NOCIL LIMITED

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ARVIND MAFATLAL GROUP
The ethics of excellence

Date:7th August, 2023

The Secretary The Bombay Stock Exchange Limited "P.J. Towers" Dalal Street Mumbai-400 001 Scrip Code: 500730	The National Stock Exchange of India Ltd. Exchange Plaza Bandra Kurla Complex, Bandra (East) Mumbai-400 051 Symbol: NOCIL

Subject: Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcript of Earnings Call.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 , the transcript of Company's Earnings call held on 1st August ,2023 regarding discussion on the Operational and financial performance of the Company for the quarter ended 30th June, 2023 is enclosed herewith.

This intimation is also being made available on the Company's website viz., https://www.nocil.com/detail/investors/investor-presentation/69

This is for your information and record.

Thanking you,

Yours faithfully,
For NOCIL Limited

AMIT KUNDAN VYAS
Digitally signed by AMIT KUNDAN VYAS
Date: 2023.08.07 19:01:17 +05'30'

Amit K. Vyas
Assistant Vice President (Legal)
& Company Secretary

“NOCIL Limited
Q1 FY '24 Earnings Conference Call”
August 01, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 1st August 2023 will prevail.

MANAGEMENT:	**MR. V.S. ANAND – MANAGING DIRECTOR – NOCIL LIMITED** **MR. P. SRINIVASAN – CHIEF FINANCIAL OFFICER – NOCIL LIMITED** **SGA – INVESTOR RELATIONS ADVISOR – NOCIL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the NOCIL Limited Q1 FY '24 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 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 star then zero on a touchstone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. V.S. Anand, Managing Director of NOCIL Limited. Thank you, and over to you, sir.

V. S. Anand: Thank you, and good afternoon, and a very warm welcome to everyone present at the call. Just before I get into the call, I would like to, yesterday, Mr. Sudhir Deo, our Managing Director, retired. So I'd like to take this opportunity to place on record our appreciation for his efforts and contributions to the AMG Group, the Arvind Mafatlal Group for the last 45 years.

With that, along with me, I have Mr. P. Srinivasan, our Chief Financial Officer; and SGA, our Investor Relations Advisors. I hope you all have received our investor presentation by now. For those who have not, you can view them on the stock exchange and the company website.

Let me begin by providing an overview of the company's overall performance during Q1 FY24. In Q1FY24, the company achieved stable sequential results in terms of both volumes and realization parameters generating a total revenue of INR397 crores. The volumes in the domestic market marginally improved. The company experienced a decline in export volumes, which can be attributed largely on account of the global recessionary trends coupled with a bit of inventory unwinding.

We are closely monitoring the global economic conditions and continue to take appropriate actions to navigate through the challenges. As stated in our earlier calls, we continue to engage with our key domestic and international tyre customers to strategize our steps and consolidate our business. In this connection, we have started providing samples of our products so that we can get approvals at the additional sites.

We are confident that business opportunities arising out of these discussions have started fructifying and will continue to fructify in the upcoming quarters. Over the last few quarters, while we see the contribution of Latex volumes in overall export volumes has reduced, this has been adequately compensated by increase in volumes with tyre customers.

Now quickly on the industry scenario. While the domestic market continues to be quite robust. In the international markets, the Asian and American markets have been holding up. The European tyre manufacturers are facing challenges with continued degrowth due to weak demand, creating a difficult market environment.

Due to the muted demand in the domestic Chinese market, the Chinese manufacturers are resorting to aggressive pricing in the international markets. As mentioned in our earlier call, our endeavour has always been under these given circumstances, to continue to increase our volumes and grow our market share.

Despite these short-term challenges, we are positive about the medium- to long-term perspective for both the domestic and international markets. As per the recent research reports, the Indian tyre industry is expected to increase from USD9 billion to USD22 billion over the next 9 to 10 years. The primary reason for the growth in the Indian tyre industry being increasing demand for new vehicles and continued government investments in infrastructure.

Our domestic and international market approaches will lay our path to achieve our long-term vision of doubling our market share. That is it from my side for now. I will hand over to Mr. P. Srinivasan to give you an update on the financial performance.

P. Srinivasan: Thank you, Mr. Anand, and good afternoon to everyone. Now let me take you through the consolidated financial highlights. If you see the investor presentation, which is uploaded on the website, sales volume for Q1 FY'24 on index basis is 133, taking a base of Q1 FY 20 as 100. On the revenue front, net revenue from operations for Q1 FY 24 stood at INR397 crores as against INR393 crores in Q4 FY23, a sequential growth of 1%. The selling price marginally improved 2% on a Q-o-Q basis. Volumes for Q1 FY24 has shown a marginal degrowth of 2% on a Q-o-Q basis, largely due to export volumes.

