"NOCIL Limited FY17 Earnings Conference Call"

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MANAGEMENT: MR. C. R. GUPTE – MANAGING DIRECTOR
MR. S. R. DEO – DEPUTY MANAGING DIRECTOR
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Moderator: Good day and welcome to the FY17 Earnings Conference Call of NOCIL Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinion and expectation of the company as on date of this call. These statements are not the guarantee 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 '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. C. R. Gupte - Managing Director of NOCIL Limited, thank you and over to you, sir.

C R Gupte: Thank you. Good afternoon, everybody. Very warm welcome to you and I am happy to tell you that I have along with me Mr. S. R. Deo, our Deputy Managing Director; Mr. Srinivasan, our CFO and SGA team, our Investor Relations Advisors. I hope you have received the Investor Presentation by now and those who have not, you could access the same from the Stock Exchange websites or our own website. Before going on to the update, I am very happy to inform you that the board has proposed the dividend of Rs. 1.80 per share which is 18% of face value of Rs. 10, which is a payout ratio of approximately 30%.

Ladies and gentlemen since this is our first conference call with investors and analysts, I would like to start with a brief introduction of our company, NOCIL as well as the rubber chemicals business. NOCIL, as many of you might have known is part of Arvind Mafatlal Group and has been in the business of rubber chemicals for nearly 4 decades. Rubber chemicals are used in production of any rubber product. Any rubber product which is manufactured, it essentially has rubber chemicals and it constitutes about 3% to 4% of the total rubber consumption. There are other inputs, other ingredients which go in but rubber chemicals are despite the fact that they are very small in volume are very critical from the point of view of end product performance or for that matter the processing part which is known as vulcanization.

The tyre industry which is the main consumer of rubber chemicals accounts for nearly 60% to 65% of total rubber chemicals or rubber consumption and the quality, strength and life of tyre depends significantly on the rubber chemicals used in the process to convert the rubber both natural and synthetic into tyres. Because of the critical role that the rubber chemicals play in tyre performance, the testing and approval process of these chemicals is a very long and elaborate one. It is also very expensive one at the tyre maker's end and that is where the same thing in terms of product approval actually means a fairly high entry barrier for new entrants. Tyre and non tyre are the 2 major segments. Non-tyre segment actually includes various rubber products like cycle tyres and tubes, latex goods like gloves, threads, etc., footwear, conveyor belts, hoses and a host of other rubber products.

Our company, that is NOCIL, participates in all the segments of rubber industry with practically a full product slate to fulfill the customer's needs. This is again fairly unique thing, majority of participants in rubber chemicals business have a segmental availability, NOCIL has virtually a full range of products. We produce approximately 20 types of rubber chemicals, which can be broadly classified into 3 broad categories, accelerators which as the name denotes accelerate the process of vulcanization and the vulcanization process which along with sulphur which can take anywhere up to several hours or a few days can be kind of accelerated in a matter of minutes with accelerators. Anti-degradants is a broad category again which includes antioxidants which actually inhibits the degradation of rubber product from various factors or elements like oxidation or ozonization or things like that and these also stabilize the rubber product post its vulcanization. There are other specialty rubber chemicals which NOCIL makes which actually prevent scorching or wastage of rubber or the other ingredients in the process of vulcanization.

Our manufacturing facilities are located in Navi Mumbai as well as in Dahej in Gujarat. Navi Mumbai plant was the first one which was started and set up sometime in mid-70’s actually and it is located in Trans-Thane Creek industrial area of Navi Mumbai, which is about 40 kilometers away from Mumbai. This facility has a state-of-art technology for the manufacture of wide range of rubber chemicals for tyre and other rubber based industries. Dahej plant was commissioned sometime in March 2013. Dahej plant is again located in a chemical zone with excellent proximity to nearby ports and critical raw material suppliers. I must mention the process technology used in Dahej is not only unique, it is one of the best ones in its field and this was a fully in-house effort of our R&D and other technical departments.

Our plants or in fact our manufacturing philosophy follows a recover and reuse philosophy which minimizes a effluent load and also makes it cost effective. This approach is that of an environmentally friendly way of manufacturing, in other words what is known as green technology today. It ensures sustainability of the business because today environment control is again as important as your manufacturing capability or the cost position which one has. The total manufacturing capacity including intermediates stands somewhere in the region of 55,000 tonnes per annum. The current utilization is somewhere again in the 90s. NOCIL's strong R&D capabilities is one of its important strengths. We have a team of highly qualified and experienced organic chemist, analytical chemist, chemical engineers, chemical technologists, rubber technologists, all of them jointly form a formidable pool of technical talent. The research center of our company is recognized by the Ministry of Science and Technology, Government of India, it focuses on key research areas like new products, process development, scale up, environmental strategies, etc.

