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“NOCIL Limited  
H1 FY2019 Earnings Conference Call”

November 01, 2018



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**MANAGEMENT:**

**MR. S.R. DEO - MANAGING DIRECTOR - NOCIL LIMITED**

**MR. P. SRINIVASAN – PRESIDENT FINANCE & CHIEF FINANCIAL OFFICER – NOCIL LIMITED**

**MR. R.M. GADGIL - PRESIDENT MARKETING - NOCIL LIMITED**



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**Moderator:** Ladies and gentlemen good day and welcome to the H1 FY2019 earnings conference call of NOCIL Limited. The conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as and the 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 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 an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S.R. Deo - Managing Director of NOCIL Limited. Thank you and over to you, Sir!

**S.R. Deo:** Good afternoon and a very warm welcome to everyone present on this call. I have with me my colleagues, Mr. R.M. Gadgil, President Marketing and Mr. P. Srinivasan, President Finance and CFO of NOCIL. We also have Mr. Samir Shah, Payal Dave, and Neha Shroff from SGA, our Investor Relation Advisors. It is a privilege to interact with all of you on behalf of NOCIL. I hope you have received our investor presentation and those who have not received it, you can view them on stock exchanges or on NOCIL's website.

The first half of this financial year was a good year for the Company with growth both in terms of volumes as well as value when compared to the corresponding period of last financial year. Most of you are aware about the chemicals business especially post environmental pollution clampdown that got tightened in China. In view of same, we could sustain momentum that started from Q3 of last financial year and we hope that the trend continues for Q3 of FY 2018-19. At the same time, I wish to state that we are able to achieve this due to good practices that we have put in place such as long-term customer relationship, better product portfolio, the important thing our human resource, managing cost efficiencies, and a continuous effort in our research center to develop our process technologies and a very focused effort on effluent treatment.

In view of this recently, NOCIL has been conferred with ICC Acharya P.C. Ray Award for development of Indigenous Technology. We believe this will continue to hold us in good state for a very long run.

Coming to the project, we wish to state that these projects are all on schedule. In respect of Navi Mumbai part, the first phase of the project has been commissioned and we are happy to inform that within three months, the plant delivered full capacity which is quite creditable given that normally such chemical plant takes about 12 months to stabilize. Dahej plant will be commissioned during this quarter. Most of the mechanical completions have been done. And currently the equipments are being tested. We expect that the finished product samples will be forwarded to the customers for approval in Q4 of this financial year.



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To summarize, the business is expected to record about 10% volume growth during this financial year as compared to previous financial year. Once the industry continues to witness positive trend, challenges in terms of trade-related tension between major economies and crude oil sanctions and volatility in the crude oil prices can impact business prospects differently across countries and continent.

We at NOCIL are having a close watch and suitable action will be taken once clear picture emerge including opening our export potential in some of the world market. We strongly believe that our continuous focus and commitment towards upgrading our technology and environment protection will lead to excellence. With this balance, the company ensures the sustainability in the business. We at NOCIL are confident that the above series of action being taken by management team will succeed and show an improved performance to deliver better financial results in the years to come. Now I would like to hand over to Mr. R. M. Gadgil to give you an update on market conditions and outlook.

**R. M. Gadgil:**

Thank you Sudhir and good afternoon everyone. The best thing about this business is we see our customers investing confidently and substantially in growth of their capacities. Just to give you a feel, a very rough estimate of international or global investments are investing in building up tyre capacities to the extent of Rs.55,000 Crores which should fructify over the next one or two years. This is globally happening across the tyre segments of truck tyres, passenger car tyres, off the road tyres, etc. We already have in India quite a few of the major multinational companies, who are also investing and expanding their Indian operations. By virtue of having a close and a global relationship with these companies over the last two decades or so, we stand in a very good position to build up our business with these expansions as they are happening.

The domestic automotive tyre industry will grow at anything between 12 to 14% foreseeably for the next four to five years. In line with the same, we have major domestic players announcing their expansion plans over the last 12 to 18 months. To give you a feel for these expansions and the amounts involved, the number could be anywhere between Rs. 12,000 to 15,000 Crores spread over the next one or two years. Looking at this scenario, one can only conclude that the future for the rubber chemicals business is looking quite bright.

You are aware of the recent interruption in supplies from our Chinese competitors primarily because of environmental issues which the government cracked down upon. As a result of this, there was supply disruptions to many of the major rubber chemical consumers including the large tyre companies. This was an opportunity for NOCIL. We used this by taking a decision to support our regular customers, both domestic and international with steady supplies and at reasonable price levels keeping in mind a long-term view of the business. This has generated a lot of goodwill for the company and it has deepened our relationship with customers, which augurs well for the long-term business.



