"NOCIL Limited
Q1 FY2022 Earnings Conference Call"

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MANAGEMENT: MR. S. R. DEO – MANAGING DIRECTOR - NOCIL LIMITED
MR. P. SRINIVASAN - CHIEF FINANCIAL OFFICER - NOCIL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the NOCIL Limited Q1 FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on 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 "*" 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. Thank you and over to you Sir!

S.R. Deo: Thank you very much. Good morning and a very warm welcome to everyone who is present on the call. Along with me, I have Mr. P. Srinivasan our Chief Financial Officer and SGA, our Investor Relation Advisors. I hope you all have received our investor presentation by now. For those who have not, you can view them on the stock exchanges and the company website. We trust and pray that you and your families are safe, healthy, and secure. We would request you all to follow highest safety precautions and ensuring adherence to COVID-19 protocol. We at NOCIL always believed in following strict safety culture and COVID-19 protocols to ensure safety of all employees during the pandemic.

All the directions published by various government agencies were strictly followed and were included as COVID-19 SOP. We wish to even add that we have encouraged all our employees, contractor workman to strictly adhere to vaccination schedules. We are happy that we could conduct vaccination camps and ensure that 100% employees, their spouse and regular contract labour are vaccinated for the first dose at both the sites. Second vaccination is expected to l be completed by October/November 21.

Coming to performance of Q1 FY2022, of course it cannot be compared on Y-o-Y basis with Q1 FY2021 since Q1 FY2021 was largely impacted due to the national wide lock downs, the plants were down for significant period of time.

As can be seen this financial year started with a better performance. This was possible due to selling price revised upwards from April 2021, in commensurate with the significant increase in the input costs. This came in handy to offset the loss of margins due to dip in sales volumes when compared with volume parameters in QE March 2021. The dip in sales volumes during QE Jun 21 was largely due to the lock down imposed at our customers end consequent to second wave of COVID-19. On an average, customer plants were shut down in certain specific regions for two to three weeks reflecting the lower sales volumes.

On the EBITDA parameters, both the absolute EBIDTA numbers for the QE June 21 as well as EBITDA margins have improved. Going forward, we expect better utilization of our capacities, with some impact on account of higher legacy costs due to f high cost of raw materials that is likely to be consumed in Q2 FY22.

On the industry scenario, we have seen a steady recovery in tyre industry in India after the impact of COVID-19 pandemic first wave and the long-term outlook is expected to be favorable. The pandemic did hamper the industry, however, reports from tyre companies do indicate positive trend when we look at the medium to long-term outlook. This has also been endorsed by a report of a reputed credit rating agency of India. The recovery and demand for both replacement tyres and OEM segment is expected to improve along with increasing demand for Indian tyres in export market. Restrictions on imports of tyre continue to help the domestic tyre companies to operate at high operating rates. This is of is of course subject to COVID-19 interruptions in future.

The China plus strategy is also shaping well in achieving our growth trajectory. NOCIL will be the one who stands to benefit the most with capacity availability and better cost position and longstanding relationship with both domestic and international tyre majors. The global consumption of rubber data for both natural and synthetic rubber continues to show signs of upward trend. The annualized rubber consumption for January to March 2021 shows a growth of approximately 10% compared to full calendar year of 2020. It is important to note that calendar year 2020 registered a degrowth of 6% as compared to calendar year 2019, which indicates that calendar year 2021 is likely to register a growth of approximately 3% to 4% as compared to calender year 2019 based on the trends witnessed in first three months of calendar year 2021.

Considering our recent capacity addition, our endeavor will be to capture a large share of this volume growth thus improving our market share. We will continue to monitor the domestic market and automobile business to dovetail our growth plans at appropriate time. This is from my side. Now I will hand it over to Mr. P. Srinivasan.

P. Srinivasan: Thank you, Mr. Deo, and good morning to everyone. I hope you all are safe and in good health. Let us run through the financials of the company for the Q1 FY2022. As Mr. Deo indicated due to the lock down situation, which prevailed for large part during Q1 FY2021, the performance of Q1 FY2022 are not strictly comparable to Q1 FY2021. Now coming to the sales volume, volumes for Q1 FY2022 grew by 29%-30% taking a base of Q1 FY2020.

In other words, in the index terms if Q1 FY2020 was 100, in Q1 FY2022 it is 130. On a sequential basis volume for Q1 FY2022 were impacted due to second wave of COVID-19 in the customers end and more specifically in the domestic market whereas volumes in exports registered a growth.

On the revenue front, net revenue from operations for Q1 FY2022 stood at Rs.345 Crores from Rs.322 Crores as compared to Q4 FY2021, a sequential growth of 8%. The revenue growth was largely driven by price hikes taken during January 2021 and April 2021. The price hike was taken across domestic as well as exports markets to commensurate to match the cost increase significantly which started from October 2020 onwards. On the value addition front Q1 FY2021 recorded Rs.170 Crores as stated during our previous earning calls our absolute EBITDA margin improved in Q1 FY2022 as compared to Q4 FY2021. As indicated earlier, our aim during the quarter was to maintain and improve absolute profitability rather on a percentage basis. Fortunately, our strategy of consolidating the profitability has turned in our favor.