Our company is also certified for quality management, health safety and environment and research capabilities. Reputed international as well as domestic customers conduct regular audits of our facilities and we feel proud to inform you that our quality management systems and our manufacturing facilities get the highest ranking in their vendor assessment. Our customer profile is mainly major tyre manufacturers, both domestic as well as international and these are amongst our most important customers. We have been having a very long term business relationship with majority of these customers spread over nearly 40 countries and based on mutual trust and confidence, the kind of dependability and the quality of products and services that we provide, we have consolidated and cemented this relationship with our important customers. By virtue of our long association with most of these international tyre majors, our company also enjoys a preferred supplier status for their Indian operations.

In non tyre segment, we have a very large number of relatively smaller customers, I mean non tyre is spread all over the country and even internationally, who make a very wide variety of rubber goods. They depend extensively for technical support on our marketing, technical, services group and our strong distribution network as well. This becomes a very important USP for our company. Approximately 70% of our sales are from domestic market and 30% are from exports. Over the last few years, we have focused on improving our sales mix for this segment by promoting some specialty and high value products to specific customers thereby improving the profitability of this segment of the business. Exports are based on strategic choice of customers, products and markets with an emphasis on specialties.

Coming back to global and Indian demand for rubber chemicals, basically rubber chemicals demand follows the rubber consumption trend. The global rubber consumption stood at approximately 27 million tonnes last year, which was 2016 and the growth was about 1.6% during that year. Typically, the growth of rubber internationally has been in the region of 3% to 4% and follows a trend with lows of something like 1% and goes as high as 4%. The global rubber chemicals demand essentially follows the same trend and our growth in export volumes has outperformed the global growth in the rubber consumption. The domestic rubber consumption in India accounts for nearly 1.6 million tonnes per annum with a growth of about 5.8% or close to 6%. As against this, our domestic sales volumes have grown by about 10% last year.

As Asia has become a growth hub for auto manufacturing, tyre production is also expanding in this region, this is also logical in view of very large rubber production in the Asian region. Natural rubber grows basically in 3 countries namely, Thailand, Indonesia and Malaysia along with India. Most of our major domestic customers also have impressive growth plans on the anvil. Another major trend in rubber chemicals industry over the last few years is the exit of major erstwhile producers from developed regions like Europe, US or Japan. The capacities as a result which got relocated or kind of mushroomed up in China are the players who have inadequate environmental and quality standards and of late due to the environmental concerns in China with the kind of pollution issues that are faced in major cities like Beijing or Shanghai which has actually kind of resulted in a much stronger implementation of these environmental standards and has also resulted in closure of operations of quite a few number of rubber chemical producers.

This has also affected the capacity utilization and has actually kind of reduced the capacity utilization and which in effect has resulted in higher cost of manufacturing and also some supply tightness because environmental protection does not really come free, I mean it comes with a high CAPEX involved and it also involves an ongoing variable cost which the producer incurs. And I am very happy to mention that NOCIL as an organization has always followed the philosophy of ensuring that all our processes are environmentally friendly and as a result of all these, 2 very key aspects have emerged and the highlights of those are the HSE related regulations resulting in higher cost of operations as well as rising wage cost may to some extent diminish or blunt the traditional price differential which the Chinese producers enjoyed. The strategic thinking of major tyre customers or major customers in the rubber industry is also now gearing towards not depending exclusively on sourcing from only one country namely China and this works to our major advantage because outside China we are recognized as one of the most important rubber chemical producers.

Now coming to auto industry which is showing signs of improvement, thanks to lower interest rates and lower fuel pricing, NOCIL is actually kind of the largest and well established player and is confident from benefitting from these developments. To capitalize on these growth opportunities, our company has recently planned a CAPEX of nearly 170 crores which would really mean an expansion which is expected to be commissioned by second quarter of financial year 2018-2019. The expansion will be for the existing range of products as well as for some additional ones. The capital expenditure will be largely funded by internal accruals, the expected asset turnover ratio for the new facilities would be 2 times. The CAPEX plant is with a view to ensure the long-term sustainability of our business as well as to be ahead of the demand curve and least of all, to be with the demand curve.

Lastly we have recently communicated to the stock exchanges about the changes at the board and management level team. I am pleased to inform you that I will be passing on the baton in the able hands of Mr. S. R. Deo effective August 1, 2017. Mr. S. R. Deo will be elevated to the position of Managing Director from that day. In order to ensure suitable representation on the board for the promoter group, Mr. Priyavrata Mafatlal has been appointed as an additional director from 8th of May 2017. Both these appointments are subject to approval of the members.

