

### **Key points from Analyst Meet :-**

The plant of the company is strategically located at Taloja, which is 36 KMS from JNPT Port and 48 KMS from Mumbai Airport.

**1st Phase of expansion** will go on trial from 1st week of Jan 2013, where the capacity will be expanded to 60000 m.tons from current capacity of 40000 m.tons saleable.

**2nd Phase of expansion** will take saleable capacity from 60000 m.tons to 80000 m.tons saleable, likely to be completed by early 2014

#### **Capex :**

**1st Phase** of expansion will be completed by Jan 2013 to 30k tonnes, the company spent 30 crores for the same.

**2nd Phase** of expansion to take total capacity to 60k tonnes, the company will only require 5 crores as capex, as basic infrastructure will already be in place.

Every 10k tonnes increase in production adds 80cr of topline every year. Capacity utilization at current capacity is 85/90% with 30/40 days payment cycle (credit given to customers)

**The replacement cost of the plant (excluding value of land) is 175/200 crores, which takes 2/3 years to set up.**

Company is implementing **TPM process for production**, (Total Productive Maintenance - for achieving Zero Defects, Zero Loss, Zero Breakdown, Zero Accident) the company received TPM Excellence Award, Category A, by the Japan Institute of Plant Maintenance, Japan in March 2012

**Barriers to Entry** : The industry has barriers to the new entrants, due to, Capital Cost, Technology, Raw Material Handling system / experience, Long Sales cycle time and Approval Process, Company needs to get approval of its products from its customers, before supplying the material, Approval process takes atleast 2 years.

**Raw material** for the product is Petrochemical, out of 2 main raw material, company totally imports one of them and source the other locally.

Company has **75/80% market share** in carpet backing product

**New product** introduced for construction industry should be growth area for the company in next few years, product such as waterproofing and repair work, one such product has been trial launched in bombay market and will gradually will be launched across the country

Company derives very small percentage of sales from Paint Industry, inspite of being Asian Paints group company.

**Technology & hi tech plant of the company is competitive advantage, since last 10 years, the company has been running 2 plants in 3 shifts with total 80 people in production and production related department.**

The company expects sales of **368 crores in 2012/13**

Company is targeting turnover of **500 crores by fy 2014**

## **There are 2 main products :-**

**Synthetic Latex** – Used in Tyre, Paper and Paper Board Coating, Carpet Backing, Bonding and Waterproofing in Construction, Textile finishing, Paints and Distempers, Asbestos Joining, Brake Show Lining,

SV latex - The company has range of 50 products in this range, the largest and only competitor in India is BASF.

VP Latex - Here the competitor is Jubilant Industries

There is always threat to the company of dumping and / or imports, which is basically from Europe

**Synthetic Rubber** – Footwear, Hoses, Conveyor Belts, Auto Components.

Synthetic Rubber - The company dont see any growth, as main usage is in Hawaii Chappal, where the demand is falling as it is becoming out of fashion

## **Main Customers**

**Tyre / Cord Dipper Industries** – Apollo Tyres, Birla Tyres, Continental Modi Tyres, MRF, SRF, Century Enka

**Paper & Paper Board** – ITC, BILT, JK Paper, NR Group

Company gets 40/45% sales from Paper / Packaging segment, where company caters to FMCG sector, many of the customers of the company in this segment is expanding their capacity, inturn benefit Apcotex.

**Rubber Industries** – Paragon Footwear, Relaxo Footwear, Banik Rubber

**Construction Industries** – Pidilite Inds, SIKA, Fosroc

**Carpet Industries** – Obeetee Industries, ABC Industries

Top 10 customers contributes 45/50% of sales, while top 25 customers contributes 75% of sales, there is constant churning of top 10 clients of the company.

Sales from Domestic market for companies product is around 92%, rest comes from exports, Company is targetting sales from export as 15/20% of total sales in next 5 years, the company is eyeing market in middle east and south east asian countries, where there is no local manufacturing for the products which Apcotex produces.

The company has policy not to hedge the Forex, as company can pass on the same on customers.

The company has been focusing on market share since last 5 years, hence there is decrease if EBIDTA margins, which company claims to improve going forward.

**There is fluctuation in QOQ numbers due to various factors.**

**Volatility in raw material prices and availability** of raw Material is risk area for the company.

The company has made **contract with its customers on Monthly / Bi monthly fixed rates** ( Average 45 days), which gives flexibility to the company to pass on any increase in RM cost to customers.

Company's major export started in last 6/8 months, even after 5 years, the total sales from domestic market will be around 80%, domestic market sales is bread and butter for the company.

Company source one of its Raw Material from its two suppliers within India, Other Raw Material is fully imported, There is a risk involved in transporting raw material, where company manages the logistics.

Pricing of the raw material is in US Dollar based, even if it is manufactured in India.

The company is facing downturn in demand in last 2/3 months, the prices of Raw Material have also come down during this period, due to this the company is facing some payment pressure from its customers.

Competitors : BASF, Styron, Synthome (in Europe) are large competitors, with few companies located in some countries.

Company takes advantage of fluctuation and volatility in raw material prices by managing inventory effectively.

### **Conclusion :**

**Key point or trigger is assets /turnover ratio** : On small capex, sales of the company to grow sharply by more than 100 % which will further improve ROCE .

Another interesting factor is that on **employee cost is just 3.3 % of the sales** which is very very positive, company has kept same nos of employees while sales have shot up many times & it is expected that company is going to have same numbers for future also.

There are only 2 players in the market, BASF and Apcotex, apart from some imports., This makes it easy to pass on any variation in the input cost to the customer.

This becomes more important when raw material forms more than 80% of total costs.

Abhiraj was quite vocal in accepting that the lower operating margins are partially due to their own strategy of getting the market share first. In B2B market, capacity utilization is the primary concern in the first stage, rather than return ratios.

The asset turnover ratio is more than what I was thinking it to be. 30 crs of capex can generate sales of 320 crs with may be 10% operating margin. The maths of return ratios is out there to do.

Some of the suggestions provided to the mgmt by few members of this group have actually been implemented. Conducting an analyst meet, converting some of the equity portfolio into debt portfolio to reduce the volatility. This shows that they are willing to listen and change provided right advice is provided. This to me is one of the most important factor.

Also the Grip on the business by this young MD is appreciable as he was able to reply every query with comfort.

Compiled for Investment Super Growth (ISG) Group :-

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