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It is without doubt that China with its large capacities will continue to be the major suppliers of rubber chemicals to the world. In view of investments made by the Chinese Players and competitors in pollution control coupled with a strict surveillance that we expect the Chinese government to maintain, we expect that their cost will be significantly higher than they traditionally used to be and this will reduce the kind of price differential we experienced in the past

As stated in our investor presentations, we believe that on an annual basis at a 3% to 4% growth for rubber consumption globally, which generates an additional new demand for something like 40,000 metric tons of rubber chemicals globally per annum. We have decided to invest Rs.425 Crores over three phases and the details of the same is already in the investor presentation. Our long-term objective is to consolidate our position in the world market and become a noticeable player in the rubber chemicals business. With your permission, I would like to hand over to Mr. P. Srinivasan to give you update on the financial performance.

**P. Srinivasan:**

Thank you Mr. Sudhir Deo, Mr. R. M. Gadgil, the SGA team and good afternoon to everyone. Just to update the financial performance of the company which has already there in the investor website or stock exchange website, but just to reiterate this brief highlights. On the revenue parameters, the net revenue from operations for the quarter ended September 2018 is Rs. 272 Crores representing a growth of 19.5% as compared to Rs. 228 Crores in quarter ended September 2017. On the half yearly basis, we recorded turnover of Rs. 540 Crores for H1FY19 representing a growth of 22% as compared to Rs. 443 Crores for the same period previous financial year. Significant part is exports which have increased from Rs. 120 Crores of H1 of FY2018 to 155 for H1 FY2019. If one analysis the growth and revenue, it can be split equally between volume and value growth. In terms of value addition, which is calculated as revenue minus cost of materials consumed, cost of traded goods and change in inventories, the value addition for quarter ended September 2018 is Rs. 153 Crores as compared to Rs. 119 Crores for September 2017, which is a growth of 27.9%. In terms of half year, the value addition is Rs. 302 Crores representing a growth of 26.4% as compared to Rs. 239 Crores in the previous year. The value addition percentage margins expanded by 368 basis points is 56% in this quarter and by 191 basis points for the half year ended September 2018.

The operating EBITDA for the quarter ended September 2018 stood at Rs. 79 Crores as compared to Rs. 54 Crores for quarter ended September 2017 representing a growth of 46%. In terms of half year EBITDA for this year, it stood at Rs. 159 Crores as compared to Rs. 109 Crores for the same period last year representing a growth of 46%. In terms of the basis points, operating EBITDA margin improved by 528 basis points as compared to September 2017 and for half year, it is represented 482 basis points improvement as compared to the previous half year. The improvement as already stated, it is on the back of better efficiency, better product mix include volume conditions, better pricing, and cost optimization benefits. The PBT for the quarter ended September 2018 stood at Rs. 77 Crores as compared to Rs. 55 Crores for September 2017



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representing a growth of 39.1% and for half year ended September 2018 stood at Rs. 153 Crores as compared to rs. 109 Crores for the previous year representing a growth of 41%.

The profit after tax stood at Rs. 53 Crores as compared to Rs. 38 Crores for the previous year and for half year ended September 2018, it stood at Rs. 104 Crores as against Rs. 73 Crores representing the growth of 43%. The company has repaid all its debts as it is a zero debt company. The working capital cycle continues to be in the region of 120 to 125 days. With this, I would like to open the floor for question and answers.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

**Dhaval Shah:** Hello Sir. Congratulation for very good number. Sir, a couple of questions from my end. Firstly you mentioned in the opening about the export potential in the world market, can you elaborate on the statement. What's next once you have done with the capex what sort of options we are seeing how do you want to scale up the export business? ?

**P. Srinivasan:** See on this aspect, there are two issues. We have to see how the trade tensions between US and China pans out. Currently the duty structure proposed by US is implemented in two phases from September 2018, rubber chemicals were attracting 10%, and from January 2019 it is going to be increased by another 15%.

**Dhaval Shah:** Okay.

**R. M. Gadgil:** Let me clarify on this, you asked about how we plan to open up the world market. Opening up is probably not the best way to put it because we have been in the export market for the last maybe close to 25 years and as much as maybe 35% of our business comes from exports already. Now I talked about the investments happening, these investments are being made by our customers. The global tyre giants just to name a few, I am talking of people like Bridgestone, Michelin, Yokohama rubber. The way you go about in this business is you need to have a global relationship with these tyre companies, if you are to get an opportunity of participating in their additional new capacities. We are already there. This is one part of it, right. We already are there with our approvals and existing relationships. So we can very easily participate in these new expansions which are happening. The second part of it is the trade war between China and US. I mentioned this because China is our major competitor, okay. While it may, may not be a good thing, it depends on where you are, what business you are in. what you are exporting, what you are importing etc., and where it would lead the global economy; these are imponderables. As of now what we see today is rubber chemicals had been slapped on an additional 10% import duty by the US authorities effective September 24th. There will be another additional 15% duties coming on rubber chemicals starting January 1st, now which means the China who is a largest exporter of rubber chemicals in the world would find it increasingly difficult to hold their



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position in the US market. We already are seeing our existing customers like Sumitomo Rubber, like Yokohama Rubber opening the gates for NOCIL to supply to the US-based plants, which opportunities were not there earlier.

**Dhaval Shah:** Okay. Very good. Can China then route its product to some other country by doing some value addition in that country where the duty is not applicable.