Now, I would like to hand over to Mr. Srinivasan, our CFO to give you a brief on the financial performance of the company for the year and before I sign off, thank you very much and good day to you.

P. Srinivasan: Thank you, Mr. Gupte. Good afternoon, ladies and gentlemen. Just like to give you brief financial highlights.

The total revenue for the quarter ended March 17 is 193 crores as against March 16 of 178 crores, which is a growth of 8%. The total revenue for the year to date March 17 is 751 crores as against

718 crores for the year ended March 16, a growth of 5%. At EBITDA level, the quarter March 17, we recorded an EBITDA of 41 crores as against 38 crores for the same period that is March 16, a growth of 9%. The EBITDA margin for the quarter ended March 17 is 21.4%, an improvement of 30 basis points over the last year same quarter. EBITDA for the annual year 2016-2017 is 158 crores, a growth of 15% as compared to financial year 2015-2016. The EBITDA performance for financial year 2015-2016 was 138 crores. The EBITDA margin for the year to date is 21.3%, an improvement of 200 basis points over the last year. The improvement is on the back of better efficiency, better product mix, better pricing and improvement in volumes.

At the PAT levels, the profit after tax for the quarter March 17 is 26 crores as against 23 crores recorded in March 15 last year, a year-on-year growth of 13%. The net profit margin for quarter March 17 is 13.3% as against 12.7% recorded at the quarter ended March 16, an improvement of 60 basis points. Adjusted PAT excluding exceptional item for the year to date is 100 crores as against 78 crores recorded in financial year 2015-2016, an improvement of 29%. The actual PAT reported after considering the exceptional item is 120 crores as against 78 crores last year, a growth of 55%. On the debt and interest, the long term debt stands at 15 crores as of March 17 against which we have a cash balance of 113 crores. Thus we are a net cash company.

With this, we would like to open the floor for questions and answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir from the presentation on slide number 18, there is a mention about the global demand for rubber processing chemicals forecasted to increase by 50% in next 3 to 5 years. So, just wanted to understand where is such high growth coming in a five-year period, 3 to 5 year period and so if you see the past, the rubber consumption has grown at a CAGR of 2% as per the presentation that I assume that also has translated into a similar growth in the rubber chemicals also. But going forward, we are expecting a 50% in next 3 to 5 years. So, want to understand this. Second question is, if you assume the rubber consumption globally, it was around 27 million tonnes, now 3% to 4% will be rubber chemicals, so around a 1 million tonne now and you mentioned that some capacities in China have the supplies basically reduced. So, little bit of light also, if you can throw on the demand supply scenario rubber chemicals globally and where do you stand, it will be helpful, sir. First these 2 questions.

P. Srinivasan: The first question on the forecasted demand to increase by 50%, it was an international agency which conducted a survey which released a report. They mentioned about 50% growth in 3 years but we believe 3 years is very optimistic. So that is why we have said it is 3 to 5 years. Considering the auto growth plan and the tyre industries growth plan, which has been announced in recent months in India as well as international market, we see there is a possibility of such things panning out. If it pans out, it is very welcome news for all of us, somebody like NOCIL who is a leading player in the rubber chemicals. On the second question, as far as China is concerned, yes there are reports stating that some of the manufacturing facilities have faced closure notices or relocation notices or temporary stoppage of plant due to environmental concerns. On account of the tightness issued by the Chinese government, this has caused a temporary, I would say supply tightness. We hope that this will remain for some more period of time before the actions are taken at the ground level. So, as it pans out over the next 3 to 6 months, maybe will get to know the clear picture. One should appreciate that to get information on Chinese market is a big challenge. So, whatever we get, we try to interpret it.

Dhaval Shah: So, global demand would be approximately 1 million tonne today. So the global demand for rubber chemicals will be around 1 million tonne?

P. Srinivasan: Yes, 9,50,000 to 9,70,000, something like that.

Dhaval Shah: So, what is the current demand supply scenario, is that supply more or demand more?

P. Srinivasan: It depends on each product, on certain product the supply is little short and demand is more. In certain products, supply is matching with demand.

Dhaval Shah: So if I am not wrong, the 6PPD will be the largest amongst the entire product basket in our rubber chemical.

P. Srinivasan: Yes. 6PPD is the largest product in that rubber chemical basket.

Dhaval Shah: In that supply is more, is that the …

P. Srinivasan: Little bit more, I would say.

Dhaval Shah: And sir just lastly if you can just mention for the benefit of everyone, what is the antidumping duty right now and at current rate are we able to sell in China in spite of the antidumping duty, so are we comparable to the rate?