Coming to the operating EBITDA parameters, operating EBITDA parameters for Q1 FY2022 stood at Rs.73 Crores as against Rs.50 Crores in the previous quarter that is Q4 FY2021 at a sequential growth of 44%. EBITDA margin as a percentage for the quarter stood at 21% plus as compared to 15.5% plus in Q4 FY2021 representing an increase of 540 basis points. As we had indicated, EBITDA is driven by the corresponding sale increase, that is the benefit.

The Profit before tax for the quarter June 2021 stood at Rs.63 Crores as compared to Rs.43 Crores for March 2021 quarter, a growth of 45% plus. Profit after tax stood at Rs.47 Crores for the quarter ended June 2021 as compared to Rs.36 Crores for quarter ended March 2021. That is, it from the financials parameters. With this, we would like to open the floor for question and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhiman Shah from One Up Financial Consultants. Please go ahead.

Dhimant Shah: Thank you for this opportunity. Just two questions, you mention that you are still in the process of garnering market share and you see a favorable tailwind as far as the size of opportunity goes, so where would you be in the journey of being the second preferred supplier which you have alluded to many times in the past as far as your approval for the new plant goes, so if you can just help us understand that, number one. Number two, moving forward would you say that these margins are maintainable given the course correction in the raw material and our ability to also pass-through whatever costs have gone up in the recent past, so if you can answer these two, please?

P. Srinivasan: Mr. Shah, the issue has two folds, I think we have already indicated that our market share, our aim is to ramp up the capacity utilization to 100% of the facility set up by September 2023 or there about, so we are targeting around that time, we will be happy if we could achieve much earlier, but we have to give the space and the time for other customers to open up additional operating plants to supply our materials.

Dhimant Shah: But last two years, once the phase 1 was opened, I presume you would have done a fair amount of sampling and allowed enough time to the customers for the approval of the samples, so possibly that journey is almost over, would you kind of agree to that statement?

P. Srinivasan: No, basically unless we get the orders to that size, the journey is not over, yes the discussions have started, the sampling has started, but ultimately as we start supplying as we build the confidence to the customers, it takes time as they start depending on us and trust us, so you have to give them the time and once the supply had started it takes over 4 to 6 quarters before being matured into full business that is number one. Number two, we are a multiproduct company, so it is not customer is only taking product A, there could be other products also, product B and C, it is a combination of several products for the basket which we would offer to the customer and wherever we are not present in a particular set of products, we would like to expand there and enlarge our market share of presence there in the customers portfolio, so that is how we look at it, so we are looking at a horizon of two years or two-and-a-half years from today to two years, three months more specific to achieve this entire objective and if assuming that we come to the September 2023, the market share automatically goes up to maybe 7% to 8% by the size so that is the target, which we are looking at.

Now, on a global rubber chemicals market share; as far as India is concerned, we are already a dominant domestic manufacturer of course import is the main competitor that we all understand that. Now coming to the profitability parameters, it is all depends on how each player plays at each quarter or each period of time. What we have seen in the last 6 months and that is what we have been communicating to our investors at large that the cost increases are being passed on in the form of proportional price increases essentially which indicates that the market, the so called temporary surplus which was there on an account of degrowth, etc., has probably evened out or maybe some supply at certain locations are having some difficulties so that is why the cost increases are being in a position to been passed out, of course there could be some time lag, etc., here and there, but the principle is if you look at a horizon over a period of two, three quarters everything gets evened out so assuming that there are no further supply surplus we are reasonably confident to pass on the cost increases or mitigate the cost effects.

Dhimant Shah: Great and Sir, in your opening statement you mentioned that our objective was to maintain absolute margins rather than percent margins and I believe that we have about 25% to 30%, which is a speciality grade, so would this statement be more applicable to the non-specialty grade, or it is applicable across the board.

P. Srinivasan: It is mainly for non-speciality grades, the acute competition is there, in the speciality grade, the competition is there but it is relatively minimal.

Dhimant Shah: Super. Thanks so much, Mr. Srinivasan. Thank you so much.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity Investment. Please go ahead.

Madhav Marda: Sir, good morning. Thank you so much for your time. I just want to understand if you could give just an overview of the rubber chemicals industry globally in terms of the current demand supply dynamics and what sort of capacity utilization right now, that is the first part of the question. The second part is, what is the new supplies or supply shutdowns especially in China that you expect in the next 2 to 3 years, just to give the overview of the industry segment?

P. Srinivasan: On the global demand, we should look at the global rubber consumption parameters, if you look at the January–March data, we are looking at something like 30 million tonnes of rubber, so we are putting 3.5% of that as a rubber consumption or rubber chemicals consumption demand so that is the key point. We have already indicated in the past that more than 75% of the supply is originated out of China and maybe about 20% is coming from Europe controlled units and then India is the third in the sequence of this. What we are trying to give a message or communicate is that China has dominant share in the supply chain of rubber chemicals, the China plus 1 strategy is the customers are looking at a situation where to de-risk some of China, we do not know how it will actually unfold, but the action points or the reactions from the customers over the last one year or one-and-a-half years, we are seeing that customers are looking at de-risking a little bit of China and therefore it spreads out an opportunity or creates an opportunity for non-Chinese player and NOCIL being in the non-Chinese player category and having expanded capacities are in a position to offer or service the same, this is the key point which we would like to mention. As far as the shutdowns or the supply shortages from China, we think it is very difficult to predict, to get information from China is a million-dollar question, it is a mystery altogether. So, if we get anything we will let you know.

