# "NOCIL Limited
# Q2 & H1 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 Q2 & H1 FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinion 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, Managing Director of NOCIL Limited. Thank you and over to you Sir!

**S. R. Deo**: Thank you very much. Good morning and a very warm welcome to everyone 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.

Let me start with the business highlights for the period. We recorded all time high revenue in Q2 FY2022 of Rs.375 Crores. However, the unprecedented increase in raw material, freight cost and other input costs has impacted margins on a sequential basis. During the quarter, we have registered revenue growth of 9%. As indicated during previous earnings call, we were forced to consume high input legacy cost coupled with increase in the utility cost which impacted the operational performance. The global consumption of rubber data for both natural and synthetic rubber continues to show sign of upward trend. The rubber consumption on annualized basis based on January to June 2021 period shows a growth of approximately 9% compared to full calendar year 2020 as against a degrowth of 6% in calendar year 2020 as compared to calendar year 2019. Accordingly, we see that demand improved for tyre industry on easing of localized lockdown by state government since May 2021. The tyre majors who had announced their capex have not made any major changes in their business plans and they continue to see good demand visibility for their expanded capacities going forward. We continue to monitor the markets very closely and we are ready with our capacities to fulfill the future growth. We are also strengthening our presence in the export market for our products and diversify our geographies. There is a lot of R&D and brand building that we are doing in export market. The recent disruptions in China due to power shortage along with higher ocean freight has impacted the global supply chain leading to unprecedented rise in commodity prices. This is the brief from my side. Now I would like to hand over to Mr. P. Srinivasan to give you update on the financial performance.

**P. Srinivasan:** Thank you Mr. Deo and Good morning to everyone. Hope you all are safe and in good health. Let me take you through the financials of the company for Q2 and H1 FY2022. On the sales volume front, the volumes for Q2 FY2022 grew by 35% taking a base of Q1 FY2020, that is an index level of 100 has gone to 135, whereas on quarter on quarter sequence the volume registered a growth of 5% i.e. 130 has become 135. On the revenue parameters, the net revenue for operations for Q2 FY2022 stood at Rs.375 Crores, a record high as against Rs.345 Crores in Q1 FY2022, the sequential growth of 9% which is a combination of volume, price adjustments and weighted average product mix. The net revenue from operations for H1 FY2022 stood at Rs.720 Crores from Rs.328 Crores in H1 FY2021 a growth of over 119%.

On the operating EBITDA, operating EBITDA for Q2 FY2022 stood at Rs.49 Crores as against Rs.73 Crores recorded in Q1 FY2022 a degrowth of Rs.24 Crores. For H1 FY2022, the operating EBITDA stood at Rs.122 Crores as against Rs.39 Crores for H1 FY2021. We saw a big drop in EBITDA margin by more than 8% as compared to Q1 FY2022. For H1 FY2021, the EBITDA margin stood at 17% as against 12% in H1 FY2021. Mr. Deo explained the reasons for drop in EBITDA margin, but it is primarily driven by increase in input costs largely due to legacy input cost and some element of freight and utility costs.

On the profit before tax parameters, the PBT for Q2 FY2022 stood at Rs.41 Crores as compared to Rs.63 Crores in Q1 FY2022. PBT for H1 FY2022 stood at Rs.104 Crores as compared to Rs.32 Crores for H1 FY2021. On profit after tax parameters, the profit after tax for Q2 FY2022 stood at Rs.31 Crores as compared to Rs.47 Crores for Q1 FY2022. On the half yearly performance, PAT for H1 FY2022 stood at Rs.78 Crores as against Rs.28 Crores in H1 FY2021. Based on the market conditions and H1 FY2022 performance, we are still hopeful of achieving a volume growth of more than 10%. Obviously, we would strive for more, but it all depends on how the market unfolds because of the current uncertainties prevailing in the international market and we expect the revenue growth of minimum 45% over FY2021 to FY2022. 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 Mr. Dhimant Shah from One-up Financial Consultants Private Limited. Please go ahead.