**R. M. Gadgil:** Let me say, these things have been known to have happened, but these normally happen at small trader kind of levels. The circumventing kind of an approach at normal trade with major companies would always have country of origin mark. So it is immaterial where they ship from. So those goods are in placed to prevent these kind of activities.

**Dhaval Shah:** Correct Sir. Sir so now with the capex of Rs. 450 Crores assuming we do Rs. 900 Crores kind of topline from that, how much of that can be for exports, any guidance or anything you have in mind?

**P. Srinivasan:** It depends on how it pans out at the time of availability of the material, but focus will be to maximize domestic market business which has a value addition much better in terms of the duty structure. But we have already earmarked something for exports, The exports percentage of turnover which is about less than 30% in the long run will go up because the global market is much higher than India. India has only 5%-7% of the world market, so 93-95% of the global market. So we have to export. So the export percentage also will go up.

**Dhaval Shah:** Got it and Mr. Srinivasan you mentioned about the duty structuring favorable but that will change post the ADD goes off

**P. Srinivasan:** No. I think I am not talking about ADD structure, I am talking about Indian duty structure which is about 10%, 7.5 plus other charges is 10% higher. So the value addition per se even if the ADD is not there, in the local market is much higher as compared to exports – because the exports has Nil duty.

**Dhaval Shah:** Okay and just repeating one more time Sir, can you once again touch up on the impact of ADD going off what it could be?

**P. Srinivasan:** I have already said in the past, it is about 4% on the EBITDA margin

**Dhaval Shah:** Okay. 4% of the EBITDA margin, okay.

**R. M. Gadgil:** We should not be assuming that the antidumping duty is going away. First of all, the antidumping duty is in place till July next year, okay. And we are in discussion for application of an extension of the same. So let us not pre-decide on the fact that ADD is going away. It is a matter we should be decided by the authorities depending on merit of the case.



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- P. Srinivasan:** The preliminary work is going on, so we will take it up at appropriate point of time.
- Dhaval Shah:** Okay. Sir raw material inflation, any significant change in terms of basket of raw material?
- Dhaval Shah:** Availability plus price increase, which can impact our margins, has everything changed ....?
- P. Srinivasan:** So there is no price increase, in fact we have seen in this quarter, some softening of raw material prices.
- Dhaval Shah:** Okay. Great Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.
- Sunil Kothari:** Thank you very much Sir and congratulation for good set of numbers. My question is to Mr. Deo, Sir EBITDA percentage of 30%, how it is difficult for other chemical manufacturer, other countries to establish some more capacity and compete because this looks to be very lucrative business that is why I am asking?
- S R Deo:** Yes. This looks to be a lucrative business when you look at it outwardly. But you also have to look at the parameters of the business in terms of technology, technology developments, the approvals of the product from the customer, so this business has lots and lots of parameter where you have to work very hard to be in this business. So looking at the balance sheet, it looks attractive, but entering the business, I think these parameters have to be considered before somebody looks at the business.
- R. M. Gadgil:** Can I add to this. If I understood you question correctly, you said because the business looks lucrative, which it certainly does going by the numbers and the performance. What stops other countries from coming into this business, is that your question?
- Sunil Kothari:** Other countries and other players maybe domestic, increasing capability on capacity?
- R. M. Gadgil:** Okay. Let me tell you. I will answer the other countries part of it first. I will come to other players part of it second, okay. Globally if you see the last 15-20 years, this business, about 80% of the global business was controlled by three large international players. Most of them have now become shut, one has gone out totally, the second one is the mere shadow, they are only in one product in stead of about 15 products that they were in earlier. And the third one is there but have not shown any growth or anything like that. Why did this happen, this happened because the business goes through cycles and the business was not looking good. They lost interest. Maybe they lost patience. I have no answers. But it is very, very unlikely that there would be any capacity additions or any significant capacity additions in the western world or the development world, okay. There have not been any over the last five years or 10 years, any new additions.



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Now the question is about new players coming into this business that is a possibility, I would not like to rule out, it depends on the management and how they perceive their strength. Please understand that the gestation period for this business is rather high, for tyre company approvals, it will not take less than two years and is very difficult to dislodge an existing player. So there is inbuilt kind of deterrents to new players wanting to come into this business.

**Sunil Kothari:** Great Sir. Very satisfactory explanation. Sir my last question is given our capacity announcement now, and if there is a demand because it looks that export market is reopening up well. So could we – if there is demand, can we increase volume by maybe high double digit number?

**R. M. Gadgil:** Okay. Please let me clarify that it is not only the international market that we are looking at. I did mention the kind of investment that is being made by our traditional domestic customers. India is a growth market, okay. If I take the first three or four customers, all of them have plans individually of about Rs. 3,000 or Rs. 4,000 Crores investments over the next two years, okay. Now that is something where we do not have to do anything additional, their requirements grow up and which is very natural that the biggest largest, most reliable, one of the oldest suppliers will get a reasonably good chunk out of that business. So that is number one. Now coming to the international thing, internationally, also we have about 2.5 decades worth of relationship with the top three, four, five, six companies in the tyre business. And we intend taking advantage of that with the additional capacities. So if that is not going to be difficult whether double digit or not I have not done the arithmetic but I do not see a dearth of opportunities to place the larger volumes, which will come out of our expansion.

