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ARVIND MAFATLAL GROUP
The ethics of excellence

Date:10th November, 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 3rd November ,2023 regarding discussion on the Operational and financial performance of the Company for the quarter and half year ended 30th September, 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: 2023.11.10 16:34:59 +05'30'

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

"NOCIL Limited
Q2 FY '24 Earnings Conference Call"
November 03, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 3rd November 2023 will prevail.

MANAGEMENT: MR. V.S. ANAND – 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 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 risk 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 your touchtone 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. Good afternoon 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 Relations advisors. 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.

Let me begin by providing an overview of the company's overall performance during Q2 FY24. In Q2 FY24, the various external challenges of geopolitical tension, recessionary trends and aggressive dumping from China has impacted sales volumes and realizations.

For the quarter, we witnessed the revenue de-growth of 11.5% to INR 351 crores compared to the sequential quarter. On a sequential basis, we had a marginal degrowth in volumes on a quarter-on-quarter basis. Similar to large parts of the chemical industry, due to the lack of domestic demand in China and the lukewarm demand in their predominant export market, there has been a significant influx of heavily discounted imports from China, even in Rubber Chemicals, which has put pressure on the product realization.

As we strive to increase volumes on the one hand, it is important that we also preserve value in the process. Consequently, we witnessed an impact on our volumes. The volumes in the domestic market remained flattish, as we continue to build on our business with our domestic tire customers and penetrate the non-tire sector. The company experienced a decline in export volumes, which can be attributed to the global recessionary trends, coupled with aggressive pricing from China.

Now quickly on the industry scenario. The domestic tire industry remains robust, with the Indian automotive industry continuing the growth trend with stable demand from OEMs. While the passenger vehicle sector has reported positive growth for the period April to September YoY basis versus the corresponding period in the previous year, the commercial vehicles have reported flattish sales for corresponding period, due to a subdued monsoon, higher interest rates and new emission norms. But with increased infrastructure development, we expect the commercial vehicles to also gain traction.

The Indian tire industry has ambitious plans to increase their top line by 2.2x in the next 10 years, and we are well positioned to partner with them in their growth story.

Coming to international markets. The latex industry is still dealing with market challenges. The rubber gloves industry in Malaysia, for example, is operating at about 50% of their peak levels compared to the year 2021 to mid-2022, a combination of lower demand and stiff competition from Chinese rubber glove manufacturers.

On the tire industry front, the lower demand in Europe and the U.S. has also impacted tire exports from Asian manufacturers, including Indian players. While on the one hand, the higher interest regime, geopolitical tensions, and the recession overhang continue to hamper demand in the international markets. We continue to work with our strategic global tire players to gain approvals and are positive about increasing our global presence in the medium to long term.

On the very important topic of sustainability, I would like to share that we have completed the submission of data for the Carbon Disclosure Project or CDP for the year '22- '23. We have also committed to SBT or science-based targets and as part of the global reporting initiative of GRI. We will shortly be publishing our sustainability report.

You may already be aware that we have been awarded the silver award for EcoVadis sustainability rankings. While I just shared about our work on the sustainability front, we are proud to announce that NOCIL yesterday bagged 6 awards in the second sustainability conclave.

The awards were given for the best sustainability report 2023, best sustainable initiatives to improve BHS environment, health and safety, best sustainable initiative to improve energy efficiency, reduction of poverty, promotion of education for economically backward sections and supporting the rural health care. This is a proud moment for us, and I would like to congratulate the team on this achievement.

That is, it from my side for now. I will hand over to Mr. Srinivasan to give you an update on the financial performance.

P. Srinivasan: Thank you, Mr. Anand, and good afternoon to everyone. So now let me take you through the consolidated financial highlights. On the sales volume numbers, volumes for Q2 FY ‘24 is 127, taking a base of Q1 FY ‘20 as 100. On the revenue front, the net revenue from operations for Q2 FY ‘24 stood at INR 351 crores from INR 397 crores in Q1 FY ‘24, a degrowth of 11.5%. Out of which the volume degrowth is about 4% and the balance selling price degrew by 7.5%.

Net revenue from operations for H1 FY ‘24 stood at INR 748 crores from INR 898 crores in H1 FY ‘23. On the operating EBITDA parameters, operating EBITDA parameters for Q2 FY ‘24 stood at INR 45 crores as against INR 56 crores in Q1 FY ‘24. EBITDA margin for Q2 FY ‘24 stood at 13% as compared to 14% in Q1 FY ‘24. Operating EBITDA for H1 FY ‘24 stood at INR 101 crores as against INR 165 crores in H1 FY ‘23.