**Dhimant Shah:** Thank you for the opportunity. Two quick questions. Number one, about the fall in gross margins, how much of that would you attribute to raw materials and particularly raw material increase from China and secondly if there is any element of penetrative pricing in any of the export markets which you mentioned to focus on, so that is question number one.

Question number two, any fructification of plans on the capex side given what you had mentioned during Q1 that you will possibly freeze on plans for future capex and future growth so if you can just answer these two please?

**P. Srinivasan**: Dhimant, I would like to clarify the gross margins. I think we had given a clear message about legacy costs in the Q1 call that in Q2 may get impacted by the same. Further as per the original plan was of higher volumes in Q1FY22 but due to COVID second wave lockdown we had booked some high cost inputs and that got spilled over to Q2. So, if you really analyse there is a shift of Rs.10 Crores here and there. Rs.10 Crores of additional input costs which was supposed to come in Q1FY22 came in Q2FY22 and that is the reason the profit of Q1 stood at 60 and Q2 stood at 40 otherwise it should have been 50:50 crs for both quarters. Coming to the penetrative pricing on the export market no the prices are competitive pricing and we are getting a reasonably good price. I do not see we need to undercut any pricing there.

**Dhimant Shah:** Meaning you had mentioned earlier that if we open a new plant, I think the plant takes time for specific approvals of that particular plant and for that they would test the chemicals for a time period of anywhere upwards of six months so it was only alluding to that?

**P. Srinivasan:** On that front we would like to clarify is that there are some expanded products on which the capacities have been expanded. We are penetrating in the international market with a higher volume share and of course not necessary to really undercut significantly. We were actually getting a more or less comparable pricing to domestic market after adjusted for duties. That is the second part. On the capex plan, I think would like to leave it to Mr. Deo, our MD to answer that.

**S. R. Deo**: Basically as your aware that NOCIL has already completed its capex plan of Rs.470-475 Crores and as we have been briefing all of you in all the previous con-calls that the first objective is to ensure that all these volumes are in place, we come to a stage that the capacities are covered in terms of our markets. As far as the future capex plans are concerned of course we continue to look at the future of the company but right now it is not the time to share it with anybody. As and when we are ready for concrete capex plan, we will come back to you.

**Dhimant Shah:** Great and if I can just take half a minute on the previous question? Any other raw material basket where you still see the pressure as far as impact on margins go?

**S. R. Deo**: As far as the raw materials and energy costs are concerned, I think you should be aware that the situation is really unprecedented and to talk about the margins it is very difficult because there are all sorts of problems. You are aware that the energy costs have gone up. The freights have become extremely difficult so even to look at the current quarter in terms of that and to comment on that will be difficult, but as we said our endeavor is always going to be to increase the volumes in the market and keep on increasing the topline.

**Dhimant Shah:** Fair point. What I was trying to get is there any particular basket or particular set of raw material products, which even moving forward can continue to impact our margins or either in terms of sourcing or either in terms of pricing or either in terms of logistics or whatever impact which you still see can have a spillover in Q3 and Q4 just in case?

**S. R. Deo**: I think this is a very, very difficult question to answer looking at the current market situation and I do not think that we can specifically talk about a specific raw material or a specific source because overall the situation is constrained by all these factors the availability, the pricing, the freight cost and I do not think that we can say one raw material but this is an overall situation in terms of supply chain.

**Dhimant Shah:** Just to rephrase that sorry for this. Are we importing anything from China which can continue to impact us?

**S. R. Deo**: No we have various several sources in terms of our supply chain. We have source from China. We have source from Europe so the impact of China would be little on our business.

**P. Srinivasan:** Dhimant I would like to clarify here when China is not there in their active market space then there is a supply chain constraint originating on the global space and that is the reason the prices show an abnormally distorted increases so we are not saying China's sourcing is not available hence the price is going up. If China reduced its production or there is a constraint originating out of China all the global price of that particular product or sector gets impacted and that is what we have seen across all sectors.