**P. Srinivasan:** Sunil to summarize, we have evaluated the financial feasibility or the project feasibility on an assumption of three years to ramp up 100% utilization. Our endeavor would always be to occupy or utilize the capacity much earlier. It depends on how the market pans out, but there are some movements in the market or actions in the market place which can temporarily distort this momentum. But having said that general taboo which we are adopting is three years thereabout we will achieve 100% utilization, okay.

**Sunil Kothari:** Thank you very much Sir. Wish you good luck. Thanks again.

**Moderator:** Thank you. The next question is from the line of Pritesh Chedda from Lucky Investment Managers. Please go ahead.

**Pritesh Chedda:** Thank you for the opportunity and congratulations for good numbers. Sir just one question, in the past quarters, there was a comment on China realigning their capacities because of whatever changes are happening there and the test on the margins would be proven in the second half of this year, because we started gaining a bit on margins because of those realignment of capacities about four quarters back. So just wanted to understand from you guys what is the status now of



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their capacities if any and is there a case where these margins sustain through all incrementally from here?

**P. Srinivasan:** See there are two things. If you look at the competitors' balance sheet, which is listed, mainly China Sunshine, Yanggu Huatai, Kemai Chemical, all these companies have invested substantially in their environmental capex or pollution effluent treatment capex with no major incremental additional production aspect. Now for example one of the competitor had to wait for permission from those pollution control authorities for almost a year or year and a half for getting the product on the commercial stream. So we have not heard any major capex being announced, one may not be surprised because they are currently in the process of rectifying all those noncompliance issues into a compliant zone. Having said that there are some small capacity players who cannot be named individually but aggregating significantly, those capacities are more or less vanished or they are in the process of shutting down.

**Pritesh Chedda:** Okay, so which means sum total of this is that four quarters back whatever realignment of capacities have started in China, those capacities have not come back in any form?

**P. Srinivasan:** As of today we have not seen any signals of coming back. In fact many of them are moved out of the cities also.

**Pritesh Chedda:** And the antidumping duty posed by US on their supplies from China does open up opportunity for players like us, but on the other hand it might also free up some capacities for China, does it have any bearing or any impact incrementally on the margins by any chance?

**R. M. Gadgil:** Well, let me put it to you in this way, if a player is operating on the global basis and one market for whatever reasons trade war or other things kind of closes down opportunities in that market they would certainly look at other markets, okay. Now we have been competing with China for again last 15 or 20 years, we are quite confident of defending our position against the Chinese players both in the domestic market as well as the international market. The other thing a lot of that aggregation has been taken care, do not forget that if they have to sell into the India, they are dealing with Rs.74 to a dollar today. Let us not forget that their unit cost of producing cleanly and environmentally compliantly, actually their production costs have gone up. Let us not forget that labor cost in China are no longer cheap. They have been going up by double digit for the last five years or so. So what we saw as the Chinese edge in terms of doing business five years back is surely blunted to a large extent, so I would not worry too much about that. There would be an efforts to place larger quantities in to India, no doubt about that.

**Pritesh Chedda:** Okay. I just conclude here so antidumping by US is opportunity for us, and realignment of capacities which happened four quarters back and with other things being equal means sustenance of expanded margins that we have?



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- P. Srinivasan:** Mr. Deo did say in his opening remarks that this momentum will be continued for December quarter also.
- Pritesh Chedda:** Yes. Thank you very much and all the best to you Sir.
- Moderator:** Thank you. The next question is from the line of Alok Ranjan from L&T Mutual Fund. Please go ahead.
- Alok Ranjan:** Thank you Sir for taking my question. My question is if you could give some sense on how is the average selling price moving because in this quarter, there might be exchange gains also, because you have also mentioned that there is softness in the cost side. So could you give some sense on how the next two quarters you see the average selling price of the rubber chemicals?
- P. Srinivasan:** What is more important is to begin with there is a softening of some input cost on account of the petrochemicals downside on certain products, amines and solvents. As a result, as a dutiful supplier, we have also passed on those benefits to the customer in the form reduction in prices. What is more important is have we managed to hold the margins of the EBITDA percentage, I think my answer is yes to that extent.
- Alok Ranjan:** That is fine Sir. My second question is related to the antidumping by the US that you mentioned. So there could be maybe the material movement could be in a different sort of way, so maybe we could sell more to the US, but at the same time, maybe China has to also ultimately park its products somewhere, so maybe in India, they could try to sell despite the antidumping or something. So in totally if you have to see how to see how much benefits, because it may take us time to sell more products in US, so if you can give more sense on how much right now we are selling in US, how much China is right now selling in US and how this whole thing can shape up?
- P. Srinivasan:** To start with I think the US and the western world accounts for almost 22% of the world market, India is only 5%-7% of the world market. US as a country do not have major produces, so they have to import. Either you may expect a producer from EU to supply or from other market including China. We have a relationship multinational tyre companies, who have plans in US also. What is more important is whether we have a relationship existing, and if that is existing, it is more on consolidation and that new chapter gets opened up. So there have been enquiry from few multinational companies to supply to US, maybe Gadgil can add a few words.
- R. M. Gadgil:** See the US intentions were announced quite a few months back. In the US system, if you have to impose antidumping duties or countervailing duties or any such additional duties on a trade partner, there is a two-month period of consultation which has gone through with the industry before the duties come in place. As I mentioned the duties came in place, the first tranche of duties came in place on September 24. Two months before that or even more than that, the intentions