Now coming to the profit before tax, PBT parameters. PBT for Q2 FY ‘24 stood at INR 37 crores as compared to INR 47 crores in Q1 FY ‘24, sequential degrowth of INR 10 crores. PBT for H1 FY ‘24 stood at INR 84 crores as compared to INR 138 crores for H1 FY ‘23.

On the profit after tax parameters, profit after tax for Q2 FY '24 stood at INR 27 crores as compared to INR 34 crores in Q1 FY '24. Profit after tax for H1 FY '24 stood at INR 61 crores as compared to INR 102 crores in H1 FY '23.

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

Moderator: The first question is from the line of Nirav Jimudia from Anvil Research.

Nirav Jimudia: Sir, I have 2 questions. One is, sir, when we look at the commentary of the largest Chinese rubber chemical player in their latest quarterly results, they were mentioning 2, 3 important facts that the markets such as Indonesia, Vietnam, Thailand have started showing the improved demand. So, the demand has picked up there. Even if we see their July, August tire output data, so that is up close to 15% on a Y-o-Y basis. And the September month also shows the increase in their ASPs, like average selling price of close to 23% with the commensurate increase in the aniline prices, which was close to 19%.

So just wanted to understand your thought process of our volume growth because in the past, we have been seeing that we have received the approvals and the Chinese have been very aggressive in terms of selling into the markets, which had a slowdown in order to maintain their market share. So, when can we see the volume growth coming to us because first half had no volume growth or the volume degrowth. So, when can we see volume growth coming to us based on the approvals which we have received from the customers?

V. S. Anand: Yes. Thank you, Nirav. So, I think first, when you spoke about these Southeast Asian markets, yes, very much. I think there also, we have been gaining volumes in those markets based on the approvals about which we were also talking. And we mentioned this also in the last call, and we continue to monitor that in terms of our export share, and I think we spoke about how there is a split between the latex and the non-latex part of the business. And why the latex part has come down due to the latex demand going down. We see that the non-latex part that comprises of the tire sector and the tire companies has been going up. So that's compensated for that part that's been going down.

So, these are all ticking in from the gradual approvals that we are receiving. Now when you look at year-to-date and as you said, the volumes have not grown. This is also on the back of pretty much a very strong quarter, that was the first quarter of the last financial year we are talking about. And we see a catch-up that's also happening in the last few months.

So, I think yes, that is how we see it. I am talking about the prices, yes, there was a correction during the quarter. There were prices of aniline moving up and some of the other raw materials temporarily. And I think that also we saw some price adjustments on that front, as we went ahead, yes.

Nirav Jimudia: Because, sir, if we compare ours with them, so let us say, H1 of China Sunsine and H1 of this calendar year '23, I think they have shown some 10% volume growth. Even last year, their base was also very high. So, on that 90,000 tons of volume, their volume was close to 1 lakh tons. So, they have shown 10% growth.

So, I just wanted to understand, like even H2 would see those transition in terms of the approvals coming from the customers, and we will see the volume growth only coming to us in next financial year or that could be a slightly earlier process?

V. S. Anand: So, I will just take that last part and then I'll come back again -- I think Srini will also talk a bit about the numbers. Yes, we do see things trickling in even in this financial year itself.

P. Srinivasan: Nirav, just to add a bit, when you compare the China Sunsine performance vis-à-vis H1 CY '23 vis-à-vis H2 CY '22...

Nirav Jimudia: I am comparing H1 to H1. So H1 CY '22 and H1 CY '23, if I am not wrong, their volumes have grown by 10%.

P. Srinivasan: Okay. So, when we were looking at the China Sunsine performance on an overall basis, they have grown by 10% is what you are saying. We are degrown by 5%. Yes, that is because of the base effect, which we had, as Mr. Anand has explained to you. But on a performance per KG or on a performance per EBITDA basis, etc, we believe we are under slightly ahead better than them. That is what our analysis indicates to us.

V. S. Anand: And also, Nirav, my hunch is that they had a pretty low first half, especially with COVID and the lockdown. So, there is a base effect. These are some reasons that we also ascribe to the return on the volume.

P. Srinivasan: In fact, just to add a bit, their EBITDA performance dropped by percentage and our performance did not witness a similar drop, including -- though they included export subsidy was one of their key income contributors to profitability. Despite that, our overall profit drop vis-a-vis China Sunshine is marginally lower than their drop.