Madhav Marda: Understood, so you know 1.1 million tonnes broadly the demand size in the rubber chemicals, how much would the supply be right now, is it like balance out or is its little bit in the higher side than that?

P. Srinivasan: See, if you look at the rated capacities on record still the supply excess is there, but at operating level we do not know what is exactly the operating level, we deduce from the operating level because the trades are done at the operating level capability wise, so it is difficult to guess who is operating at what level, etc., so that is one and moreover as far as NOCIL is concerned, we generally discuss a strategic level with customers not getting into day to day operation level. At strategic level if the relationship is good then the business automatically gets passed down to NOCIL and we are in a position to service the same and we are able to capture the opportunity.

Madhav Marda: And just one last question if I would, generally what we see is that in many of the chemical products, the cost structures of Indian companies are actually becoming stronger versus the Chinese players in some of the category at least, in rubber chemical would we say that our capacity is now at par or may be a little cheaper versus Chinese to produce or is that still China cheaper on the cost structure?

P. Srinivasan: To answer this, we have to look at the Chinese economy principles and as per WTO legislation or the World Trade Organizations often categorized China as a non-market economy principles, they do not believe in following the market economy principles so pricing parameters, the state interference is regularly there and that is why it is being categories as NME in the WTO parameters, so strictly the cost positions of a market economy player vs a non-market economy are not strictly comparable because we do not know what sort of subsidies, what sort of benefits are they entitled to from a government, so if any one guess to get into the specifics we do not have full information about it, but we have a broad idea and that is why we are in a position to compete, so whereas NOCIL is competing say for example, let us assume for a moment a product costs at Rs.100 just a unit of 100 and China is getting 10% subsidy or 20% subsidy so they are coming at 80 and that is where they price their product, NOCIL is able to still match the price and compete in the market place get some sufficient volumes to that so it indicate indirectly that NOCIL technology capability is reasonably strong and competent enough to match the same.

Madhav Marda: And is there any new supply, which is expected in the rubber chemicals market like any announced supply or capacities that we are aware of coming in the next 2 to 3 years?

P. Srinivasan: No, not that any fresh announcements are there, no recent announcements there.

Madhav Marda: Thank you.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kodak. Please go ahead.

Bhargav Buddhadev: Good morning and thank you for the opportunity. My first question is that you mentioned in your remarks that you want to reach 100%**%** utilization, so are we factoring in the significant shifting from the export mix from presently 35% or you believe that export-domestic mix will broadly remain the same?

P. Srinivasan: Gentlemen, we have already answered this in the past that our objective is to take the export share in the overall revenue basket of 40%, so maybe 30% to 35%, but we intend to take it to 40% and that is how we have envisaged the plan on that basis.

Bhargav Buddhadev: So, we are factoring from 35% to 40%?

P. Srinivasan: Yes.

Bhargav Buddhadev: So, does that mean that we are sort of banking upon this significant opportunity coming in from the Indian tyre companies only or are we looking at exports changing from 65% of the revenue?

P. Srinivasan: Wherever the growth opportunity comes, we would be very keen to encash the same, but the discussions are already on both the domestic tyre industry for long term basis as well as the international tyre companies.

Bhargav Buddhadev: And do you believe that the Indian tyre company should be looking at the significant export opportunity with this China plus 1 opportunity builds up?

P. Srinivasan: Indian tyre industry, we think there are exporting about 20% of their production to the export market, so we do not have any other details at this stage, so we think the tyre import restrictions in place obviously their domestic needs are much higher, so we do not know what the future plan is, we do not have right now that information with us.

Bhargav Buddhadev: In terms of your margins of about 21% which you reported these are margins similar to when there was an antidumping duty, so now that the duty does not exist so what has led to such margins coming back, I mean is there a change in the cost structure or is there a sort of reducing imports from China what is driving this margin at 21%?

P. Srinivasan: I think two folds, one is the improvement in the cost structure in terms of better technology, optimization of resources on a higher volume plate and market condition, the degrowth parameters, which was existing maybe two years before that has probably tapered off so these are two to three factors which one can attribute to that.

Bhargav Buddhadev: So, the share of Chinese imports continues to remain at the earlier level, or you have seen some reduction in the Chinese imports?

P. Srinivasan: Marginal reduction, nothing great, it continues its imports into India and rubber chemicals parameter is about 48% to 50%.

Bhargav Buddhadev: And any update on this antidumping duty or we do not believe that it will come back again?

P. Srinivasan: I think the recommendation has come from the Commerce Ministry, the ball is now in the Finance Ministry court, we will know after some time.

Bhargav Buddhadev: But are expansion plans are on the basis of any duty being levied?

P. Srinivasan: We did not consider this factor; the antidumping duty should continue because the business conditions at the time of considering expansion was quite different.

Bhargav Buddhadev: And lastly have you seen the expansion from the domestic competitors like Lanxess, PMC or Merchem?