P. Srinivasan: Antidumping duty is applicable in Indian market, it is not applicable in Chinese market.

Dhaval Shah: Agreed, but if the antidumping duty was not there, are we cost competitive with China? So can we sell in the Chinese market with the same rate at what they are quoting?

P. Srinivasan: Today the international prices undergone a change, so we are in the competitive range, I would say.

Moderator: Thank you. Next question is from the line of Sam Patel from AUM Fund. Please go ahead.

Sam Patel: Just elaborating on that earlier question on antidumping duty, from what I understand is duties are on, I think 5 or 6 products. My question is when is that the valid until and what percentage of NOCIL sales come from those 6 products which are currently under antidumping duty?

P. Srinivasan: To start with, the antidumping is applicable on 6 products from different sources. It is valid till July 2019 and the revenues generated out of those antidumping products is about 50%.

Sam Patel: And most of that antidumping duties sir is on the Chinese or import from China?

P. Srinivasan: It is on China and Korea.

Sam Patel: And sir, if you can just sort of help us understand this business, presuming your raw materials are more crude or crude derivatives. So when there is a volatility in crude prices are you as a management looking to maintain EBITDA per tonne or is it a percentage wise margin because it is a very competitive market.

P. Srinivasan: It is a competitive market, we would like to have an EBITDA per business rather than EBITDA per tonne on per product.

Sam Patel: No sir, if the value of your raw materials go down and your percentage margin remains the same, will you make absolute less EBITDA than before?

P. Srinivasan: No, we will look at the contract business say suppose it is 20 crores and then decide on the target we should aim for 4 crores, EBITDA margin assuming 20%. So that is what we are looking at, not for getting into specific product details.

Sam Patel: So, just to understand that point, whenever you are looking to sell a product depending on your raw material costing, is there a rupees per tonne value addition that you are targeting or are you targeting a percentage wise margin?

P. Srinivasan: We are concerned with per tonne is ideally we would like to do, but when your customer is going to buy 6 products at a stretch, then are we supposed to look at per product or looking at the contract business. So we have to take a mix of both.

Moderator: Thank you. Next question is from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: I wanted to understand that this development of antidumping duty on truck and bus radials imported from China being considered by Indian government and at the same time there is a news that American government has removed antidumping duty and hence Chinese tyre manufacturers are diverting their production to US. So how do you see this mix of these 2 forces?

Proposed antidumping duty by Indian government and already antidumping duty being lifted by US government, how has it impacted us and how can it impact going forth?

P. Srinivasan: I think on Indian market I can comment. The Indian market is facing 100,000 tyres of imports from China. If assuming the government considers levying antidumping duty to that extent that import become restricted or becomes more cost competitive thereby enabling the domestic tyre manufacturer to improve the production capacity, which is a good news for us. As far as the US issue is concerned, any diversion from Chinese manufacturers to US market is a welcome news. So, we believe these are all good news for us. Let us wait and watch how the actual outcome of the antidumping duty pans out.

Anand Bhavnani: So, at this point in time you have not seen much impact on the demand or the price in the market because of these lifting of antidumping duty?

P. Srinivasan: See, there are 2 aspects. One is demand, second thing is pricing. The demand is a resultant effect of the production utilization at the tyre customer's level. So, in case they are using the capacity much higher, demand goes up and being a local supplier, we get a preferential, I would say we enjoy that advantage because lead time is pretty small and as far as competitiveness is concerned, it depends on the international pricing. So, it has got nothing to do with whether you levy antidumping duty on China, import of tyres or not, that is not the point. Point is whether the supply of rubber chemicals, whether the competition is giving a fair price or dumping the product at a low price to that extent the pricing of rubber chemicals undergoes a change.

Anand Bhavnani: And sir the second question is about foreign exchange. So, Rupee has appreciated a bit about 5% in last few months. Do you see the competitive intensity from imports increasing given that imports are a major competitor to us than any other local player?

P. Srinivasan: Being a net exporter, yes to an extent Rupee appreciation will impact us but we have taken adequate risk management measures to counter that.

Anand Bhavnani: Sir, I am talking about competition in domestic market like imports getting more cheaper, would that affect the overall pricing?

P. Srinivasan: Yeah, it does affect but I think international pricing is a resultant effect of CIF prices multiplied by exchange rate and so, as in case of raw materials also. So, raw materials also based on CIF based prices. So, it cuts both ways. So, if you have a net value addition, you may get impacted to an extent but the way things are looking at, we are not likely to be impacted materially at this point of time.