Nirav Jimudia: Got it, sir. And sir, just a small clarification on 1 of the presentation slides, where we have shown that our volume on an annualized basis for FY '24 is showing an index of 128. So last year, we were at 126. So, this is the guidance we are providing, or this is just a number which we have annualized based on the H1 performance?

P. Srinivasan: This is based on annualized performance till September.

Nirav Jimudia: Okay. So, this is not a guidance which we are providing?

P. Srinivasan: Guidance is something which we will address a little later.

Nirav Jimudia: Okay. Correct. And sir, 1 last question from my side is, let's say, in this quarter and the last quarter, if you can share the export percentage in terms of the quantities, because in one of the slides, you have mentioned that the fall in the volumes is because of the fall in the export volumes.

So, this fall in volumes is because of the latex part of the market, and we have continued to grow on the non-latex part. And a slight addition in terms of our volumes from the latex market. So, let us say, we were doing 100 at the peak, where we are currently in terms of the latex market as per the Q2 run rate?

P. Srinivasan: Okay. Just to give you a very broad direction, we were normally in latex market, we were 30% in the overall export basket, that has trickled down to about 12% or thereabout, whereas the non-latex which was earlier 70 is probably is about 85, 88 or something like that today.

So that is a good thing, which we are trying to build up. In fact, this is comparing with the COVID times where the peak latex demand was there. So, we are comparing with that performance. So that was in, say, 2021 thereabout. Around that time, we should compare. We are down by almost 60%. But what is happening is that we have improved that much volume loss in the non-latex market, and which is more sustainable is what we believe.

Nirav Jimudia: Absolutely. And sir, just a last clarification on that export percentage in terms of the quantities for Q2 as well as H1 if you can provide out of the total volumes.

P. Srinivasan: I think it will be more or less in the range of 30% to 35%.

Nirav Jimudia: Okay. For Q2 as well as for H1?

P. Srinivasan: Yes, more, or less in that range only.

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

Aditya Khetan: Sir, my question was that sir, we had witnessed increase in imports from China, so by around 20% to 25% indeed for this fiscal. So, because of this, our spread numbers have also taken a hit. So, do we expect a similar trend in second half or because of increase in export volumes that spreads could improve from here on? Or what would be the trend like?

V. S. Anand: So maybe for the full year trend, would be difficult to comment, but at least clearly, what we have seen is that there has been some kind of corrections in the last few weeks to a month or so where the original drop in prices, there has been some correction on the positive side. So, I hope that that will be maintained or not taken down any further.

Aditya Khetan: Okay. And sir our competitor also, so recently only, they have expanded the capacity. And in 1 of their presentations, they had mentioned they are still operating at low utilization yield. So, we can see further increase in imports trend in FY '24 and continuing in FY '25 also?

V. S. Anand: So, our understanding also of that drop in prices that we saw was also due to a buildup of inventory and also certain inventory reaching shelf-life point. So there was also a need to push that into the market.

That inventory having gone out and they are operating at more demand linked basis. We see that while imports can still go up, but I do not see that kind of price corrections to potentially happen at this point in time.

Aditya Khetan: Sir, my second question was on to the tire demand in Europe. You had mentioned in your opening remarks that the tire demand in Europe continues to remain weak. So, sir, in our total export volumes, how much share is to the European companies? And sir, is there any new capacities coming up in Europe or in China going ahead?

V. S. Anand: I assume the question is whether tire production is coming up. So, if you look at our exports about roughly -- about close to 20%, 25% would be in Europe, about 50% in Asia and the balance in the other parts. In terms of new capacities, they are not really hearing of significant expansions in these markets really.

Aditya Khetan: Okay. Sir, the China Sunsine, which was planning to add a 30,000-ton capacity by December end. So largely, that would not come into the market and that would be used for internal accruals. So that would like to maintain the demand supply balance going ahead. Is that the understanding, correct?

V. S. Anand: Okay. So, was your question on capacity is pertaining to Rubber Chemicals or was the tire industry because I thought you spoke about tire?

Aditya Khetan: Sir for the tire industry. They are adding a 30,000-ton capacity, so that could come by December end. So, they are using it for their captive consumption. So, is this understanding, correct? So that would not change materially the demand supply balance?

P. Srinivasan : Gentleman, which product you're talking about, is it insoluble sulphur?

Aditya Khetan: Antioxidants, sir. They are adding into antioxidants.

P. Srinivasan: Okay, okay. That is there. Okay, we have to wait for the outcome when they start the commercial production, then we'll take a call. I think they have in a product called TDQ. They are already there. So, we are not sure which is other antioxidants they are planning to come.