**Dhimant Shah:** Fair point Sir. Thank you for answering all the questions. I will come back in the queue Sir.

**Moderator**: Thank you. The next question is from the line of Shivan MS from JHP Securities Private Limited. Please go ahead.

**Shivan MS:** Good morning Sir. Just one question, we have seen manufacturers rolling out electrical vehicles. Now we have read that electrical vehicles are heavier than the normal IC engine vehicle when you speak to the tyre companies what are the effects of this on the tyre and consequentially its effects on the utilization of rubber chemicals so the quantum of the rubber chemicals used and the type of rubber chemicals used if you could give some broad idea on this?

**S. R. Deo**: Now first and foremost thing whether it is IC engine or whether it is EV any type of vehicle, the vehicles will require a tyre. So as far as the tyre business is concerned it will continue to grow. Now as far as the tyres are going to use natural rubber and synthetic rubber combination they will require rubber chemicals to manufacture. In fact as you are rightly saying that electrical vehicle are likely to be heavier so probably higher rubber and higher rubber chemicals can go over there. If you are asking the question from the business in terms of change from IC engines to EV, we do not see any business threats in that.

**Shivan MS:** In terms of the type of rubber chemicals are there newer types of chemicals that are going to be introduced or are in the R&D pipeline for that particular segment?

**S. R. Deo**: As of now no. I will repeat the same thing whether it is IC engine or EV, natural rubber and synthetic rubber combination use the same rubber chemicals and there is no thought process in terms of changing the rubber chemicals.

**Shivan MS:** Got your point and Sir any changes in the supply side dynamics of the rubber chemical industry as in new capacities coming globally in Korea, China or elsewhere?

**P. Srinivasan** : We have seen some announcements in China sunsine. That is coming in insoluble sulphur, something in accelerator, something in antioxidants. Apart from that we have not heard anyone. Domestic suppliers we do not know what are their exact plans.

**Shivan MS:** Sir thank you. I will get back in the queue.

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

**Rohit Nagraj:** Thanks for the opportunity and good to know that we have been able to increase the volumes on a Q-o-Q basis. Sir the first question is in terms of the China disruptions that we have seen a month back because of the energy issues and all so did it have any impact on the volumes going out of China and the pricing environment has subsequently improved based on the volume availability. And as I understand that in the last four quarters every single quarter we have been taking the price hikes based on the renegotiation of incremental contracts so the same has been taken during the Q3 as well? Thank you.

**P. Srinivasan**: We have encountered some disruptions originating from Chinese competitions supply chain on rubber chemicals. The contracted prices which we have entered in for Q3 we normally conclude in mid September or end September. So, what we are now seeing is some spot price corrections have started happening, which we are meant for spot customers we are adjusting the cost increases. For contract customers we are working out some alternative arrangements.

**Rohit Nagraj:** Got it Sir. Sir on the second question on volume growth so in our presentation, we have indicated that we expect volume growth of 10% in FY2022 and given that FY2020 to FY2021 we had 14% volume growth does it not look a bit muted given that FY2021 was also COVID affected in Q1 and our commentary also suggested that the exports market is also improving and we are penetrating more from market share perspective so just wanted you thoughts on the same? Thank you.

**P. Srinivasan**: These estimates are on a conservative basis. We would obviously strive for more. We are also looking at taking cognizance of the current situation which is happening in the market place particularly the domestic tyre and non-tyre industries where in view of the high price regime some of the small scale manufactures may review their production activities or production plant and we will be in a better position to exactly give those clarifications at the end of the Q3 results.

**Rohit Nagraj:** Sure Sir thank you. Sir just one number what was the exports number for the first half? I think Q1 was about Rs.135 Crores?