Moderator: Thank you. Next question is from the line of Himanshu Upadhyay from DHFL Pramerica. Please go ahead.

Himanshu Upadhyay: Sir, can you throw some light on how the exports behaved this year and volume of growth in exports versus domestic in FY17?

P. Srinivasan: The exports for the year recorded a turnover of 218 crores, but as far as volume is concerned, we would not like to share it, it is a bit confidential.

Himanshu Upadhyay: So, we have reached earlier highs means what we had, 230 crores …

P. Srinivasan: Last year we had done 200 crores, so this year it is 218 crores.

Himanshu Upadhyay: And the new capacity which is coming up or for what we are doing CAPEX, what products are these and are these fungible products, so the capacities expansion is happening across all the 6 line, I mean 4-5 product families we have or these are few products only?

P. Srinivasan: No, I think rubber chemicals are basically differentiated into 2 categories, antioxidants and accelerators, we are expanding on both the segments.

Himanshu Upadhyay: The capacity is it fungible, just want to understand that.

P. Srinivasan: No, these are not fungible in a true sense. Antioxidants cannot be replaced with the accelerators, no that is not possible, dedicated capacities.

Moderator: Thank you. Next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Wanted to ask you firstly, what is the volume growth that we have got in this quarter Y-on-Y and for the whole year?

P. Srinivasan: Volume growth for the year, I think we are touching somewhere around 12% and on quarter, I think may be about more than double digit I would say.

Nisarg Vakharia: Sir, that is a very healthy set of numbers for volume growth, so then have we taken a hit on some margins or something somewhere because the topline for the whole year is not 12%?

P. Srinivasan: For the topline, I think you have to understand it gets impacted by the selling prices which remained low for most part of the year, in a sense that our-average selling prices for the whole year were little soft for the first 8 to 9 months. So, the competition was very intense, so therefore we had to reduce prices to match the competition but the good news is that the prices start getting corrected from April 2017.

Nisarg Vakharia: Sir, second question is that can we get 12% to 15% growth till the next capacity kicks in on the existing capacity itself?

P. Srinivasan: I hope your wish comes true.

Nisarg Vakharia: Sir, it is not a wish, it is a question. So do you think it is possible? Technically I mean, I mean forget about the market demand I am saying production wise, capacity wise I am asking?

P. Srinivasan: It depends on which product we are talking about and the debottlenecking which the technical team will carry on in certain areas, certain products. So, we are working towards meeting all the demands which is coming off to the market place. Let's hope, let's see.

Nisarg Vakharia: Sir, also last question there is a big concern on everybody's mind about this antidumping duty and 50% of our turnover coming from that business. You constantly keep saying that there is a lot of pressure in the market and you are very competitive. What is the maximum impact to the EBITDA margins considering in the worst case scenario the antidumping duty goes away that we will face as a company and what is the upside risk to the margins considering the pricing of rubber chemicals improves from here on?

P. Srinivasan: I think, one thing which I would like to clarify is antidumping is applicable only on 6 products. We have 25 customers, 4 quarters every year and 3 sources, so each combination it is a complicated calculation, so one can never deduce the actual impact because in certain products we may have to be little more competitive than the actual antidumping. See for example, if a product you are getting antidumping duty of Rs. 25 just for hypothetical case and we are only going to pass on Rs. 15. So, you have not taken the full benefit of antidumping duty. You could pass on in effect about-15. So, it is a combination of 25 customers, 4 contracts per year and then 6 products may be 2-3 sources. So, it is a very complex calculation, so one cannot never derive the actual thing. I would say with antidumping not being there or something like that, that is not a situation we have envisaged at this point of time but as we come near for FY18-19, we will be able to take a call. Today the market is looking good, so we do not see much of a problem.

Nisarg Vakharia: And sir last question, this CAPEX which we were doing, which you are saying you will get a 2 times gross block turnover. The capacity should ramp up in that year, does it take a year, does it take 2 years to ramp up and what about plans after that? I mean how long can we keep expanding for the next 5 years, 8 years, 10 years sort of structure?

P. Srinivasan: I think it all depends on how the rubber consumption pans out in the next 5 years. If there are opportunities to expand in other product lines or further expansion, we will definitely carry out that number one. Number two as far as capacity utilization is concerned, it depends on how the customer picks up the demand. We believe most of the cases, I mean on the conservative side, 3 years is a maximum time by which the capacity can be ramped up to 100%.

Moderator: Thank you. Next question is from the line of Srinath Sridhar from ICICI Securities. Please go ahead.