Moderator: The next question is from the line of Nitesh Dhoot from Dolat Capital.

Nitesh Dhoot: So, my question is first on where we in terms of are finalizing our capex plans on adjacencies, if you could give some color there.

V. S. Anand: Yes. So, capex plans on adjacencies -- we continue to look for opportunities on adjacencies, as if we are taking a structured approach to the whole thing. Nothing at this point that we have to say that we are close to something as yet. So, I think as and when we get there, we will be able to share something on that front, Nitesh.

Nitesh Dhoot: Sure, sir. And you had mentioned last time that you started sampling products for approvals from the additional sites of customers and the approval cycle being around on 3 to 6 months there. So where are we on the product approvals?

V. S. Anand: So, some of them, we have already even started supplying during the course of this year. And some are coming in, they will start in the next quarter or the next few quarters. So that is something that is ongoing yes.

Nitesh Dhoot: And just 1 last thing. What was the capacity utilization for Q2?

P. Srinivasan: About 65%.

Moderator: The next question is from the line of Radha from B&K Securities.

Radha: Sir, my first question is that on a Y-o-Y basis, our volumes have grown by 8%. So wanted to know the growth in domestic as well as exports, like have both markets on an overall basis grown or because you said on the exports market, the non-latex part has grown. So how is the breakup in domestic as well as exports?

P. Srinivasan: Ma'am, I think there is a correction here. We have not grown on a y-o basis that much. On a Y-o-Y basis, marginal degrowth is there.

Radha: Sir, Y-o-Y basis, the overall volume growth has grown by 8.4%.

V. S. Anand: Yes. This data you have – you have deluded from the investor slide?

P. Srinivasan: Yes, ma'am, if you see the investor Slide number three, in Q1 FY '23 was 151, 117, 268 is first half. And this year, it is 260. So, 8 points we have down. So that's the reason we are trying to understand your clarification.

Radha: Sir, I'm saying 2Q FY '23 versus 2Q FY '24 so 117 versus 127.

P. Srinivasan: So second quarter, basically? Okay.

Radha: Yes, sir. Second quarter only.

P. Srinivasan: Second quarter, we have grown significantly because the low base has been corrected now because the addition of additional volumes traction coming in from non-latex products.

Radha: So, you mentioned you have grown the exports market in the second quarter on a Y-o-Y basis. And what about the domestic?

P. Srinivasan: Domestic, we have not degrown. We have a very small growth.

Radha: Sir, could you mention how much growth in domestic versus exports?

P. Srinivasan: I think exports as -- the base was much lower. So, export has increased significantly because of the additional business coming from the non-latex products, as we are trying to consolidate our presence in the international market. Domestic is more of small products here and there, some marketing growth.

Radha: Sir, how much?

P. Srinivasan: It's in single digital only ma'am.

Radha: Export growth in single digits?

P. Srinivasan: No, I think we are talking about -- domestic growth is single digit. Export is very significant.

Radha: Okay, sir. Sir, secondly, on one hand, if you see the current scenario, rubber accelerated prices are rising, specifically in the last month. And then demand trends remain strong in India and also auto volumes are growing internally.

On the other hand, Sunsine has expanded capacity and also, we could see higher dumping when there new capacities come into production. So, considering all these factors, on a sequential basis, how do you see the volume and the pricing trends going forward?

V. S. Anand: So like we mentioned, the domestic demand continues to be robust. We still are positive along with the exports that we can still look ahead for some positive volume growth in the year.

As far as domestic market also is concerned, I think we are competitive enough, and we are able to compete and keep our space amidst the imports that come from China to a large extent. So, I think along with these capacities, we will still be in a position to compete there.

Radha: Sir, on the export front, you mentioned the non-latex part has grown. So, are we seeing China +1 playing out? And have you added any new customers or new locations specifically on the exports front in the first half?

V. S. Anand: Yes. I think this is also pertaining to some of the earlier questions and the discussions we had and that is precisely the thing that I mentioned also in my initial speech about working with strategic global key accounts. And this also is linked to the China +1 where we see some good traction. So that's where we described how the non-latex part of the business is also shaping up well.

Radha: Sir, have you added any new customers in first half?

V. S. Anand: Yes. So, while -- most of the international customers are already our customers. I think it's about getting newer products in, at the same time, getting newer manufacturing sites and that's what will happen.

Radha: And you have added a product in FY '20, the TBBS product, which was an import substitute. So, wanted to understand what kind of utilization in that product as of now? And by when can we expect full utilization for this product?