P. Srinivasan: Some marginal expansion we have heard about it, they are not in the listed company, so obviously unlisted companies do not announce openly, but we heard from the market sources that there are some marginal expansions, not great, not as significant as NOCIL.

Bhargav Buddhadev: Thank you very much and all the very best.

Moderator: Thank you. The next question is from the line of Abhijeet Dey from BNP Paribas. Please go ahead.

Abhijeet Dey: Good morning, Sir, and congratulations on a good set of numbers. Just two questions, we have seen an increase in staff cost quarter on quarter, so has that to do with the new capacity expansion in the last phase, which you did or is there some off in there?

P. Srinivasan: There is an element of one-off thing because there were some welfare initiatives which company had to incur okay on part of the COVID aspects, number one, and number two, typically in the June quarter you will have the retiral provisions going on a higher side because of the actuarial valuation it will taper off during the subsequent quarters.

Abhijeet Dey: Could you just quantify the amount of one off if possible?

P. Srinivasan: I think it is not appropriate to get into specifics, please.

Abhijeet Dey: Okay, thanks and secondly, you mentioned that in export the volumes have grown actually even on a quarter-on-quarter basis, if you can just quantify that how much was the growth in exports and if possible, the revenues from exports for the quarter?

P. Srinivasan: I think revenue is about Rs.135 Crores for the quarter and I think volume in index parameters maybe 155 thereabout.

Abhijeet Dey: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Thanks for the opportunity and congratulations on a wonderful set of numbers. A couple of questions, in the previous quarter conference call, you had mentioned the capacity which was capitalized was additional 20,000, so I suppose at the end of Q4 the capacity was 90,000 so additional 20,000 has been capitalized in this current quarter today the capacity will be 110,000?

P. Srinivasan: Yes, 110,000.

Rahul Jain: And what was the capacity utilization for quarter one when I take the rated capacity at 110,000?

P. Srinivasan: May be 60% to 62%.

Rahul Jain: 60% to 62% based on 110000?

P. Srinivasan: Yes. My mistake and my apologies, maybe around 68% to 70%.

Rahul Jain: In the AGM the management stated that the current year we are at around 80% capacity so I assume we are talking about the month of July where we are now at 80% of 110,000 and secondly management spoke about the statement given was at full capacity turnover will be 2X then now at today’s prices, so just to get clarity when we speak about 2X at today’s prices because when our expansion started we had stated that with the asset turnover somewhere at March 2019 prices, we should be doing a 2X top line which would have been somewhere around Rs.1,800 Crores of top line, so yesterday's AGM statement I am a bit confused while you speak about 2X sales, what could that amount be at full capacity?

P. Srinivasan: Two things, one is to clarify when we conceived the project we always said 2X at 2018 prices, not 2019 prices point number one, point number two, as far as capacity utilization of 80% is concerned I think Chairman indicated that this was the question related to FY2021, what was operations in the last quarter, so that is how we have said, so we are not talking about 2021-2022 capacity utilization, he only talked about 2020-2021 parameters and more specifically the fourth quarter, okay that is the second clarification. Thirdly, the revenue parameters today is very subjective because it depends on at what cost price you are going to procure your input, so it is a cost price situation or a cost equivalent situations, so if the crude goes to 75 to 100 the whole equation changes, the crude goes to 60, the equation changes, so what we have only given a guidance is it is 2X on 2018 prices we have also modified if it was 2019 prices it was something like 1.85X, so we continue to maintain it will be around 1.85 to 2X.

Rahul Jain: Thanks for that clarification, Sir and lastly, you mentioned we operated around 70% capacity utilization on a rated capacity of 110,000, so expecting the utilization to move further up as the next few quarters go up there could be some amount of operating leverage would be possible is that assumption, right?

P. Srinivasan: Yes, if you are going to utilize more capacity definitely operating leverage is an automatic resultant effect.

Rahul Jain: Sure, thank you so much, Sir. Thanks for the clarification and wish you all the best. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Khetan from Stewart & Mackertich. Please go ahead.

Aditya Khetan: Sir, thanks for the opportunity. Sir, my first question is that we are seeing some inventory gain in this quarter, so have we utilized some low costing inventory which we had and that led to an inventory gain, is this assumption correct?

P. Srinivasan: I think inventory gain in this financials is reflection of the production exceeding the sales volumes, so that is the important effect, yes, we had some low cost material at the beginning of the quarter that got consumed, definitely as compared to the previous quarter, the inventory for the raw material consumption cost is high per unit, but in relation to the high cost material, we also clarified that that could be some legacy costs coming in Q2.

Aditya Khetan: Sir, second question is on the aniline prices, on sequential basis have gone up, but still our margins are supported by inventory gain, when can we see the full impact of raw material to take effect in the coming quarters so by Q2 or Q3?

P. Srinivasan: Q2, mostly it should be over that is our belief, basically there is an issue here now is that the COVID interruption is coming, so if there is no COVID interruptions further I think mostly in Q2 it will be over, but if there is some COVID interruption there could be some spillover to Q3 but let us keep our fingers crossed.

Aditya Khetan: One last question, now we are seeing significant free cash flow generation for the next two years, so what is the plan where to deploy this money now going ahead?