Operating EBITDA, operating EBITDA for Q1 FY'24 stood at INR55 crores as against INR50 crores for Q4 FY23 showing a growth of 10%. EBITDA margin for Q1 FY24 stood at 14% as compared to 12.7% in Q4 FY23.

Turning to the profit before tax parameters. Profit before tax for Q1 FY24 stood at INR46 crores as compared to INR39 crores in Q4 FY23, a Q-o-Q growth of 22%. Profit after tax for Q1 FY24 stood at INR34 crores as compared to INR28 crores for Q4 FY'23 and Q-o-Q growth of 21%.

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

Moderator: Thank you very much. Our first question is from the line of Nirav Jimudia from Anvil Research.

Nirav Jimudia: I have 2 questions to ask. So the first is on our annual report. So in one of the pages of the annual report, we have written that company promotes the sale of high-quality and high-value specialty products in the export market, which contributes significantly to our sales and margins. So just wanted to understand the thought process a bit more on this, that when we say specialty, how we define the specialty.

So let's say, on parameters of margins where such specialty products give us some 15%, 20% higher per kg margins or let's say, the competition is very difficult to get into these products, and we can see the prolonged level of dominance of NOCIL into those products. And if you can share that, what percentage of this high-quality and high-value specialty products forms overall part of our volumes. So this is question #1.

V. S. Anand: Yes. So thank you Nirav. So both the points that you made are correct when you actually say what is the specialty and how do you define a specialty, one is that it has an incremental margin compared to a non-specialty product. At the same time, it also commands value with the customer. That means it's not price elastic versus volume elastic. That means it doesn't move with price and volume. So from that point of view, it is a specialty, not only from the margin point of view, but also from the value added to the customer.

And your follow-up on that. So roughly more close to 20% to 25% of our business is considered as specialty.

P. Srinivasan: Nirav, we would like to just clarify. This is basically some of these products are specialized applications, which essentially means that it is not a regular product in the regular Rubber Chemicals category or tyre industry. So there could be some specialized applications, which may be consumed by tyre industry as well as non-tyre industry, but not all customers are consuming this product. That's why it is called specialized applications.

Nirav Jimudia: Correct. And sir, suffice to assume that this 20% to 25% of the products, what you mentioned, is the volume part you are telling not the value, let's say, out of our total volumes, 20% to 25% is the specialized volumes. Is it correct to assume?

P. Srinivasan: Yes, 20% to 25% is specialized application volumes.

Nirav Jimudia: Correct. And sir, just to extend a bit more on this. So out of this, let's say, 20% to 25% of the volumes whatever degrowth we are currently seeing, probably some portion of, I think, latex would be also forming the part of this 20% to 25% of volume. So as these volumes over the last 2, 3 years have grown for us ex-latex, if you can highlight some bit of understanding there?

P. Srinivasan: If I split into 2 parts, if you look at latex and non-latex On the non-latex front, we have grown. On the latex front, because of the market conditions, there is a challenge. We had degrowth.

Nirav Jimudia: Correct, correct. The second question is on the opening remarks of Mr. Anand. We have been alluding the fact that we aspire to double our world market share. So I think one of the key variable, what you mentioned is that we have already signed the samples, so samples are already approved and more approvals are also coming from the customers. So one is definitely the approval part, which play a very critical role in growing our volumes.

But let's say, from now to reaching full utilization, whenever we will achieve those higher volumes, what more needs to be done internally by the management to achieve this growth target? Because something has to be built up even internally also so that we keep on adding those incremental volumes to our kitty, if you can share your views, sir.

V. S. Anand: At this point, I think from an internal manufacturing perspective, we are fully geared to meet the volumes required to to achieve our full capacities and meet the requirements of our customers. I think it's only a matter of time that it takes. I think every customer has their own time period depending on the urgency and how they see it. So it takes a varying amount of time, as we said, from a few months, could take slightly longer. But we are at different stages. All the efforts are in place. And also from an organizational point of view, we are pretty much equipped to be able to handle these requirements.

Nirav Jimudia: Right. But sir, just to add, like, do we need to open up more distribution networks in the export markets, which would help us to penetrate more deeper into those markets? Or any sort of qualitative aspects if you can throw light upon.

V. S. Anand: A lot of the growth, while it will come from our tyre customers who we handle directly, and we already have established relationships and established supply chains for quite some years now. So that's already an added advantage. On the other hand, we also have established indirect channels in the different parts of the world. So nearly all the key markets we have our own indirect channels, which have already been supplying products for some years. And they are kind of still very active in those markets.