**P. Srinivasan**: Rs.260 Crores thereabouts.

**Rohit Nagraj:** Thank you so much and Diwali wishes to the entire team.

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

**Aditya Khetan:** Thank you for the opportunity Sir. Sir my first question is again on the gross margins front. Sir as you said in your initial remarks that gross margin decline is lead by the high inventory cost. Sir first thing I wanted to understand if you look at your major raw materials which is aniline and carbon disulfide, the prices of aniline on quarter on quarter increase is actually not that much. So I just wanted to understand if the aniline prices has not shown that sort of an up move what was the actual reason for the contraction in gross margins? Was it completely attributable to the higher inventory cost or what was the reason for this?

**P. Srinivasan**: I think we have given the explanation in the first question raised by one of the participants. We said that we were aiming for a higher operating rates in Q1 hence we have booked a high cost inputs not necessarily aniline, it includes several input parameters and unfortunately due to second COVID-19 wave lockdown our operating rates came down because of the customer’s lockdown, therefore this high cost booked material had to passed on to Q2 and that is the clarifications we had given in the Q1 call. Actually this is the real reasons for it.

**Aditya Khetan:** So legacy cost has been taken for this quarter or there is still left to pass it own to Q3?

**P. Srinivasan**: Everything is consumed in Q2.

**Aditya Khetan:** From Q3 now we are talking?

**P. Srinivasan**: Q3 we will have more of uncertainty period. I think Mr. Deo will clarify that.

**S. R. Deo:** I think since you are talking of aniline cost and it looks that you are tracking the aniline cost please track it for Q3 and it will answer your question.

**Aditya Khetan:** Sir so now suppose if the aniline prices starts to rise so are we also planning to take some further price hikes to pass it on?

**P. Srinivasan**: I think we answered in the earlier question where we said for spot customers, we are going to take cognizance of that and for non spot contract customers, we are working out alternative arrangements.

**Aditya Khetan:** Sir that is it from my side.

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

**Saurabh:** Thank you for the opportunity. Sir one on the cash flows, so cash flow was impacted largely because of higher inventories because of the value or in volume terms also we are carrying higher inventories?

**P. Srinivasan**: Gentleman in the past we have given a clarification for any increase in level of activity at least 25% of the increased level of incremental activity will be deployed in working capital, so if your turnover is going from Rs.925 Crores to Rs.1400 Crores thereabouts on Rs.475 Crores, 25% is Rs.120 Crores to Rs.125 Crores and that is what has happened.

**Saurabh:** Just one clarification in terms of price hike taken on the spot contracts so what is our current mix of business of this spot and the contracted sales?

**P. Srinivasan**: Typically spot is 40% and contract is 60%.

**Saurabh:** On this contracted business, we will be able to take a price hike in the next year?

**P. Srinivasan**: We are not sure. I think if you refer to our investor presentation we have already said that there could be some time lag.. Number two nonetheless we are trying for an alternative arrangement, but at this stage we do not wish to disclose what is that alternative arrangement and it is not appropriate.

**Saurabh:** Thank you Sir and Happy Diwali.

**Moderator**: Thank you. The next question is from the line of Aksh Vora from Praj Financials. Please go ahead.

**Aksh Vora:** Sir just wanted to know what our current capacity and capacity utilization?

**P. Srinivasan**: We have already announced it is 110,000 MT production capacity and we are utilizing in the range of 70%.

**Aksh Vora:** Given that the legacy input cost is behind and even the margins would normalize in second half and in recent past ADD has been in our key raw materials, so from when the incremental margin improvement and ADD related raw materials would kick in?

**P. Srinivasan**: Gentlemen I think we have to look at our stable market conditions not as a volatile market conditions. For any sustainable margin parameters we should look at stable market conditions. What we are today encountering is a very unusually and unprecedented volatile market where everything has gone through the roof and it is not good for the economy or consumers at large to trade in a high price regime that is not advisable. Unless the market stabilizes, I do not see it is proper in our part to give any margin guidance at this stage. What we are more concerned about is absolute numbers. We are trying to protect the absolute numbers. That is what we are more concerned about and not the margin percentage.