P. Srinivasan: I think, Mr. Deo will answer that.

S.R. Deo: I think this is a question which is very frequently coming and yesterday it was addressed by Chairman. He partly answered it and I will repeat the answer. When we expand the capacity and we start streamlining the capacities, the first thing which we start looking at is what are the avenues of the de-bottlenecking which are our short-term goals okay because de-bottlenecking of the plant is low hanging fruit and that is what we would like to en-cash and spend some money on that, simultaneously we keep on doing a long-term planning in terms of what NOCIL should do in the next three to five years, of course when we do that planning we will look into the cash generation and how the business is going, so short-term if you ask me I think we are going to concentrate as we streamline the plants and as we keep on increasing the volumes maybe majority of the capex will get into de-bottlenecking, we always keep on looking at long-term, but I think at this point of time unless and until we consolidate it and get it approved from our board of directors we cannot say it.

Aditya Khetan: Thank you, Sir. That is all from side.

Moderator: Thank you. The next question is from the line of Avishek Datta from Prabhudas Lilladher. Please go ahead.

Avishek Datta: Good morning, Sir. Congratulations on a great set of numbers. Sir, can you just give some update on what is the total tyre industry capex in the next two, three years which you have come across?

S.R. Deo: See, if you really look at tyre industry two to three years back, we said that domestic tyre industry is investing about Rs.25,000 Crores to Rs.30,000 Crores, now out of which some capacities have already been commissioned like if you are aware Apollo Tires have started their plant in Andhra Pradesh, similarly MRF has started their plant which was in the state of Gujarat, CEAT has started their plant in Chennai, so basically what we will have to do is we will have to now start looking at how much has been invested and what are they commissioning, but one thing is certain we see a optimistic view of tyre industry of tyre sales in India by the tyre industry since we have been very, very close with all our domestic customers barring some COVID incidents here and there they are very optimistic, they have plans to expand their capacity and that is something, which is very positive for the future of rubber chemicals.

Avishek Datta: Sir, secondly despite the fact that the Q1 the volumes were down around 13% on Q-o-Q basis because of a disturbance at the customer front, what is the volume growth you're targeting for FY2022?

P. Srinivasan: We would prefer to answer this at a later date but not today because we still feel that the third wave COVID we have to overcome that challenge, so it is a little premature obviously we would look at higher volume numbers in Q2 as compared to Q1 our target is that, let us see how reality unfolds.

Avishek Datta: Lastly, on lower volumes we managed to do margins of around 21% partly because of price hikes and operating leverage now that the volumes assuming that everything is normalized and no future disruptions to come by the third wave, can we take around 20% margins for FY2022?

P. Srinivasan: Avishek, I think we should not get into percentage basis, we should look at what is that, ultimately we have been giving guidance that when the input cost on the higher level you cannot expect the same 20% margins, etc., we have to look at what is the return coming back to you and if the return coming back to is appropriate and adequate reasonable I think we should be continue with that you now it all depends on the price range and the range at which the input price are going up and the corresponding finish good prices, so one cannot get into specific numbers or percentage basis, our endeavor is to sustain our EBITDA margins absolute numbers in that range as we go along that is our aim and objective will be there let us see how the market conditions unfold.

Avishek Datta: Sir, lastly like from Q1 had the raw material prices instead further or you need to take more price hikes in the near term?

P. Srinivasan: We are seeing some softening of the raw material prices, so obviously there have been some products where the input costs have further gone up, so we have asked for the price corrections, there have been some products where the input costs have come down so it is a weighted average mix so that is how it is.

Avishek Datta: Thank you so much and best of luck.

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

Rohit Nagraj: Thanks for the opportunity and congrats on really good set of numbers. Sir, the first question in terms of strategy, so in the presentation we have actually first slide indicated Accelerating Momentum, so any specific region or putting up this particular tag line and what is our strategy behind the accelerating momentum going forward, thank you?

S.R. Deo: I think Rohit, from last few questions you must have understood that the objective is very clear, we have invested Rs. 470 Crores in expanding the capacities and now what we have to do is we have to take the momentum in the marketplace to put this capacities so that first thing is our global presence increases in this business and the second thing is we ensure that the capacity utilization is very fast, so the objective I think in the next one or two years, is a very high momentum in terms of acquiring the market and ensuring that capacity utilization as we have been saying by September 2023, it should be 100% and that is the momentum looking for next I think 24 months.

Rohit Nagraj: Got it, thanks for that. Sir, the second question is earlier calls you had indicated that we have developed new accelerator which is an import substitute with the domestic market size of about Rs.250 Crores, so any more update on the same?

S.R. Deo: As far as this accelerator is concerned, we have already sampled it to all the tyre companies, we have got approvals from major tyre companies in the country, and we have started the supplies that is the status.

Rohit Nagraj: Right, thanks a lot and just a last clarification, so on your conference call you had indicated we had taken price increases in January and April, so whether the similar increase has been put in place from July as well, thank you?

P. Srinivasan: I think we clarified, July is a mix of all the product, there are some products where the raw metal prices have come down and there are some products, the raw material prices have gone up, so we have done connections accordingly to that individual product wise.

Rohit Nagraj: Right, thanks a lot and best of luck, Sir.

Moderator: Thank you. The next question is from the line of Dhruv from HDFC Asset Management Company. Please go ahead.