Moderator: Our next question is from the line of Dhaval Shah from Girik Capital.

Dhaval Shah: So my first question is, if you can share what is the capacity utilization for the quarter? And exports and domestic revenue mix?

P. Srinivasan: Capacity utilization for the quarter is about 63% to 65%. As far as the domestic export parameters, I think it could be in the region of 30%, 31% for exports and 69% domestic.

Dhaval Shah: Okay. Sir, the other question is on the employee cost. So if I look at over a 2-year period, from a INR20 crores quarterly run rate, we are at INR25 crores now for the current quarter. So over this period, is there any large spend towards hiring more senior level employee or more R&D people because the revenue growth is -- sorry, the employee cost growth is higher than the revenue growth.

P. Srinivasan: Dhaval, I think we would like to clarify here. If you see the quarter ended June also, the employee cost in the region of INR23.2 crores and this quarter is INR23.6 crores. So typically, in the month of the quarter ended June, being the first quarter where the increments are disposed and there are some retiral provisions associated with that. So that gets loaded in the first quarter as per the acturial valuation report in terms of the applicable Indian accounting standards.

And subsequently, the subsequent quarter is on the lower end. So it flattens out over a period of time. And there are some new recruits, which is not so critical, but some new recruits have taken place, and that's an ongoing process. There will be some retirements. There will be some separation and there some fresh recruitments. So nothing major has been substantially added to the kitty.

Moderator: Our next question is from the line of Aditya Khetan from SMIFS Institutional.

Aditya Khetan: Sir, my first question is that Anand sir has alluded in his opening remarks that since the Chinese demand is weak, so they are resorting to international markets. So that is putting pressure on margins and spreads. But sir, our quarter number doesn't reflect the same. On quarter-on-quarter basis, our growth and EBITDA spreads have also improved. And realizations also hasn't dipped so significantly. So any like -- are you not facing that competition from Chinese imports yet or good or we would see in the subsequent quarters this impact.

V. S. Anand: This is -- so while this phenomenon of the Chinese aggressive pricing has been underway over the last couple of months, we start to see it even more actively in the recent weeks and a month or so. So I think that is something that we see because I think everyone expected also that the Chinese economy will pick up and there will be demand. but that has not happened the way it's expected. So we see that these volumes are largely coming to the international markets and more specifically also to India.

Aditya Khetan: Okay. So there would be downside risk to the numbers also from this quarter in the coming quarters then?

V. S. Anand: Volumes are expected to be around very similar levels. The pricing, we were kind of also looking at how it develops over the next couple of months.

Aditya Khetan: Okay. Okay. And sir this Chinese import. So what we understand, so 55% imports is from China only and they have also expanded the capacity. So China Sunsine has also recently expanded. So the imports quantum, which was like for the last 5, 6 years, which they are importing now that quantum also would increase our imports and is there any chance of losing market share by NOCIL going ahead?

V. S. Anand: So that has not happened currently. So actually, we see that they seem to be around that similar ranges of imports. There could be maybe a short period, a bit of fluctuation here and there, but on an average, there is not a significant increase.

Aditya Khetan: Okay. And sir, any time line so when we can reach the peak utilization?

V. S. Anand: So we had indicated a time frame in the past. And I think given the uncertain external environment, it would be very difficult to put a finger on a precise time line.

Moderator: The line for the current participant has dropped. Maybe we move to the next question. Our next question is from the line of Deepan Sankara Narayan from Trustline PMS.

Deepan Narayanan: So continuing with the past participant's question, so are we seeing dumping? Or are we forcing dumping by Chinese players in domestic market as well.

V. S. Anand: Yes. So like I mentioned, we are seeing aggressive pricing, now whether it's really dumping or not, would I call it that, that we'll have to see over the next few weeks. But there is aggressive pricing that we see.

Deepan Narayanan: Okay. Okay. Okay. So the pricing levels to the previous low will it go to that extent or we don't foresee the pricing to touch that kind of lows in recent terms?

V. S. Anand: Which period are you referring to, please?

Deepan Narayanan: Over in past 2 years, we have touched a very low pricing.

V. S. Anand: Not to those levels, not to those levels.

Deepan Narayanan: Okay. Okay. Okay. And even in case if this dumping increases, is there higher chances that we will again reach the government to implement our antidumping duty on Chinese players.

P. Srinivasan: Gentlemen, we would examine the case over a defined period of -- there's a statutory period of 6 months, 1 year, etc. And there are certain guidelines and parameters on the injury as well as dumping parameters. In case we meet those conditions or if we are able to satisfy those conditions over a sustained period of time, then only action of filing, etc. will come in.