**Aksh Vora:** Thank you.

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

**Rohit Nagraj:** Thanks for the followup. Deo Sir if you could just dwell a little more about the exports market and what is our strategy there. And in Q2 did we face some pressure because of some of the contracts being CIF based and where the logistic cost has certainly impacted and incrementally we will be not going with CIF based contract but ex-works any thoughts on the same and generally how the exports market is shaping up? Thank you.

**P. Srinivasan**: Exports market I think the first clarification we would like to give is on the freight aspect yes, we have witnessed unprecedented freight increase in most of our cargos. We have negotiated with the customers on FOB plus actual freight so the revenue parameters factor the incremental freight cost which we are forced to incur and that is one of the reasons why if you the revenue parameters in absolute terms is showing a 9% increase over sequential quarter as compared to 5% increase in volume. Some portion of the freight aspect is already built into that along the product mix that is number one. Number two export market is still growing. We had a setback in Q2 because of the South East Asian markets lockdown. Other than that, we did not encounter any other challenge in export market. The contracts are entered based on the offers given by us and the customers requirement and we are meeting all those schedules.

**Rohit Nagraj:** Right, that is interesting. Sir the second clarification just again from the China front given that there have been disruptions in China, so have we seen in the last one month price increases across our accelerators or antioxidants products?

**P. Srinivasan**: I think we clarified that the spot prices have shown a corrections on that to commensurate with the cost increases.

**Rohit Nagraj:** Got it. Thank you so much Sir and best of luck.

**Moderator**: Thank you. The next question is from the line of Niranjan Gajanan Sakhalkar from Acuitas Capital Advisors Private Limited. Please go ahead.

**Niranjan Gajanan S:** Thanks for the opportunity. A couple of questions. The first one would be any update on the antidumping duty front and the second would be how is the US market shaping up?

**P. Srinivasan**: The first question if I am not mistaken is ADD. On the antidumping duty on Pilflex 13 the recommendation by DGTR has not been accepted by the central government. On the other three cases investigations are currently ongoing so we are awaiting the final decision from DGTR. The second question I did not get. Can you repeat please sorry.

**Niranjan Gajanan S:** How is the US market shaping up?

**P. Srinivasan**: It is steady. I think if I look on an index, at 2018 and 2019 it was 100, today we are going at the rate of somewhere in the region of 190 or 200.

**Niranjan Gajanan S:** That is helpful. Thank you.

**P. Srinivasan**: Double in three years time.

**Niranjan Gajanan S:** Helpful. Thank you.

**Moderator**: Thank you. The next question is from the line of Sagar Jethwani from PhillipCapital Portfolio Management Services Limited. Please go ahead.

**Sagar Jethwani:** Thanks for the opportunity. Sir how do you classify specialty chemicals segment and what products are these? My second question is from the three years point of view can you give some kind of guidance what should be the mix between specialty and commodity products and what is the margin profile between them would be helpful? Thank you.

**P. Srinivasan**: Point number one any application which is meant for specialized application will be catheterized as specialty chemicals. Though rubber chemicals per se is as niche segment but with China coming in a big way it is getting into some sort of a commoditized market. So what we are trying to distinguish is, in our portfolio out of 22 to 23 products almost 50% are meant for meant for specialized applications. From an industry perspective specialized segment on the total rubber chemicals scenario is not more than 10% whereas in NOCIL's basket is more than 25% so that is the current state of it. As for the margin profile in specialty generally the competition is being minimal it is a cost plus scenario.

**Sagar Jethwani:** Any ballpark margins any difference would you like to share generally historically?

**P. Srinivasan**: I think that is not appropriate.

**Sagar Jethwani:** Sir how do you classify the specialty application of these specialty chemicals product?

**P. Srinivasan**: Application may be in any field. It is not done by all the customers. It is only done by select group of customers or select industry so that is the reason we categorize it as specialized application.

**Sagar Jethwani:** Sir one more question on domestic markets share? Generally, it has been in a trend of 40% to 42% so is there any scope of improving market share from the next three to five years?