Srinath Sridhar: So, basically since you have said volume growth was 12%, so compared to last year, you have sold about 48,000 metric tonnes. So, can safely assume that it is at 53,700 this year. So, with which I get a realization of approximately 138,000 tonnes is that correct? Average realization?

P. Srinivasan: There is a correction here. I think what you are talking about is the production capacity, sales is actually not, production includes intermediate we consume captively for finished goods. So, that is not the right reference point which you have calculated. So, you may have to redo the calculation and we would not like to share the finished goods capacity in a public domain for competitive reasons.

Srinath Sridhar: So, how will we estimate any volume growth sir, revenue growth in the next 2 years since there is not enough capacity information?

P. Srinivasan: I think we have given enough messages or information that this rubber chemicals follow the trend of rubber growth. You can pick up the IRSG report and conclude from their own what is the growth like and we have also informed that as against 5.8% growth in Indian market of rubber consumption. We are grown by 10%, so that is another message we are giving you.

Srinath Sridhar: No sir, but we do not have capacity to give that growth right? We are already operating at full capacity that is the reason I am asking?

P. Srinivasan: I mean we said we are operating in the 90's range at present we are also expanding now, so that will also give us, no?

Srinath Sridhar: And sir any guidance on the EBITDA, is this the peak EBITDA margin that we can gain or is there further scope?

P. Srinivasan: If there is a scope available in the market, why not encash on it?

Srinath Sridhar: And sir one last question is the EBITDA margin in the current quarter mainly seems to be higher on account of lower employee expense, so why is that?

P. Srinivasan: To the extent yes, these are all based on the actuarial valuation and the retiral funds is based on actuary report. So, we go as per the AS-15 Accounting Standard valuation. So, on that basis, it must be done, so one cannot have specific thing. The employees are still the same and may be some valuation undergone and change, some parameters of valuation undergone and change probably.

Moderator: Thank you. Next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Rajesh Kothari from AlfAccurate advisors. Just wanted to know first is in terms of our sales mix, how much of it comes from I would say little bit more value added rubber chemical compared to low to high value add if you can give some color on that?

P. Srinivasan: I can give on the specialty chemicals in exports constitute about 60% to 65%.

Rajesh Kothari: And in domestic?

P. Srinivasan: It is there, but I think exports more that is why we focus on specialty chemicals or high value chemicals, domestic not much of that.

Rajesh Kothari: And what was growth in that specialty chemical in FY17?

P. Srinivasan: No, that cannot be shared please. That is confidential.

Rajesh Kothari: Is it higher than the average growth reported by the company?

P. Srinivasan: I said I cannot share it please.

Rajesh Kothari: Second question is with reference to you, you said that rubber chemical demand is going to be higher compared to the overall rubber in last 10 years. So, in terms of the capacity how much capacity right now is probably non-functional because of the environment pollution related norms in China?

P. Srinivasan: To get exact news from China, I think it is pretty difficult. There are some challenges which are happening there and it goes on each product wise. So, it is not you cannot summarize in absolute terms. But as it stands today globally the supply is equal to demand.

Rajesh Kothari: In China will be how much percentage of the total capacity?

P. Srinivasan: China and Korea put together accounts of 70% to 75% of the total rubber chemical capacity all over the world.

Rajesh Kothari: And between you mentioned slide number 13, 1 to 5 you are primarily present in anti-oxidant and …

P. Srinivasan: See there are 2 segments, antioxidants and accelerators. We are present in both.

Rajesh Kothari: And both are kind of a similar margin profile or one is completely significantly higher than other?

P. Srinivasan: More or less, on a similar margin profile.

Rajesh Kothari: And last question is in terms of the pricing power, if your raw material prices goes up or goes down with what frequency you need to pass it that?

P. Srinivasan: It depends, I would like to pass on at the next available opportunity but it depends on how the competition behaves. So, we have seen in the case of January, March because of this price increase on account of input prices, we could pass on successfully in April.

Rajesh Kothari: So, if you can just tell us in terms of when you say generally is what 3 months kind of a pass through?

P. Srinivasan: It depends on situation, my dear friend and the point is the competition, see it is not pricing is a reflection of how the market supply and demand. So, it depends on each competitor what he is planning to do and what is his inventory position and we have inventory at low prices, low cost. He can afford to pass on the price little later. So, at this point of time what we are only trying to say is that whatever cost increases we witnessed in January, March, we have been able to pass it down in April.

Rajesh Kothari: And last question from my side. So in terms of, from the customer perspective if suppose somebody gives rubber chemical because of the lower cost price inventory, is it easy to switch the supplier?