So it's very premature to talk about initiating a dumping resolution today. It's more of a market development which has happened recently in the last couple of months or this one is more aggressive. So today, it's a little premature to talk about it.

Deepan Narayanan: Okay. Okay. So then finally, from my side, so the export mix has been under the lower side. So are we exporting for next few quarters, which export mix from here on, it will start improving further.

V. S. Anand: Yes, we do expect that.

Moderator: Our next question is from the line of Mr. Damodaran from Acuitas Capital.

Damodaran: Yes. Just one question from my side. So just wanted to understand this drop in exports better. So is it that our share of latex in overall exports is significantly higher than the industry's share of latex and that's what has impacted us, I mean, given that, I mean, trend of destocking has been happening over the past year. So I just wanted to understand on exports a bit better.

V. S. Anand: So we do -- and we did have a higher market share in the latex market, especially in Southeast Asia. And it also peaked during the COVID, all of us know the usage of surgical gloves at that time. And post that, it has significantly dropped. At the same time, there is also Chinese competition in the market. So these are some of the reasons that both the volume drop as well as a strong competition in the market.

Damodaran: So could you quantify over-all exports share of latex and how that compared to industry.

V. S. Anand: The overall -- your voice is breaking, but I just -- I shall have a guess of what you asked. So the overall share is about -- currently about 10% to 15%.

Damodaran: In terms of export volumes.

V. S. Anand: Of the export volumes. That's right.

Moderator: Your line is not clear, sir. May we request you to rejoin the queue for your follow-up questions, please. Thank you. Our next question is from the line of Mr. Ankit from JHP Securities.

Ankit Shah: So I have 2 questions. So how the China Plus One is panning out?

V. S. Anand: Yes. So. I would say it's positively panning out at this point in time. Like we have just, I think, one of the earlier questions responded that we continue to gain approvals and it's in the positive direction.

Ankit Shah: So if you can quantify something?

V. S. Anand: I think when you look at also in Slide 29 of our investor presentation. We have also indicated how that's also been panning out in terms of volumes and how that's developed from 2020 in the last 4 years. So 100 -- on an index basis going up to 126. So that is trend.

Ankit Shah: Yes. Hello? Yes. And any margin outlook for next 2 or 3 years?

V. S. Anand: Margin outlook for the next 2 or 3 years.

Ankit Shah: Can we see margin improvement going forward towards peak level of around 20%, 25%.

P. Srinivasan: What we can say from here where we are operating today, I think the volume improvement is definitely on the cards, and we will see volume growth. Margin is something which we would not like to speculate today because it depends on the market situation and we don't wish to give a specific number guidance on margins.

Moderator: Our next question is from the line of Mr. Bhargav Buddhadev from Kotak Mutual Funds.

Bhargav Buddhadev: Sir, in your opening remarks, you mentioned doubling of our market share globally. So just wanted to check that is that existing portfolio catering to that requirement? Or do you need to add more products, especially on the specialty side to achieve that goal of doubling market share?

V. S. Anand: Our existing portfolio itself, we are specifically referring to that and is sufficient to be able to achieve those growth in market share. We have not factored in any new specific products at this point.

Bhargav Buddhadev: And which geography would contribute to sort of NOCIL looking at incrementally gaining market share?

V. S. Anand: So it's across. So I would put it -- we've got opportunities in Asia. We've got it in Europe and also to a certain extent in the U.S. also.

Bhargav Buddhadev: So large part will come mainly from Southeast Asia and Europe and not U.S.

V. S. Anand: U.S. also because there still we have a much lower presence and we have an opportunity to grow that.

Bhargav Buddhadev: Okay, understood. Secondly, sir, if I look at other suppliers to tyre companies like bead wire suppliers as well. They are also seeing a significant expansion in their capacity. So in your opening remarks also, you alluded to tyre industry growing in India. So is it mainly to cater to domestic demand? Or do you think they are also setting up capacities for exports?

V. S. Anand: So it's largely to cater to domestic demand. This is my assumption. But they also have export plans. We have seen the tyre industry -- Indian tyre industry exports go up in the last 12 to 18 months kind of moderated in the last few months due to the global situation. But I think there will be growth on both fronts, but largely in the domestic, it's my assumption.

Bhargav Buddhadev: But is it fair to say that share of exports could sort of double from here on for tyre companies in India? I mean, when you talk to your customers, right now, share is close to about 12%, 15%.

V. S. Anand: It would be difficult to comment on that mark Bhargav.

Bhargav Buddhadev: Okay. And lastly, sir, is it possible to quantify what is the export growth for non-latex and what is the decline in Latex? And that would be my final question.