Dhruv: Thank you so much, Sir, first question was, how do this shipping cost increase impact you pretty clearly on your export side, do you sell on FOB or CIF?

S.R. Deo: Yes, we agree that there is a very steep hike in terms of freight cost, now we sell on CIF basis most of our sales is based on CIF cases, but obviously I think all our customers are aware that there are changes in the freight cost and which has gone up vertically and obviously they allow us to build it in CIF.

Dhruv: So, our number are considering the impact of shipping cost and the absorption by the customers was reflected in your numbers?

S.R. Deo: Yes, it is correct.

Dhruv: Got it and Sir, the second thing was I mean if I does do some implied numbers from your capacity utilization at the number that you have given the PPT on per kg basis it seems there is a decent increase in the EBITDA versus what has been prevailing stay for the last 6 or 8 quarters and this could be some one of or something, but I am just trying to understand is that something structurally changing in the industry which can try this or it too early to say anything?

S.R. Deo: If you ask me it is too early to say anything because from last March-April I think the whole world is in turmoil in terms of COVID, so if we really look at the statistics of last six months or one-and-a-half year, it will not give us a clue, what we have to do is we have to start looking at stability and then start looking at the rates.

Dhruv: A lot of products also gets imported I believe those guys also would be selling on CIF basis, so the landed cost of imported might have increased so I am not wrong you all would not have increased so is that also trend which is benefiting us and if the shipping cost remains high that will continue?

S.R. Deo: See, I cannot predict about the shipping cost.

Dhruv: No, I am just saying if it remains high?

S.R. Deo: I think whether you import it, or you export it, I think it is going to affect both ways, so somebody is importing the overseas supplier would build the CIF cost in his product so more or less it would be the same trend.

Dhruv: Sure, I got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, my question is on our global market share, when we met around 2 to 3 years back at that time, we were having around 4% to 5% market share and we were hiring around 12% market share by calendar year 2024 and then the COVID disruption has come, so for this high double digit market share, what outlook would you give to the investors?

S.R. Deo: I think first thing is 2017-2018, the reference here which you are talking of, yes, we were on 4%. If you really look at our capacity expansion, the capacity expansion was exactly as envisaged for increasing the market share and if you really look as we have been saying that by September 2023, we expect the capacity utilization almost coming to 100% for the new investment, out market share will go maybe up to 6% to 8% or may be 8%, now as I said as we walk along and the whole concept of momentum is like that, as we walk along we always have technical breakthrough when we built the capacities in terms of de-bottlenecking, so it is not a static thing in terms of production, we will continue to look at the de-bottlenecking if the market grows up so that we are a very, very reliable player in the world market, second thing we are capable of supplying the demand growth of the domestic and international market, so the objective remains same maybe it is deferred by two years because then we have a break of two years because of COVID, but I think the vision remain same, it does not change.

Dhaval Shah: The 12% to 15% global market share is what our immediate target would be?

S.R. Deo: I am not calling that immediate because I think I am talking about September 2023...

Dhaval Shah: 2023 big threshold which we want to achieve as a company, so may be two years delay so 2026, but that 15% is something what we have in our mind as the first big gaol?

S.R. Deo: I think the vision will remain same, I would say that the vision remains same and there is no change in vision.

Dhaval Shah: Got it. Secondly, in terms of the global equilibrium of demand supply of rubber chemical where do we stand right now?

P. Srinivasan: I think we answered this question in the previous one of the investors asked this question, we said that from the actions taken by the competitors on the market players it appears to be that the demand is equivalent to supply that is how the price connections are happening in proportionate to the cost increases, in case there is a supply surplus the price corrections do not happen that easily and that is what we have been witnessing over the last six months of their about, so through actions we were able to deduce it because the rated capacity as we said are still on the higher side as compared to the demand, but what is being put into actually operations is a different question altogether, so from the action points taken by the various players and the leading players especially the Chinese players, it appears that the cost increases are being passed on in the form of proportionate price increases.

Dhaval Shah: So there have some increase imports in the country as per my channel check so is it that the peers are losing their market share to their imports and NOCIL bing a better in terms of the cost structure, quality we are not getting impacted?

P. Srinivasan: Which period you are referring to?

Dhaval Shah: The recent period, the last two to three months.

P. Srinivasan: Last two to three months could be an aberration because there are two things here, one is this quarter experienced the second wave COVID and when a customer is already imported or made commitments before obviously to consume that, that material will always come in so therefore the two to three months import share going up proportionately in relation to earlier period could be aberration, what you are seeing in a view of a year or two years data can probably you will get a much more clarity.

Dhaval Shah: Yes, and in terms of exports also as we look at the NOCIL exports data we have been growing very rapidly and which is reflected in the current quarter margins so should we allude a lot of gross margin expansion to the export's revenue share in the quarter?

P. Srinivasan: We are not getting into specific like gross margin expansion or thing, we are looking at the payback or return back to the company in the form of EBITDA that is what we look at it so when we are pricing the product to a customer we look at the entire cost rather than look at stage wise cost, we look at the composite cost what we are going to incur and accordingly we price the product and what is the competition offering and if it makes it if we are able to make a decent money out of it, we will be happy about it, so it is a combination of a mix of 23 products so customer may take 5 products, 6 products and depending on this we look at it from overall business side rather than specific levels for each product.