P. Srinivasan: No, not really, not that easy to switch suppliers that easily because it may take prior approval before …

Rajesh Kothari: That is why I am saying then why the competition when you say is very intense and therefore we told to …

P. Srinivasan: Each of the supply sources have already been approved. We have only talked about approved sources. So, if tomorrow I am able to offer a price of 100 and my competition is offering at 90, one cannot tell the competition, both are being approved, one cannot question why the competition is offering at 90. You cannot question that it his rationale.

Rajesh Kothari: And these one and three accelerators in anti-oxidant, how much percent is the total industry size, the product number one and product number three?

P. Srinivasan: Typically anti-oxidant and accelerators are 1:1. Suppose, 100 is the capacity, 50 is anti-oxidant and 50 is accelerator.

Rajesh Kothari: No, of the total rubber chemical industry I am saying?

P. Srinivasan: It is almost 50 50.

Rajesh Kothari: No, I am talking about your total rubber chemical which is about 950,000 …

P. Srinivasan: It is 4,75,000 – 4,75,000 I am just putting, a ballpark number.

Rajesh Kothari: So, basically then antidegradants and everything will be very small, is it?

P. Srinivasan: Anti-degradants or all those things come under anti-oxidants. Accelerators are a separate group. We are getting into broad segmentation which is 50% accelerators, 50% anti-oxidants.

Moderator: Thank you. Next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: Just wanted to understand what is the difference between specialty chemicals margin and the other normal chemicals margin that you have, general differences?

P. Srinivasan: We would not like to, this is a business sensitive information, please do not ask question on that.

Sneha Talreja: Sir just one more question then. How many contracts placed, I know this question has been asked number of time because of the pass on arrangement, just wanted to understand the typical contracts cycle for the company. Are the contracts for one month, 2 month?

P. Srinivasan: Ideally a quarter, one quarter.

Sneha Talreja: So, typically from January to March you already have a quarter and you pass on the pricing from April onwards that is how it goes on?

P. Srinivasan: Subject to competition.

Sneha Talreja: And your utilization right now is 90%, what could be your peak utilization rate? Can it go up to 100%?

P. Srinivasan: Yes, definitely.

Moderator: Thank you. Next question is from the line of Satish Mishra from HDFC Securities. Please go ahead.

Satish Mishra: I just have one question since other questions have been answered already. I want to ask that, I understand that antidumping duties is good for NOCIL, but do you think that the falling domestic demand in China will kind of nullify this effect or will incentivize the manufacturers in China to dump a lot more goods in India.

P. Srinivasan: There is a correction I think, yes there was a slowness in demand in China during the first half of 2016 but as in second half, there are some correction and if you see the automobile record of

Chinese industries, it has improved. So, to that extent the domestic consumption in China has improved as compared to what it was in first half.

Satish Mishra: So, assuming that it goes down, will it affect NOCIL?

P. Srinivasan: I think what we are trying to say is the availability of products in China's domestic consumption which was surplus and little more. Now, it has got reduced because now that much consumption is ramped up in China only.

Moderator: Thank you. Next question is from the line of Mahantesh Marilinga from Finquest Securities. Please go ahead.

Mahantesh Marilinga: Just add couple of questions here. If I want to know the market share of NOCIL in the domestic industry in the total rubber chemicals market?

P. Srinivasan: We should be about 40 odd percent, 40%-42%

Mahantesh Marilinga: And who are other major domestic manufacturers sir who compete with you?

P. Srinivasan: LANXESS India and PMC Rubber Chemicals and there is a company called Merchem from Kerala which is not in operation for about I think couple of years.

Mahantesh Marilinga: And out of the total domestic consumption, how much does imports contribute?

P. Srinivasan: 50%. Around 50%, I mean may be off by 1% or 2% here and there.

Mahantesh Marilinga: Sir and you mentioned that from April 2017, the prices have certainly improved by how much sir broadly on an overall basis?

P. Srinivasan: So far I think we have been fortunate enough to pass on the cost increases.

Mahantesh Marilinga: No, incrementally what would be the pricing impact in the sense?

P. Srinivasan: Because of each product we are selling 20 products in the markets. So you cannot have a definite percentage. It depends on the cost increase each product and accordingly the important point is if your cost is increasing by Rs. 10, are you able to pass on the Rs. 10 to the market place and we are able to do it.

Mahantesh Marilinga: So it means demand and supply will be matching? The status quo will be maintaining?

P. Srinivasan: We are hopeful to maintain, we are hopeful to get a better realization as compared to March quarter.

Mahantesh Marilinga: Sir and one more that regarding the demand situation that mentioned in your presentation about the 50% growth you elaborated in the starting of the presentation, I could not get reasons for the growth in the next 3 to 5 years of 50%. Can you just please elaborate on that?