V. S. Anand: So export -- so there is -- it's kind of -- if you would put an index, right, for the latex, we could say, if you take the period of, I mean QE June '22 for on an index of 100, probably June '23, we are at about 44. And for the non-latex part of the business, this the same was considered June was about 100, then we are about 115 to 120.

Bhargav Buddhadev: So latex is down almost 56% Y-o-Y is what you are seeing?

V. S. Anand: Correct. Correct.

Bhargav Buddhadev: Non-latex it is up almost 15%. This is volumes, right? Volume, right?

V. S. Anand: Volume, volume, volume, that is right. Volume.

Moderator: Our next question is from the line of Aditya Khetan from SMIFS Institutional.

Aditya Khetan: Sir, on to the product approval side, if you can, sir, quantify some time line as to like how much products we are getting approved? And what would be the time line exactly like the customer is approving the same. So we can garner additional volumes. So particularly from which quarter or particularly from which month are we getting that approval?

V. S. Anand: So these are multiple customers, Aditya. So you actually look at -- some of them have already approved new sites in the last 4, 5 months to 6 months. Some are in the process, some samples have reached, some commercial lots of cons. They're all at different stages. But typically, on an average, it can take -- if they're already supplying to the other side, then it can take anywhere 3, 6, 7, 8 months. That's typically the time frame.

Aditya Khetan: 6 to 8 months. Okay. Okay. And sir, on to the imports part, since you have stated that we are witnessing a competition from imports. So is there any chance that NOCIL will represent to the government on antidumping duty case, so to levy the antidumping duty, or any such thing on the cards?

V. S. Anand: Srini, if you would like to take this?.

P. Srinivasan: I think we just answered this question a few minutes back. Basically, what we are trying to say is this is the recent development the market is showing, the aggressive price pressures, etc. At this stage, it's too short a period for the antidumping authorities to evaluate. It needs to be seen over a sustained period of, say, 6 months to 1 year. And thereafter, there are certain injury parameters, dumping parameters as for the stipulated guidelines of the government. Only if we pass this, we can file a petition. So you need to suffer an injury for a sustained period of 6 to 12 months.

Moderator: Our next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Congrats for the new role. My first question is on the non-tyre or non-auto applications. So we've been working on R&D from -- to work on specialty chemicals with the application for non-auto segment. Any progress on that front? And any time lines that we will have commercial products coming from that particular projects or those products.

V. S. Anand: Yes. So Rohit, I'm not sure. So I think the product that we're working on or even indigenizing that we mentioned in the last maybe couple of calls, were largely focused on the tyre import substitutions developing them locally and substituting imports -- those volumes are -- we're getting some initial approvals, but the volumes are not very big. It's kind of complementary to our portfolio and supports our domestic customers towards more localization. Other innovation and development that we are working on is still ongoing. It will still take some time yes.

Rohit Nagraj: Okay, sure. And the second question is that we understand that there have been some new tyre capacities coming up in Thailand. So any opportunity for us to tap that particular market given that Thailand is having the -- it's nearer to the raw material or rubber source?

V. S. Anand: Yes. So we already supply quite sizable quantities to the Thailand market. And we continue -- so many of our global tyre customers have their plants and they're also expanding in Thailand. So we see that is also an opportunity for us to grow.

Moderator: Our next question is from the line of Nirav Jimudia from Anvil Research.

Nirav Jimudia: I have 1 question and 2 follow-ups. So one, -- so you mentioned in my earlier question that we have received approvals we have been trying to grow our volumes. But let's say, assuming that the world market doesn't grow over the next 1 year, and remains flat based on the challenges what we are seeing globally. Can we still grow our volumes based on the initiatives which we have taken over past few months, years in terms of product approvals, building up the capabilities to sell those volumes. So if you can share your views?

V. S. Anand: Yes, Nirav, you're right about the challenging environment, but there is -- we are optimistic and positive that while the overall volumes may not grow, we are looking to substitute existing shares with customers, so we can still gain some foothold and grow even in a challenging environment, we are hopeful.

Nirav Jimudia: That's very happening to hear, sir, because in a situation where China has become so much aggressive and considering the fact that if world market remains flat and still we are able to grow those volumes that's really appreciated.

Sir, second follow-up is you mentioned that our capacity utilization is 63%, 65%. So does it also consider the debottlenecking, which we have undertook in FY '23 and some which is currently ongoing also. So does those -- utilization is based on those increased capacities?

P. Srinivasan: Partially, partially. Some of it is the commissioned, some of it is yet to be commissioned. I think that will be happening during this year. So it's -- something has commissioned, something is yet to be commissioned.