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were pretty clear. Normally I mentioned that it might take one and one and a half years' sustained effort to open up for new location for doing business with our international tyre companies. In the last three months alone, we have had at least two major tyre companies figuring in the top seven or top eight global tyre companies opening up the US plans to us for supply which have already started.

- Alok Ranjan:** Right. Thank you Sir. Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from the line of Mithun Soni from GeeCee Investments. Please go ahead.
- Mithun Soni:** Hello Sir. I just want to understand in terms of our product basket today, how much of our revenue or in terms of volume would be coming from those specialty products, where we would be having fairly high level of pricing power and completely fairly?
- P. Srinivasan:** The specialty business what I mean is not value addition product, it includes specialized application as well. It accounts for 25% of the total revenue. And the regular business or the regular products of rubber chemicals which is the traditional one accounts for 75% and typically the volume value also more or less in the same percentage.
- Mithun Soni:** Okay. My second question is we indicated that because of this environmental issues in China, and companies over there, are investing in all this effluent treatment plant, are they really taking a price increase which you can help us or is the government increasing the subsidy over there to help cover their cost?
- P. Srinivasan:** We have not encountered any.
- R. M. Gadgil:** Broadly speaking the Chinese government as a response to the trade war with the US has reacted in a few different ways. One reaction has been to impose duties on American goods getting to China. The second can be annoying the Chinese RMB to kind of weaken, which has gone from a level of say about 6.5, 6.6 to 6.95 today. So making their exporters that much more competitive or helping them to continue their exports.
- Mithun Soni:** But will it affect their margin, so they may need to take a price increase?
- R. M. Gadgil:** No, you asked about the export subsidies or export tax rebate. As far as the export tax rebates are concerned, certain products and certain industries have been selected for export tax rebate increases after the trade war started. Rubber chemicals are not amongst that. In some cases, the rubber chemical export subsidies as it is what we compete against in 17%, which is a peak rate, they cannot go up anymore.



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**Mithun Soni:** Okay. And one last question Sir. When you talk to these clients, customers who are looking to increase their supplies from India, are they coming in as a long term supplier – my question I am trying to understand tomorrow if US, China has a capacity was to increase, today China does supply quite a lot of their requirements, will they go back over there or they want to just see as a strategically they know they want one more partner and hence they will continue the partnership with us even if the capacity in China just goes up all of a sudden now. How are you seeing this scenario?

**R. M. Gadgil:** Well, let me put it to you it is very difficult in the tyre business to just keep shifting and shuffling your supply chains. In the same way, it is difficult to get into a tyre company as a supplier, will take time one and a half to two years for approvals and to start business. By the same token, it is very difficult for them to throw out a supplier, if the supply chain equations change in favor of somebody else. It does not happen overnight because remember rubber chemicals is only about a few percentage, 3 or 4% of a tyre, but they are very critical to performance. There have been changes in the past where millions of tyres had to be taken back. And those kinds of examples have destroyed large tyre companies, so no one takes that risk, okay. So I would like to believe that the new opportunities that we are getting into are long term. This is not to say that everything or anything in business is permanent, but the changes cannot happen overnight. So I would think that it would be a matter of, five or six quarters before you see any changes happening there.

**P. Srinivasan:** It is not a switch on, switch off game. It is a long-term game.

**Mithun Soni:** Perfect. Thank you very much Sir.

**Moderator:** Thank you. The next question is from the line of Jasdeep Valia from Infina Finance. Please go ahead.

**Jasdeep Valia:** Good evening Sir. Thanks for taking my question. Sir margins in your business have 30% are very high with respect to the fact that they had sent to general chemical segment, so may be not now, not let say next year, but in the longer term, competition will come because this appears to be the most profitable category for investments into do chemicals. So are there any diversification thoughts in your mind let us say three to five years from now on?

**P. Srinivasan:** We believe that we have opportunities to consolidate our position in the rubber chemical business some more before we get into the diversification and as far as the margin percentage is concerned or the EBITDA percentage is concerned, if you see the slide in the investor presentation, there is a separate slide how things have changed more Dahej setting up. So I think if you refer to slide 24, most of the answers are there.

**Jasdeep Valia:** I understand that Sir basically you had some 4% kind of benefit from Dahej on account of your superior process, but you...?.