P. Srinivasan: I think, I answered that question

Mahantesh Marilinga: Yes, but I could not get the reasons properly.

P. Srinivasan: The point is looking at the way the analysts or their request report indicates 50% growth, it has taken into account the capacity expansion plans amongst all the tyre majors both in India and overseas and believes that this will improve. I mean it is all based on the report which is there and then expansion plan which is coming and which is being announced regularly. So it depends on how it pans out, hopefully in the next 2-3 years we will come to know of the real status. But I am only trying to say in case it happens, we can encash on the opportunity.

Mahantesh Marilinga: And any idea sir about the capacity expansion in India, with growth rate in next 3 years?

P. Srinivasan: Capacity?

Mahantesh Marilinga: Expansion of the tyre industry, domestic tyre industry in the next 2 to 3 years?

P. Srinivasan: Substantial.

Mahantesh Marilinga: No, I mean 30% if you can quantify a little bit on report.

P. Srinivasan: I cannot specify percentage.

Moderator: Thank you. Next question is from the line of Vipul Sanghvi from Religare Capital. Please go ahead.

Vipul Sanghvi: Sir, first question was just extending on this raw material part, sir as I understand benzene is our key raw material, right sir?

P. Srinivasan: Our raw materials are benzene derivatives.

Vipul Sanghvi: So, I am just looking at benzene prices, they seem to be coming off in last few months, so is it also true for our raw material class or?

P. Srinivasan: Yes, not necessarily exactly the same tandem, but it is.

Vipul Sanghvi: So, that input cost pressure that you mentioned earlier does not seem to be there now may be for the …

P. Srinivasan: You can see it is still on the higher level, it has come down marginally. I mean if you look at benzene was $600 in November, today it is $740 or $750 about 25% it went to $1000. Still 25% increase as compared to November. So you have to look at from that.

Vipul Sanghvi: Second question about sir, Dahej, so how much was further brownfield expansion can Dahej take, I mean so till what level will not have to invest in a new facility?

P. Srinivasan: We believe we have enough scope there, at least 2-3 expansions can be carried out.

Vipul Sanghvi: And third thing is sir in FY17 versus FY16, I am just talking about the 2 full years. Sir, what was the volume and what was the realization growth during this last quarter?

P. Srinivasan: Overall volume growth is about 12%, we announced it.

Vipul Sanghvi: And the realization came off.

P. Srinivasan: Yes little bit, which we also gave you

Vipul Sanghvi: And sir lastly you mentioned about one of these consultants who came up with this projection for the rubber chemical industries. Sir can you name this consultant?

P. Srinivasan: Fredonia.

Moderator: Thank you. We take the next question from the line of Amod Joshi from SPA securities. Please go ahead.

Amod Joshi: Sir, as I understood that rubber chemicals constitute around 3% to 4% of rubber consumption and if the industry is moving towards high performance tyres, so will these proportion significantly change?

P. Srinivasan: Are you driving at bias tyres and radial tyres?

Amod Joshi: Yes.

P. Srinivasan: I will tell you one thing. In case of radial tyres, the initial demand growth will be there because the weight of radial tyre is much higher. But the life of the radial tyre is much better than the bias tyres, over a period of 3 to 4 years it evens out. It is more of an incremental demand or sudden demand ~~to~~ jump but thereafter 4 years it settles down, it average out.

Amod Joshi: Sir and between FY16 and FY17 there is a sudden jump in cash and bank balance. So can you tell me the reasons for this because it is around from 15 crores to around 120 plus crores.

P. Srinivasan: The cash profit which has been generated we have used in short-term investment, we will conserve it for CAPEX expansion.

Amod Joshi: The CAPEX is for 170 crores right and its mostly Dahej based sir, CAPEX.

P. Srinivasan: It will be at both locations, Navi Mumbai as well as Dahej.

Amod Joshi: And it will be for which chemical sir? Accelerators, anti-degradants?

P. Srinivasan: Both, accelerators and anti-oxidants.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the floor over to Mr. P Srinivasan – CFO of NOCIL Limited for his closing comments.

P. Srinivasan: Ladies and gentlemen, I take this opportunity to thank everyone for joining the call. I hope we have been able to address most of your queries. For any further information, kindly get in touch with me or SGA, Strategic Growth Advisors, our Investor Relations Managers or Advisors. Thank you once again and all the best.

Moderator: Thank you. So ladies and gentlemen, on behalf of NOCIL Limited that concludes this conference. Thank you for joining, you may now disconnect your lines.