Nirav Jimudia: Got it. But then it considers those extra volumes adding to our capacity.

P. Srinivasan: Expanded a little bit capacity, whatever you mean the small numbers.

Nirav Jimudia: Got it. And sir, last bit of follow-up is you mentioned that latex forms close to 10% to 15% of our export volumes or our total volumes?

V. S. Anand: Export volumes.

Nirav Jimudia: Okay, okay. So it's just 10% to 15% of our total exports what we do in a year?

V. S. Anand: Yes.

Nirav Jimudia: And which has degrown by 56%, safe to assume that.

V. S. Anand: So yes, I just want to clarify that. It was higher. It's degrown to 10% to 15%.

Nirav Jimudia: Got it. Got it. Okay. Okay. So this 56% degrown volumes are 10% to 15% of our overall export volumes.

P. Srinivasan: Yes, Currently post degrowth.

Moderator: Our next question is from the line of Ankit from JHP Securities.

Ankit: So can you give me the guidance in terms of revenue for this financial year? Hello am I audible?

V. S. Anand: Yes.

P. Srinivasan: If we go as per the trend today, we will be repeating this sales performance, FY '23 based on the current trends, let's see how the situation emerges as we go along. Our endeavour is to grow further, but let's see how the situation unfolds as we go along.

Ankit: Okay. Any Capex plan?

P. Srinivasan: There are some small Capex plans, which is already there as part of the debottlenecking and other plans, maintenance, et cetera. But fresh plans, none as of today, we are under evaluation mode, as and when we come to a situation we will communicate.

Moderator: Our next question is from the line of Hiten Boricha from Sequent Investments.

Hiten Boricha: So sir, my first question is on the pricing front. As you mentioned, China is like aggressively dumping the prices in the global market. And we can see that in realizing now also because our realization is declining from last 3, 4 quarters. But interestingly, when I see your EBITDA margin, it has been increasing from last 3 quarters.

So just want to understand this INR40, INR42 kind of EBITDA margin will continue in next couple of quarters? or as you mentioned, the pricing are coming down because of the Chinese thing?

P. Srinivasan: Are you comparing from Q1 FY '23 or Q2 FY '23?

Hiten Boricha: So I'm comparing on Q-on-Q like last 2, 3 quarters. So in Q4, our EBITDA per kg was around INR37, right?

P. Srinivasan: Okay, that's your derivation Okay, fine enough. So there's a marginal improvement in EBITDA margins for this quarter. I think we have absolutely increased by about INR5 crores. So that is for this quarter on a similar volume trend.

What we are more interested in is how much of this price corrections happens and how much can be compensated through raw material price corrections also, proportionate or more or something is what we are endeavoring for.

In case we are able to strike the volume gain the way we are aspiring for. We can hope to maintain the EBITDA margins. But it all depends on how the market unfolds because today is the complete recession scenario. We don't know at this moment, it's quite challenging at least in the near term. As we move to the subsequent quarter, we'll probably get a much more clearer picture.

Hiten Boricha: Okay. And if you can give some pricing actions of what was -- as the pricing has been correcting after the exit of Q1? Or is it stable? Just want to understand like.

V. S. Anand: There has been some corrections in some products, depending on how the pricing aggression has been, so that's the situation.

Hiten Boricha: Okay. Can you quantify that, sir?

V. S. Anand: That at this point would be too difficult Hiten to quantify.

Moderator: Our next question is from the line of Chandragupta from Individual Investor.

Chandragupta: So my question is slightly different, more strategic or long-term in nature. Can you please articulate what is your vision for now that you have taken over -- and you have been here for more than a year now, so what is it that -- I think we have spoken about doubling the market share and all. But if you were to make a fresh start, what would you aspire for about NOCIL.

And more specifically, what are the things you would like to change? And what are the things that you would not want to change. Something that you can share qualitatively, I'm not asking for any number.

V. S. Anand: Chandragupta, thank you for that question. Yes, you actually -- I already touched upon the point that as a business, we would like to increase our market share but that's more business-oriented objective. On the other hand, I think some things that I see as a vision is for us to not only be a large domestic player but be a global rubber chemical player to reckon with, that is the vision. And that means for that, it's not only about volumes but about the ability to innovate, to be able to deliver products across the world. So, there are a lot of other capabilities that we already have and I look forward to building on those trends that we already have.

I think what we would like to continue, I would definitely say is the passion and dedication of the team. I think that's something that we would like to continue. I think what can we do better, if you would like to say, what would I like to change. I'd say, less. So I think we can -- yes, we can be bold and brave in the international markets. I think that's something we have the strength and capability to do it.