**P. Srinivasan**: We have.

**Sagar Jethwani:** So may be any steps if you can guide on that Sir?

**P. Srinivasan**: Some of the capacity expansions are meant towards that.

**Sagar Jethwani:** That is helpful. Thank you.

**Moderator**: Thank you. The next question is from the line of Amit Kadam from Canara Robeco Mutual Fund. Please go ahead.

**Amit Kadam:** Sir in the long term contracts how does the price negotiations or how the discussions are happening with your clients because I understand that we always maintain that our particular product may not be a substantial part of their raw material thing so how does negotiations happening? Whenever the price the contract comes for renewal they are okay with the adjustments what we are trying to requtoe as a price or they are asking for some adjustment in their favor so that may be midway? How does price negotiation is happening every time or long term contracts or the contractual agreements are coming for the price renewal?

**P. Srinivasan**: Very simple. Each contract is generally meant for a quarter or three months period. Since China is controlling 75% of the supply chain obviously China will be the price dictator in these products. Therefore it is a competitive bidding and if we are in the competitive range we will get that volumes whatever is being asked for and in case we are not in the competitive range we will be given a chance to improve our offer in case we wish and at that point in time we take a call whether it is worth pursuing for additional volume or price drop or loss or margin. That call is marketing function and take a conscious leverage call in consultation with the management objectives and accordingly each customer and product to products basis. There is no standard formula. Each customer is different. Each product is different.

**Amit Kadam:** Sir basically the spot market will immediately get adjusted so what I can sense from your comment is that the long term contractual that you talk about even though they come for a quarter renewal it is actually reflecting whatever the current price scenario is? It is just that we have to compare it with the input parity or may be the China prices and that is how the things get settled? If you are able to supply them at that competitive price they are happy to buy from you so it might be matter of time or a lag of a quarter or so where that even those contracts get readjust to what is the current price scenario?

**P. Srinivasan**: Yes, because that is what we have seen in the last one year.

**Amit Kadam:** This is our efficiency whether we can compete with China if yes then there is no problem?

**P. Srinivasan**: My dear friend it is product availability. If the supply is more than the demand automatically the price pressure is there. If the supply is equivalent to demand the price adjustment is there commensurate with the cost increases. It is simple economics and that is what is playing here.

**Amit Kadam:** Fair enough. I got my answer. Thanks.

**Moderator**: Thank you. The next question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

**Nirav Jimudia:** Good morning Sir. Sir I had two questions. Sir you mentioned in the earlier remarks that the endeavor is to protect the absolute or the per kg margin. So if you can elaborate the same with respect to whether you are referring to the average of H1 in terms of the per kilo margins or the Q2 margins what we have reported this quarter?

**P. Srinivasan**: We would like to expect the moon but in reality we have to look at competitive pricing and we have to work towards in a competitive market scenario and the challenges are there. What we are trying to say we will try to maximize given the constraints under which we are operating. So, we would like to improve the margin for sure, but we cannot be very specific, but yes we would like to protect as far as possible wherever we can. But it all depends on how the market unfolds, how the customer reacts to those offers and it is a puzzle which is regularly being solved every quarter. Some quarter we win. Some quarter we lose so that is part of life, but if we are able to adopt this approach consistently and it is paying dividend I think we are on the right track we can presume that.

**Nirav Jimudia:** Correct. Sir if you can give some sense in terms of our domestic market share how it has been in the last six months, let us say the start of FY2022 and what has been the situation currently so has it improved in the last six months? Thank you.

**P. Srinivasan**: Of course it has improved. It has improved. I do not have exact data of imports right now with me, but as and when we have we will share with SGA and SGA will share it, but we believe we have improved because the requirements in Q2 was better than Q1 and we were forced to supply so that is a very clear message that the supply from other side literally were restricted.

**Nirav Jimudia:** Sir if you can share FY2021 numbers also that will be helpful so that next time when you will share the data on probably H1 of FY2022 we can correlate that?