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- P. Srinivasan:** But it is a combination of several initiatives, which the company took from time to time. One is the technological improvement. Second is the shift in the export parameters from regular products to specialty products, component of the specialty being higher in export business, then there have been some optimization in the utility aspects maybe setting up a in-house turbine, then you had some antidumping benefit. It is a combination of several factors which has enabled us to achieve those parameters. And secondly the more importantly between the value addition and EBITDA, we are able to see the traditional 31% has already come down to 27. And we believe once we expand, this 27 also may shrink further.
- Jasdeep Valia:** Pardon Sir. I did not get this last point that you made.
- P. Srinivasan:** See the value addition and EBITDA percentage gap is about 30%. When you look at FY2013 or FY2014 it was 30%-31%. Today it is 27%. We believe that once the expansion of this plant all comes through, long term that 27 also will further come down. Because optimization is going to come once you operate the plant at double the capacity.
- Jasdeep Valia:** Got it. But Sir are there any diversity thoughts even at that R&D stage as of now or there is anything at the R&D stage also as of now?
- P. Srinivasan:** There are some products.
- R. M. Gadgil:** There are products we are working on, there are products which have been sampled but it would be rather early to talk about that now.
- Jasdeep Valia:** Got it Sir. And Sir your sales in India are dominated in dollars or it is...?
- P. Srinivasan:** Everything is expressed, the negotiation takes place with the corresponding CIF price what the competitor is giving and applicable exchange rate.
- R. M. Gadgil:** They are rupee denominated domestic sales.
- Jasdeep Valia:** Got it. So there is no benefit of rupee depreciation that you have got in the current quarter.
- R. M. Gadgil:** No. That is where you are wrong. The sales are rupee denominated but the prices are negotiated based on import parity, okay. For a user in India, we can buy domestic or we can import. The import is going to cost you something right where the exchange rate comes into play. And that is the kind of parity that the domestic players will seek.
- Jasdeep Valia:** Got it.
- Moderator:** Thank you. The next question is from the line of Nav Bharadwaj from Anand Rathi. Please go ahead.



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- Nav Bharadwaj:** Congratulation on good set of numbers. Sir just one question as to like we are talking about this new capacities coming up and selling more to the US and European player, will we have to go through the recognition process of two to two and a half year again or is it already there?
- P. Srinivasan:** No that is not. What Mr. Gadgil was referring to is the account relationship which is already existing, it is just an expansion of a new plant. And they are already started to buy the material from us.
- Nav Bharadwaj:** Essentially a new plant does not have to be re-audited again?
- R. M. Gadgil:** Each company has its own system in terms of how they go about the sequence of activities that they have to go through to approve a new supplier or a new product. When you are already a supplier to multiple plants of that company for many years, it is up to the confidence that they have – they can put you on the fast track. Which means that you do not go through the total two year process to get a product into a new plant of an existing customer, you might just have to go to do something maybe just send 100 kg or something, they will see how the product handles and that is it. Because all the other data accumulated data, quality reports, quarterly quality reports, your quality sustainability reports, statistical variations all of that is already in place both with us and with the customer.
- Nav Bharadwaj:** All right. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.
- Nisarg Vakharia:** Sir I have only one question. If I heard Mr. Srinivasan right, is it – you said it is more profitable to sell rubber chemicals in India than to export them?
- P. Srinivasan:** No, I think I would address it little differently. Just to give a very simple example, let us assume for a moment, the CIF price is 100. I am just giving an example 100. In India you are going to sell at 110 because that 7.5% duty and 2.5% clearing charges, so 110 whereas in exports you are going to sell at 100, whereas in India for imports, raw material has been 50, it is actually coming to 55. So net value addition is 55 as compared to export market 50 that is what I am trying to say. I mean on a product – same price comparison, same customer, just assuming a same customer one location is say for example, Europe and the same customer has an office in India. For Indian market you will be selling at 110 minus 55, 55 is the value addition whereas for the same export market, it will be 100 minus 50, it is 50 because exports are without duty that is what I am saying.



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- Nisarg Vakharia:** Okay. I got it. So if you ramp up your plants in the export market, the value addition is about 10% lower than what it is in India.
- P. Srinivasan:** Yes. We can say that.
- R. M. Gadgil:** With a bit of reservation there, in a normal perfect market assuming CIF level is 100 everywhere, this logic holds good that you would be able to sell in India at 110 and you will export at 100. Let me tell you these markets are not naturally perfect. I have personally seen many occasions quarter where my export prices have been better for example when the Europe went from 1 to 1.2 or something to that, because of exchange fluctuation and see these are contracted businesses. Suddenly that exchange variation of 10 or 15% which can happen and has happened can make all the difference. As a general rule domestic, the existence of import duties, would give you a higher rupee realization than your export zone.
- Nisarg Vakharia:** Okay. Sir what percentage of our capacity do we plan to sort of export from the new capacity, is the mix going to increase or....?
- P. Srinivasan:** That I have already answered. Today it about 28 or 30% is exports. In the long run, we will have to increase this percentage overall basis. We cannot quantify right now. Because it depends on how the market pans out, we have to see how many expansion plans are coming of the tyre industry, how many additional volumes are going to get regenerated out of India. As a rule, we can say that this 30% export mix will definitely go up. But I cannot predict this at what percentage.
- Nisarg Vakharia:** Thank you Sir and all the best and congrats for very good result.
- Moderator:** Thank you. The next question is from the line of Alisha Mahawla from Avendus. Please go ahead.
- Ashutosh:** Hi Sir. This is Ashutosh here. So congratulation on a very good set of numbers. So I just wanted to, most of the questions have been answered, so I just wanted to know the expansion, the first phase of expansion where you are planning to take you capacity from 55,000 to almost around 74,000. Is it on schedule which was expected to...?
- P. Srinivasan:** I think Mr. Deo was already answered that. He said everything is on schedule.
- Ashutosh:** And what kind of a ramp up will be – I understand that entire capex once done will get ramped up to 90-95% in three years, but this particular 74,000 capacity, how quickly will this capacity be ramped up to full utilization given the new American market also opening up?
- P. Srinivasan:** Basically what we have said to start with the Navi Mumbai aspect of the project has been commissioned, the technical or the production team has been able to generate a 100% utilization