Chandragupta: Bold and brave. Yes, I really like that statement. So see, I don't have any further questions, but I'll just leave you with 1 thought. The way I see it because I have been a long-term shareholder of the company. We have done extremely well in our chosen field, rubber chemicals. There's no doubt about it. But I see 2 issues with us presently. One, we are hostage to what China does, and second, we are too exposed to the automobile sector, which is highly cyclical in nature. So, there is nothing that we can do about both these things, even if we double our market share. I mean I don't think this will change. So I feel we need to take some actions that would mitigate the impact of these two things. And that's where the real value creation in NOCIL will happen, that's what I personally feel. So maybe some blue sky thinking something totally out of the box thinking is what we need to do and that is what we would expect from you sir.

V. S. Anand: Thank you. Thank you for your feedback, and thank you for your valuable input here. Much appreciated.

Moderator: Our next question is from the line of Abhijeet Bora from Sharekhan by PNB Paribas.

Abhijeet Bora: Sir, just wanted to ask on FY '24 volume growth. As you mentioned that you will be striking to grow your volumes while maintaining the margins if the pricing environment remains at current level. So any guidance on the volume growth for FY '24 and the utilization?

V. S. Anand: Abhijeet, That's a bit of a challenging one to have given the uncertain environment we have. So it would be difficult to put a finger in terms of -- would be too forward-looking for me to say exactly, this is the volume we will reach, but yes, but plans are there to definitely grow the volumes.

Abhijeet Bora: Okay. Okay. And secondly, this Chinese aggression, how long do we expect this to continue for the first half or like given the trend, it can be a longer-term thing?

V. S. Anand: So it's anybody's guess. But I think at least what experts feel are that second half of the year, there should be some kind of life into the Chinese economy, so there should be more a bit of consumption in the domestic market should go up so -- of China. So that's an expectation.

Abhijeet Bora: Okay. And then lastly, sir, in our both employee cost and other expenses? Like what percentage will be a variable cost? Any idea you can throw on that?

V. S. Anand: Employee cost is real. This would be fixed, which 1..

Abhijeet Bora: Largely, if there's no nothing variable in that.

V. S. Anand: 50%.

Abhijeet Bora: 50% of the other expenses are variable, right?

V. S. Anand: Yes. The other expense. Yes.

Moderator: Our next question is from the line of Riddhesh Gandhi from Discovery Capital.

Riddhesh Gandhi: I just wanted to understand in an environment where there obviously appears to be some amount of overcapacity in China and they are being aggressive in terms of pricing. I understand the need for some of your customers to potentially diversify from China, etc. But isn't that going to still lead them to have a higher negotiating power and kind of constrain our prices, which we are going to charge even though we can maybe gain some amount of share?

V. S. Anand: Yes. Riddhesh, I think -- so the approach is more to build strategic relationships with our customers. And that means they also strategically want to align us as a supply source. So I think that's more sustainable in the long term. Yes, there will be those transactional ones, which we see with run the risk with pricing with the Chinese and their work capacities. But we are quite positive there is enough opportunity to build strategic relationships.

Riddhesh Gandhi: Got it. Understood. And maybe just to understand, how should we get a grip about -- is this overcapacity ultimately going to get absorbed? Or how should we be thinking about it as in globally if we look at it, how much of the capacity utilization, is it a demand side issue? Is it a supply side issue. It's obviously going to be actually specific to product, but if you could maybe outline it for actually, in a couple of our larger products, that would be helpful.

V. S. Anand: Yes. So again, these capacities from product to product, again, so it's -- when we put all the numbers together, it kind of simplifies it, but it again depends on our product to product level, the volumes and the supply and the demand as well as the competitiveness of each player. While we know that the Chinese demand is still about only 35% to 40% of the global demand, while 75% to 80% of capacity sit in China. I would expect yes, at least some of these -- the products with lower margins would slowly capacities in higher cost producing countries could go down further. These are possible scenarios that I foresee.

On the other hand, anyway, the overall tyre production is -- continues to grow globally and especially in Asia. So and the rubber applications also continue to grow. So there should be an opportunity for the players there. Does that answer your question because it is kind of a scenario building type of question that you asked.

Riddhesh Gandhi: Yes. So I mean, it did, but the question was in terms of -- I mean, how do we -- how should we be thinking about how much overcapacity is there right now? And given the growth in Asia on tires, how long would it take for this capacity to get -- actually absorbed in your read?

