the Butadiene prices has shot up considerably because of shut down. When do you think you can pass on the price hikes to the customer? And the second is, compared to what has happened now it looks like Q1 or before that you are not had any inclination as what all changes got in. What would be the exit rate as such for FY17 at this pace and when do you think we can be back to normal going forward?

Abhiraj Choksey: I will answer your first question. I am not sure if I understood your second question. Your first question was on, sorry, can repeat your first question again?

Sudhindra Ballal: The pass through because you said the prices have gone up?

Abhiraj Choksey: Yes, Butadiene increase happened towards the end of Q2. And now in fact we are seeing as I said there was a temporary shortage for about a month and half because there are one or two clients that went down unexpectedly.. So this had nothing to do with crude or anything. It was just a temporary supply-demand issue of Butadiene in the Asia region. We are already seeing that correct. Very quickly it is going on now in the month of November. So we were able to pass it on all to some extent. But as I said there is already the time lag of one or two months when we can do that. So sometimes we gain, sometimes we lose. Unfortunately, Q2 was a situation where we lost a little.

And if you can repeat your second question. I have not understood it actually honestly?

Sudhindra Ballal: See the second question is basically you had this acquisition and you had a set of defined parameters that would have happened for FY17. And suddenly there seems to have more such changes that has come through your way like in terms of the paperboard company shutting down and henceforth a lot of other changes have come on through the environmental side. I mean the business climate side. So that would bring us, even if you can, a change to the FY17 rate that you had in mind or had projected internally. So giving all these things into place, what would be the exit revenue run rate for FY17?

Abhiraj Choksey: First of all, I do not know if you have attended previous calls but we do not give any detailed guidances for the quarter or for the year. So I do not want to comment on exact numbers. Overall as I said in the call before, we are going through a temporary issue on couple of fronts. One is an internal issue which is moving our high styrene rubber production from Taloja to Valia which will go back this quarter, that is for certain. And the other issues with one of our largest customers which we hopefully is not entirely under our control but we hope from Q4 onwards it will be normalized.

As far as the acquisition goes and the structural issue of where we wanted to be with our acquisition we feel we are on track and as long as we continue to execute our plans we expect over the next couple of years to turnaround the company and make it reasonably profitable.

Moderator: Thank you. Due to time constraints, we will be able to take one last question. The last question is a follow up question from the line of Mr. Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir, what one should assume the tax rate for FY17 and FY18?

Abhiraj Choksey: Just hang on, we do not have the exact numbers ready for this. But obviously overall again I do not have the exact numbers but they would be lower because of the carry forward depreciation and one or two other advantages that we have. And we will have to get back to you on it.

Rajesh Kothari: So next year also you think it will be lower? When you say means below MAT?

Abhiraj Choksey: No, it will be at MAT.

Rajesh Kothari: Yes, so basically you are assuming at MAT, am I right? That is what you mean by lower?

Abhiraj Choksey: Yes, it will be below normal for sure. At MAT or little higher.

Moderator: Thank you very much. That was the last question, ladies and gentlemen. I would now like to hand the conference back to the management for any closing comments.

Abhiraj Choksey: We thank everyone for your participation in our earnings call. We have uploaded the investor presentation on the company's website. In case of further query, you may get in touch with Strategic Growth Advisors, our investor relations advisor or of course feel free to get in touch with us as well directly. Again thank you very much for the participation.

Moderator: Thank you very much. On behalf of Apcotex Industries, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.