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on the plant capability perceptive. On the marketing side, we have already placed 50% of the incremental volumes in the market place, may be in the coming quarters, we will start consolidating further and to ramp that. As far as the Dahej plan is concerned, once the production comes, the samples are approved by customers, then the utilization will start.

- Ashutosh:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Siddarth Purohit from SMC Global. Please go ahead.
- Siddarth Purohit:** Congrats for the good set of results. In fact most the questions have been answered. Sir just one clarification as you were speaking out the client engagement side. Like normally given that you already supply to one client in India and the same client puts up a new plant in Europe. So what is the approval time probably that you will need?
- R. M. Gadgil:** Okay without naming the client, we have Indian companies, who also have plants elsewhere in the world. Our own Indian tyre companies have invested abroad. There was no issue on specifications as I said specifications are known and approved, The statistical records of the supplies that we have made for each supply that has gone is a very, very elaborate kind of a database, which has maintained both by us and by the customer. So that was also available within Indian company. They were interested in inducting NOCIL into their plants in Europe. It was a matter of sorting out what kind of packaging is needed for the European plant because the packaging and the handling systems can be different in India and in Europe. And I would say we started about from the inception of the idea or the proposing we have probably shipped out the first shipment in a matter of maybe three or four months and it has been regular thereafter.
- P. Srinivasan:** So just into address it, I think one quarter is what he is trying to give you the message.
- Siddarth Purohit:** Okay. Sir just one more thing in fact we have observed other chemical companies also mentioning that rise in let us say leather cost as well as overall production cost in China – in some case it has been 30% and in some cases it has been more than that also. So, in particularly in your product the cost of production in China could have gone up by what percentage over last three years. I know it would be difficult...?
- R. M. Gadgil:** See it would be very difficult to answer that now let us presume that in the context of labor cost for a chemical industry like ours may be in the region of 8%, 7% or so. So it is not the major chunk of the cost.
- R. M. Gadgil:** Production cost in China are not unstable. It is a moving target, it keeps moving very largely depending on energy cost, raw material cost, other cost, fixed cost, environmental cost. Now what has really changed is the environmental cost which have gone up, okay. If you were to look



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at the last two years horizon, the major impact would be there. Now what is the impact of that cost, it would depend on the specific rubber chemical that you are talking about because some are more environmentally damaging and some are less damaging, but has a very very rough number, the environmental cost could be anywhere between let us say USD 0.30 to USD 0.50 per kg.

**P. Srinivasan:** What he is trying to say it appears to be about 10% of the sales value or it could be even 15% to start with on a lower right. On high pollutant product, it could be much higher.

**Siddarth Purohit:** Yes Sir. That is fine. Sir just one more clarification just accounting doubt I have, that negative 8.8 Crores number, is that the below PBT, is that towards some MTM losses?

**P. Srinivasan:** It is a fair valuation method as per the Ind-AS accounting standards.

**Siddarth Purohit:** Thanks for the reply.

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

**Kamlesh Kotak:** Thank you good afternoon Sir. Just I do not whether you touch up on this or not, what is the current capacity we have and how much utilization we have till this first half of the year?

**P. Srinivasan:** Beginning of the year, we were having about 55,000 tons production capacities and utilization was 97 to 100% depending on the product to product and the demand. We are planning to expand almost double over the next one year thereabout. So by September 2019 or thereabout, we should see almost double the production capacities.

**Kamlesh Kotak:** All the three phases put together it will double right?

**P. Srinivasan:** Yes, Almost double.

**Kamlesh Kotak:** Okay. Second thing Sir if you can just tell more on the specialty rubber chemicals, I mean I understand mostly they are used in tyres, but any other segment also which you can find new application, so any color on what are the products and how that market was shaping up for us?

**P. Srinivasan:** When I say specialty chemicals, it includes specialized applications where it has specialty there in antioxidants something in accelerators and something in Zinc-based applications also. Each product has its own market. So it includes tyre industry. It includes non-tyre industry, Latex industry etc. Some pharma also is there.

**Kamlesh Kotak:** Any broader products you can identify specifically? Products or industry, you said pharma, any other products on industry besides that?