P. Srinivasan: Just to address a little differently. Basically, Srinivasan here. Actually, if you see from, say, 2020 post COVID, maybe second half of 2020, maybe October, November, what we have been seeing is a high input cost regime. And correspondingly, the finished good prices are getting corrected in line proportion to the input cost increases or movement in input costs. And this was happening from I would say, October 2020, November 2020 till, May 2023 or something, so almost 2.5 years or 2 years, something, which essentially indicates that although there are rated capacities on play, but the achievable capacities or usable capacities are much lower than the rateable capacities. That's the reason why we could see price corrections happening at regular intervals or price movement in relation to the tandem with our input cost movement.

What we have probably seen now is a Chinese slowdown, which has accelerated the price -- aggressive pricing more particularly at certain manufacturers end to destock or whatever they call it their internal things. So to which I think Anand just addressed it that it met we understand it is more of a temporary nature, maybe until September, maybe until October, maybe we are seeing in the second half some corrections hitting them.

So in our view, there could be some excess capacities, but not such a major thing. And in any such restructuring exercises or anything consolidation phase, what happens is the small players gets out, they are finding it difficult to operate. And moreover, the environment issues now being highlighted at a very high level in the global scale, we see all the small players getting out or getting phased out.

Riddhesh Gandhi: And if you were to look at it, how much of the capacity and I know it's hard to give an exact number, would be actually the smaller players?

P. Srinivasan: At one point in time China had 15%, but now it's much lower.

Riddhesh Gandhi: Got it. So already, we are seeing somewhat a slowdown. So in the event that some of the smaller players go off, we'd expect there to be somewhat of a balance between demand and supply in the next, say, 12 to 18 months or so, we think it would happen or it will be slightly longer before there's a balance because obviously, the demand is also growing, right? I'm assuming on the other end.

V. S. Anand: Yes. The demand has a little bit slowdown in this quarter 4, actually, if you see January, March '23. If you see from October, December, the rubber consumption has come down by minus 3% or thereabout. So that also has an impact on the demand. So we have to see what is the April, June rubber consumption, then we can take a call or we can probably guess. But we believe this is short term in nature. These are challenges and one that domestic economy of China starts improving, these rectifications will happen or corrections will happen.

Moderator: Our next question is from the line of Ravi Mehta from Deep Financial.

Ravi Mehta: Firstly, I just wanted to check that the sampling exercise that we were undertaking, is it done and most of the approvals have come or it is still going on across certain products, certain clients? Any colour?

V. S. Anand: Yes. So Ravi, it has been done with quite a few and when you talk about 1 customer, multiple sites, in multiple countries. So even if I would not be able to say it's done with 1 customer because we continue to get qualified with different sites and different locations. And that's the case for multiple customers. So it's an ongoing process. And we keep looking to expand our approvals with most of the sites of our customers wherever they are located. That's the whole idea.

Ravi Mehta: You there present with most of the major tyre manufacturers in the world. So where would you be in this journey, like 5 on 10, 7 on 10? just a colour on that.

V. S. Anand: Yes, I would say that we are there with all the tyre customers with either one product or the other. I think it's a question of expanding the basket with some of them. I think 4 to 5 now that you really put my head on the block.

Ravi Mehta: And one more question was when I look at your annual report, as the details shared, the exports had de-grown, but the volume degrowth was faster. So which means there was some realization benefit in the export market and this is a little contrary to the latex volume that we were seeing a degrowth. So ideally, even the realization should have fallen more. So there's some dichotomy, if you can explain on that.

P. Srinivasan: Ravi, Srinivasan here. Basically, during last year, we had a degrowth of 21% export. But in domestic market, we had a growth of something like 6% to 7% thereabout. So on the whole, we had improved by 4%. But what was important is that during the first 2 quarters, that is June '22 and September '22, we had a price correction which started from January '22 onwards. And the high price regime helped us to have an overall price increase of 7% for the year. And that helped us to negate all those things.

Ravi Mehta: Okay. So price vision are more towards the end Okay.

P. Srinivasan: Two quarters had a high price achieved. If you see the performance of January to March '22 and April to June '22, you had our super high-price regime where your profit number is also were very high.

Ravi Mehta: Okay. But the degrowth in latex part of the business would be faster, right, in the second half?

P. Srinivasan: Yes, it was there. I think it started from quarter 2 onwards last year. Quarter 1 was okay, quarter 2 onwards, the degrowth has started happening. So that was the thing.

Moderator: Ladies and gentlemen, that was the last question of our question-and-answer session. I would now like to hand the conference over to Mr. V. S. Anand for closing comments.

V. S. Anand: Thank you. 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 me or Strategic Growth Advisors, our Investor Relation Advisors. Thank you once again, and have a nice day. Thank you.

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