**P. Srinivasan**: I do not have the data right now with me. In the next presentation we will include that.

**Nirav Jimudia:** Thanks a lot for answering the questions in detail and festival wishes to the entire team.

**Moderator**: Thank you. The next question is from the line of Priyank Chheda from Standard Chartered Securities Limited. Please go ahead.

**Priyank Chheda:** Thanks for the opportunity. Sir just wanted to clarify two points which I might have missed out while you spoke about so the legacy cost in Q2 that we have booked was up to Rs.10 Crores right?

**P. Srinivasan**: Yes.

**Priyank Chheda:** Sir if you can again clarify what was the capacity utilization in the current quarter?

**P. Srinivasan**: 70%.

**Priyank Chheda:** Sir just a thought process so if you are guiding on the revenue growth of 45% for the full year of FY2022 which ultimately means that in H2 we would be growing at roughly around 5% which is a significant deceleration versus what we have been thinking about to ramp up the utilization so any thoughts on that why such a conservative guidance on revenue front?

**P. Srinivasan**: I think at the start we were giving a conservative guidance, but we will be more clear in the Q3 results parameter we will be in a better position to give it. We will try for better for than that.

**Priyank Chheda:** Thank you.

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

**Aditya Khetan:** Thank you for the followup Sir. I clearly remember two quarters back in Q4 FY2021 that we had asked you this question regarding the Acmechem and the Merchem merger, so their plant was about to start in December 2021 this year, so just wanted to take an update what is the update on that plant because they are the second largest player in the domestic market in rubber chemicals? Any update and how you see the competitive scenario change thereafter like if that plant was about to start in the next month? Any idea there?

**P. Srinivasan**: They have started the plant in a limited scale. I do not think it is a big volume, but every manufacture has plans but how it unfolds may be time will tell us. But today yes, they are in the business both on manufacturing front and also importing from China and selling in the market. Basically, largely trading and some element of manufacturing is there.

**Aditya Khetan:** Sir how you see the competitive scenario then shaping up so like are we facing some sort of pricing pressure from them also like what is the scenario?

**P. Srinivasan**: He is importing from China, obviously, he has to generate margin for himself. We are concerned with the landed cost from China and then we are pricing on that business and some intermediate he is importing from China and he is converting it so that his strategy. So far it is not that significant from our perceptive.

**Aditya Khetan:** Sir if you can share the half yearly volumes in the US market Sir which you generally share it anywhere?

**P. Srinivasan**: I think we just answered. In three years time from 2018-2019 in the index of 100, it has already gone to 190 or 200.

**Aditya Khetan:** Thank you Sir.

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

**Saurabh:** Thanks for the followup. Sir just one thing on the capital WIP if I could see about Rs.22-23 Crores kind of a number so it is in regard to what capex?

**P. Srinivasan**: Ongoing capex which is yet to be commissioned. This is the routine capex. It is about Rs.20 odd Crores and large part of it will be capitalized by the end of this year. I think at the beginning of the year we had Rs.14 Crores if I am not mistaken so that is some additional expenditure which we expect to capitalize. This is all routine operational capex.

**Saurabh:** Any benefit on the backward integration or any debottlenecking kind of benefit from this?

**S. R. Deo**: It is not backward integration. I think these are the capexes, which comes in many a times in terms of some improvements may be better type of equipments, instrumentation and upgradation of the plant. These are normal capex.

**Saurabh:** What will be the full year capex guidance for the same?

**P. Srinivasan**: No, we do not have any other plan at this stage. As and when we have significant capex expansion plans, we will let you know.

**Saurabh:** Thank you.

**Moderator**: Thank you. The next question is from the line of Sagar Jethwani from PhillipCapital Portfolio Management Services Limited. Please go ahead.

**Sagar Jethwani:** Thanks for the followup. Sir just one question on the share of pledge? I know it is not very big so any guidance on that as well as of invoking the share pledge?