Moderator: Sorry to interrupt, Sir, I would request you to rejoin the queue for followup questions.

Dhaval Shah: Okay.

Moderator: Thank you. The next question is from the line of Rikin Shah from Omkara Capital. Please go ahead.

Rikin Shah: Congratulations on a fantastic set of numbers. I just wanted to get some clarity, if possible, on realization for our volumes, in FY2021 our realization has fallen so are we going to see that trend going forward?

P. Srinivasan: Realization, as we indicated that the realization has gone up in two folds from January 2021 as well as April 2021, we have not disputed that it is there, but what we are seeing from here onwards is the realization with the cost increases or cost decreases of the raw materials of the proportionate protect, the relevant product so it is a weighted average mix and since we are supplying 22 products are strictly not compatible with other players because they will be supplying only the specific rubber chemical, conventional rubber chemicals whereas we are looking at rubber chemicals as full of specialty applications product per se so one cannot take a weighted average rate straight away and come to conclusions we have to look at the components of each basket and then take a call.

Rikin Shah: So, going forward it depends on quarterly cost to cost comparisons?

P. Srinivasan: It may be input cost of each finished product which we are selling so it is proportionate to that so accordingly the corrections happen.

Rikin Shah: Alright, thank you.

Moderator: Thank you. The next question is from the line of Ritesh Gupta from Kotak. Please go ahead.

Ritesh Gupta: Sir, thanks for taking my question. Sir, just a couple questions, one on what is the volume share of this products called PX13 on which the commerce ministry recommended duties I mean does it cover a large part of your volumes that is one and second is on the qualifications with US customers, are you already qualify with most of the US players you have some more clients where you can expand it terms of qualifications, etc., so these are the two questions I had?

P. Srinivasan: PX-13 in the total rubber chemical industry is the main product, it is a drive of sort of thing, so in our basket also it has a significant share, we would not like to quantify what is the quantum of significance, but it is a significant share, this is point number one. Point number two, US also we are expanding gradually as we go along and we are getting new enquiries and relationship where we already exist, they are expanding they are opening the gates for the US plants or US requirements and we are also participating that, but it is slow gradual process consolidation, it is not overnight snatching, it will take over a period of few years before we establish our position there.

Ritesh Gupta: Is it the longer qualification process it takes time and is it that the orders are always gradually ramp up?

P. Srinivasan: It all depends on how the US consumers look at it or customers looks at it, we are maintaining ready to even supply overnight, but ultimately you have to give them the space so few shipments have gone, they will do the trial and they should get confidence, the pricing parameters, and they also look at the net cost, there are some import duty in the Indian export, so that also has been taken into account.

Ritesh Gupta: Sir, how much is the difference between import duties from India versus China?

P. Srinivasan: China is 31.5% today, India is 6.5%.

Ritesh Gupta: So, that should give you a very big cost advantage, right?

P. Srinivasan: That is there, but they are also sourcing from EU, European Union also, so there is little lower duty in European Union.

Ritesh Gupta: Got it, Sir and if you just talk about the new product pipeline that we will be looking within your existing rubber chemicals or some of the other product lines you may be looking if you could just talk about?

P. Srinivasan: I think, Mr. Deo just answered that, we added one accelerator.

Ritesh Gupta: Yes, that I heard, but anything else like you are targeting over 3 to 5 years, any new like you are largely dependent on tyre manufacturers today, so you are targeting any new lines or any new target something else that is the direction we are going?

P. Srinivasan: Mr. Deo will answer that.

S. R. Deo: So, I think we keep on looking at our strengths, we keep on looking at what exactly we can do, but at this point of time we do not have any consolidated plans to share with you, as we consolidate, we will definitely come back and share all these plans.

Ritesh Gupta: Sure, Sir. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Faisal Hawa from H.G Hawa & Co. Please go ahead.

Faisal Hawa: Congratulations on a good set of numbers and consistently doing well. My only question is will we ever look at some kind of a contracting opportunity or are we doing an approach that people to do some contracting at good ROCE or ROE?

S. R. Deo: I am uncertain what you are referring, but those type of contracting opportunities do not exist, what exists is unreturned long-term business relationship with the customer and that is this business is, so the possibility of any long-term contracting is not existing in this business not only for NOCIL for even any of the rubber chemical manufacturers in China.

Faisal Hawa Thank you, Sir.

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

Pritesh Chheda: Sir, just one question on pricing which has moved up around 20% Y-o-Y basis and on the price hike came interest quarter, let us say until last four quarters or last eight quarters what we were seeing what is the pricing action were behind the raw material action and hence there was some erosion in gross margins now whether it is due to industry dynamic or otherwise, what specifically drive this 20% price hike and is there any structural change in the industry supply or was not there because of COVID where there were tactical changes in supply and hence the pricing flow through. Your comments will be very helpful on that because bulk of the strain in the margin that we see is a function of pricing?