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- R. M. Gadgil:** We are rubber chemicals manufactures. Primarily our efforts are directed to rubber, and rubber processed in any form for any end use, whether it is tyre, belting, footwear, condoms, hoses or gloves, these are the industries that we supply.
- Kamlesh Kotak:** Sure Sir. That is it. Thank you very much Sir.
- R. M. Gadgil:** Within these, there are workout rubber chemicals and there are specialty rubber chemicals. When I say specialty there could be one more manufacture in the world.
- Kamlesh Kotak:** Fine. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Pawan Kumar from Ratnapriya Capital. Please go ahead.
- Pawan Kumar:** Sir employee expenses, what is the kind of inflation we might see post this commission of this new plan for this year and next year what should be employee inflation we should accept?
- P. Srinivasan:** Normally we worked on a broader principle of 10% or thereabout. It all depends on how it pans out.
- Pawan Kumar:** But there is going to be a new plan that is going to commissioned right, so my understanding is that going to go up maybe now more than 10%, 20% to 30%.
- R. M. Gadgil:** No. If you really look at it as a ratio of revenue versus employee cost, actually it will reduce. Because the employee cost will be far lower than the revenue which we are going to generate.
- P. Srinivasan:** If you aggregate the current employee cost and the incremental employee cost, as a percentage of turnover it will come down.
- Pawan Kumar:** Okay and one just data question.
- Moderator:** Thank you. The next question is from the line of Sagar Jetwani from Karvy Portfolio Management Services. Please go ahead.
- Sagar Jetwani:** Sir thank you for the opportunity and congratulation for good set of numbers. Sir just wanted to have some understanding on product pricing differences between China and us, so if you can just provide some insights on that?
- R. M. Gadgil:** This is a competitive business. So if you are a customer, and you are buying, all other things being equal. If the quality is equal, the reliability is equal, you would not pay one guy a huge premium over the other, right. But then again it is not a perfect world. People have had this bad experience of disruptions in Chinese supply very recently and for almost one entire year. Now



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that being the case there is also a strategic point of view which the customer brings into play which is not to put all eggs in the same basket and therefore inordinately large dependence on Chinese suppliers, which is something they would like to avoid, not that indirectly benefits us and how does it reflect, it reflects in better volumes, a larger keenness on the part of the customer to do business with us and to a certain extent, a price premium. If Chinese price is USD 3.1, I cannot demand USD 10 but if it is USD 3.1 I can certainly demand USD 3.3 or USD 3.4. Within is a limit, they are willing to pay extra for you reliability and sustainability.

**P. Srinivasan:** And being a just in time supplier.

**Sagar Jetwani:** Okay. That is helpful. Just one last question was if you can just give us some clarity on promoter selling, I can understand that it is a family settlement, so if you can just give us some insightful on that could be very helpful Sir.

**P. Srinivasan:** There are two clarifications. The promoters split in August 2016. As per the split, Navin was holding about 38 lakh shares at the time split. They have already sold 30 lakhs, 8 lakhs still there and that has already come under the nonpromoter category in terms of after the SEBI approval or the stock exchange approval. Insofar as the Mafatlal industries are concerned, their board approved a total quantum of 16 lakh shares spread over from May 2018 to May 2019 that is 12 months. Out of that if I am not mistaken, they have sold about 2.5 lakhs or 3 lakhs, I may not be sure what the exact number that is what they have sold and that is needed for their business needs nothing more. There is no question of – it is an independent board. MIL is an independent board. NOCIL is an independent board. So these are in the board, has taken a decision and they are not going to exceed 16 lakhs. I am not sure whether they are going to touch full 16 lakhs that is a second question. So that is what the state is.

**Sagar Jetwani:** Okay. Thank you so much Sir.

**Moderator:** Thank you. Ladies and gentlemen, we will take the last question from the line of Ganesh Radhakrishnan from Pristine Portfolio. Please go ahead.

**Ganesh Radhakrishnan:** Yes. I just wanted to understand your raw material cost, last quarter the crude prices have shot up, did you see the full impact of raw material prices or you had enough stock or long-term contract with your suppliers.

**P. Srinivasan:** In case of our raw materials, these are benzene derivatives, and we had a softening scenario, so we experienced a fall in raw material prices beginning July or thereabout and it is still continuing. So as a result, we did not experience any major untoward in terms of raw material procurement.



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**R. M. Gadgil:** Can I add to that, let me explain when crude oil as an indicator of chemical pricing, is very broadly used or is considered fundamental parameters. There is very often a disconnect between certain downstream chemicals and crude, okay. So crude might have gone up but we see benzene is soft, we see aniline is soft compared to let us say four or five months back. So it actually depends more on the individual supplier demand for that particular chemical and does not diversely follow the trends that crude is showing. So as a result when crude has gone up in the last few months for our specific raw material we see a drop at the moment.

**Moderator:** Ladies and gentlemen that was the last question. I now hand the conference over to Mr. S. R Deo for closing comments.

**S R Deo:** I take this opportunity to thank everyone for joining the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or Strategic Growth Advisor, our Investor Relationship. Thank you very much for joining the call.

**P. Srinivasan:** Happy Diwali to all of you.

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