**P. Srinivasan**: We are not aware of that.. It is a promoter's thing and I do not think it is appropriate on our part to comment on that.

**Sagar Jethwani:** Thank you.

**Moderator**: Thank you. The next question is from the line of Amit Kadam from Canara Robeco Mutual Fund. Please go ahead.

**Amit Kadam:** Sir last time you had given a guidance of like fully utilizing the entire capacity by September 2023 almost like two years from now? That guidance stays in the current scenario?

**P. Srinivasan**: It stays.

**Amit Kadam:** Then the follouwp to that if that stays it is two years from now and there will be future capex to maintain the growth momentum for our company beyond 2024-2025, so it is almost a two years time where the announcement has to be becoming from the board and then the engineering construction etc. work to start, so do you think that this two years is enough for that cycle to get completed and new capex or new plant getting ready by September 2023 so that our growth continues as such?

**P. Srinivasan**: We have plans. I think we have answered this question in the last quarter. Our MD has already given a clarification. Our request is please refer to those transcripts.

**Amit Kadam:** That is it. Thank you Sir.

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

**Pritesh Chheda:** Sir I joined a bit late. Just one question. The gross margin reduction that we see Q-o-Q were function of RM aniline price rise or it is a function of any realization cut which would have happened?

**P. Srinivasan**: It is a basket of the entire inputs. Basically, we have clarified this in the earlier questions. What happened is during Q1 we were expecting a higher volume offtake and we had booked inputs for meeting the higher volume uptake. Unfortunately, due to the second COVID wave lockdown, the operating rates came down and as a result those high booked raw materials got spilled over to Q2 and that is the reason this got impacted so it is about Rs.10 Crores thereabouts shifting between Q1 and Q2 otherwise the profitability would have been 50:50 for both the quarters. Unfortunately, this Rs.10 Crores got spilled over to Q2. That is why it came to 60:40.

**Pritesh Chheda:** Basically you consumed a slightly higher price inventory on raw material in Q2 is that the assessment?

**P. Srinivasan**: Yes. That is it. I think that is the reason we also mention in Q1 call that Q2 will have the legacy input cost.

**Pritesh Chheda:** Incrementally based on the finished good minus the RM spread or realization minus the revenue cost, are you back to a more elevated gross margin numbers which you saw in Q4 FY21 and Q1FY22?

**P. Srinivasan**: Gentlemen in a high priced regime we should not be looking at gross margins as a percentage. We should be looking at what is an absolute number and that is what we are keen.

**Pritesh Chheda:** That is why I asked you the spread, so I did not mention the margin numbers so on a spread basis are you back?

**P. Srinivasan**: If you have adjusted Rs.10 Crores in Q1 and Q2, the Rs.10 Crores adjustment it would been ideal.

**Pritesh Chheda:** Thank you very much Sir and wish you Happy Diwali and Happy New Year.

**Moderator**: Thank you. The next question is from the line of Niranjan Gajanan Sakhalkar from Acuitas Capital Advisors Private Limited. Please go ahead.

**Niranjan Gajanan S:** Sir you just mentioned I missed that. You said the utilization levels in this quarter were 70%?

**P. Srinivasan**: Yes Q2 was 70%.

**Niranjan Gajanan S:** But I think you said in Q1 also there is a 70% level so how is the volume growth possible in 5%? Is there any different numbers?

**P. Srinivasan**: Gentlemen you look at the stock change and the financials. That answers the query. You are talking about production operating rates?

**Niranjan Gajanan S:** Thank you.

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

**S. R. Deo**: Thank you very much. To conclude, I would like to say that we believe the growth story continues to be very vibrant and very strong. We will continue to pursue topline growth driven by volume as well as value in the coming quarters. We expect to close the year with a volume growth of more than 10% and revenue growth of more than 45%. I take this opportunity to wish you a very, very Happy Diwali and a Happy New Year. I 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 Mr. Srinivasan or strategic growth advisor and our investor relation advisors. Stay safe. Thank you once again.

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