P. Srinivasan: We answered this question in three parameters, one is we indicated just some time ago to some other investor that the supply demand equation parameters which was growing or de-growing, rubber chemicals was de-growing from September 2018 onwards for almost two years that has flattened out and it started growing so the supply excess situation which was existing, which was not allowing the price corrections to happen even if there is a cost increases that was shrinking the margins number one, and that got rectified and probably from December onwards or November onwards we are seeing the price corrections happening from the Chinese competition proportionate of the cost increase, so therefore the price corrections are happening, so I think this is the key parameter which has changed. Now, we believe there is a rated capacity with the competition are still on the higher side as compared to the demand, but at operating level we are not able to judge or deduce how much operations are being there because the trades are done at a operating capabilities rather than the capacity what you have in your system or in books so ultimately how much you can deliver or how much you can service and if you servicing capabilities is X and the pricing parameters is relation to what is the servicing capability, as of today the price corrections are happening in relation to the cost increases or cost decreases.

Pritesh Chheda: This price correction is related to cost increase, cost increase which for whom for Chinese guys?

P. Srinivasan: China being a lead supplier of 75% there about obviously other players will have to follow that.

Pritesh Chheda: The expansion in gross margin obviously is higher than now the cost increase so I am confused on that comment that you are making, or you are making a comment based on the two-year adjustment, which should have happened that is how it is?

P. Srinivasan: Gentleman, the contracts are done on a quarterly basis point number one, so every quarter the negotiations happens with the customers depending on the competition offers or competitive offers, the question what we are trying to say and we are trying to give you the guidance is that for almost two years the rubber chemical industry or automobile industry was de-growing, now that has stopped and probably it has flattened out and it has started going up to which the demand is picking up and the supply availability probably we do not know is having some restrictions at some competitors end, so therefore the price corrections are happening, otherwise price correction cannot happen overnight at easily in a de-growing market, but in a growing market the price corrections happen in relation to the cost increases and that is what happened this time.

Pritesh Chheda: Sir, just a followup here, back to our pricing level is about two-and-a-half years back quite similar to that pricing and in one of your comments you mention you do not see any major incremental supply coming until last time there was, I think 25,000 to 30,000 tonne capacity was supposed to come in?

P. Srinivasan: We have not heard of any new supplies commissioning of capacity announced by any competitors in the recent past.

Pritesh Chheda: Is the demand curve is now better than the supply cost, is it fair to assume that these pricing which was visible two-and-a-half years back are here to sustain or there is some other element, which needs to be considered in it?

P. Srinivasan: If the approach taken by competitors, it stands whole good for the last six months, it should continue for further some more time unless any player has a different plan altogether.

Pritesh Chheda: So, it would not be induced by supply, any changes in prices will be induced by competition that is the interpretation?

P. Srinivasan: Yes.

Pritesh Chheda: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Manish Jain from Moneylife Advisory Services. Please go ahead.

Manish Jain: How has been the sales picking up for this new acceleration which was launched in the previous year and what has been the capacity utilization for this particular product?

P. Srinivasan: It is not appropriate to get it on product specifics but what we can say is approvals are there and we are already operating at reasonable levels.

Manish Jain: And how much does it contribute to the overall revenue, can you split that?

P. Srinivasan: At this business, this particular product we have talked about Rs.250 Crores to Rs.300 Crores business in the country in India and we are having a share out of that.

Manish Jain: Any idea of the current market share in this product?

P. Srinivasan: I think we would not like to get into any product specifics.

Manish Jain: Thank you.

Moderator: Thank you. The last question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: Thanks for the opportunity. Just one small clarification required, so when I look at the sequential jump in realization of 20% probably it is not fully reflecting in the gross margin improvement, so are we expecting some more full effect of the price passed through to be seen in the coming quarters and hence some more expansion in margin is possible?

P. Srinivasan: Point number one, we clarified that the price corrections have happened in January 2021 and April 2021, which has already been built in, coming to from July 2021 onwards we said two things, there are some finished products on which the proportionate raw materials have gone on an increasing trend, therefore we are still made a corrections in those particular set of finished products and there are some products where the raw materials of those particular finish goods have shown a downward trend and we have also corrected downwards also in that so we have to look at a weighted average component basket at the actual volumes at the time of Q2 this is point number one and point two as far as gross margin expansion is concerned, I think we have already been giving a message that we do not wish to talk about growth margin expansion or gross margins parameters you look at absolute parameters of EBITDA and that is what we are focusing on because in a high price regime you cannot look at gross margin separately and conversion for separately, in a high cost and high price regime you would like to look at absolute EBITDA that is more important to the business.

Ravi Mehta: Sure, got it and also one comment is that you have some high-cost inventory so probably you alluded that some raw materials are cooling off?

P. Srinivasan: We have some legacy cost coming in Q2, which we already addressed it in the previous questions.

Ravi Mehta: Sure, thanks.

Moderator: Thank you. Due to time constraints, ladies, and gentlemen we will be closing this call now. I would now like to hand the conference over to Mr. S.R. Deo for closing comments.

S.R. Deo: Thank you very much. So, after all this discussion to conclude, I would like to say that with new capacity on stream and being one of the largest non-Chinese rubber chemicals players possessing niche R&D capabilities, we are confident to gain market share going forward. We see the strong growth momentum sustaining on an annual basis. We aim to scale up the business sustainability and in a profitable way over the coming years. 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 NOCIL or Strategic Growth Advisors our Investor Relation Advisors. Thank you very much.

Moderator: Thank you. On behalf of NOCIL Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.