V. S. Anand: So there's been a slow pickup of that import substitution. And as I also mentioned in the last quarter, they're not very significant.

P. Srinivasan: We are going within the same overall range...

Radha: Okay. And sir, in the current quarter in Q2...

P. Srinivasan: Overall capacity utilization range.

Radha: And sir, in the current quarter, in 3Q, are you seeing higher pricing pressure in either domestic or export market to continue?

V. S. Anand: So, while for the immediate quarter, like I mentioned, there have been some price corrections. But I would expect that if there is lower demand in China, we possibly cannot rule out pricing pressure.

Radha: So, the volumes that you have held back because of the falling prices. So that is also expected to continue for FY '24?

V. S. Anand: So, as we look ahead, at least, I think it's difficult to comment really on a long-term basis, but at least in the short term, which is we have been looking at, at least, for the next quarter and a couple of quarters. We see that volumes should trend slightly on the positive side.

Moderator: The next question is from the line of Harshil Parikh from Acuitas Capital.

Harshil Parekh: Sir, my question is that you have mentioned in the presentation that we are holding back volumes with lower prices, right? So, first thing I wanted to understand, is it for the exports market or is it for the domestic market also?

And the second part is that -- is it not dangerous for us to give up volumes in such a situation since the customers may get used to more -- used to alternatives, making it more difficult for us to bounce back?

V. S. Anand: Not really. So, I think if you look at it, we have not stepped out of businesses or anything of that sort. It's just kind of a quarterly position that you take in terms of what volumes you want to take. For vis-a-vis, whether you will actually create value or do not, it's a call that you take on a customer-to-customer basis. So, it's not specific only to export, but it's a combination of both, yes.

Harshil Parekh: Okay. No, sir, so I just wanted to understand, since you have already mentioned that this is sticky business and long-term contracts, right? So, if our competitors enter the customer's wallet share, would it not make slightly difficult for us to bounce back to get back those volumes.

V. S. Anand: Yes. as I've also said, it's very marginal, yes. And these pluses or minus tend to happen from 1 quarter to the other.

Harshil Parekh: Okay, sir. Understood, understood. And sir, my second question is that earlier also, we have mentioned several times that supply chain diversification is a key tailwind for us. And given our moderate starting position, especially in the global markets like U.S. and all, so my question is why we are getting impacted with the demand slowdown in the industry.

So, I would have understood it if we had a very high market share, like 40%, 50%. But since our starting positions in global markets are very low, then why is the demand slowdown impacting us so drastically?

V. S. Anand: Yes. So, the demand slowdown is also with existing customers, right? So, I think while we gain approvals and we enter into customers, even existing customers who take their requirement goes down. So then there seems to be a marginal impact that that shows up there. While the gain happens, sometimes they take much longer to add into the volumes.

Harshil Parekh: Understood, sir. Understood. But sir, since we are at a very small starting positions, we would also be getting more traction from the newer customers, right, which should be ideally offset by a slowdown in the existing customers. So, is that not happening?

V. S. Anand: We are seeing that happening to a certain extent already, and I think it should gain more traction as we go along.

Harshil Parekh: Okay, sir. Understood. Understood. And sir, 1 last question. If you see the gross margins in this quarter has declined primarily because the output prices are falling higher than the input prices. So, is there any specific in that why are these pricing going down? Apart from the dumping from China, is there any other specific reason for that?

V. S. Anand: So, when you look at it, apart from the price revision that happened, there were also some raw material price corrections that led to this. It is a combination of both.

P. Srinivasan: Just to summarize it further, the sales drop was a combination of volume drop as well as the price corrections, which has been communicated. Even in raw material also, we've got some raw material price corrections downward. I think the only thing is the correction of the price was much higher than the raw material corrections. And that had an effect on the overall absolute gross margin nos. as compared to sequential quarter.

Harshil Parekh: Yes. So, sir, just wanted to understand that the correction in the final output prices were higher. So, is there any specific reason other than the pricing impact by China? Is there any other reason for that?

V. S. Anand: So again, when you see the correction, again, it's a demand supply and sometimes you also have a lag effect of raw materials, right? So, you tend to get in the lower-priced raw material at a later stage. There's also a combination of a lag effect.

Harshil Parekh: Understood, sir. And sir, the import volumes, if you see for the domestic market, they have grown, whereas our volumes have not grown. So, are we leaving some kind of market share? Because as you mentioned, we are also holding back some volumes. So, is it resulting in our losing slight market share?

V. S. Anand: Not really, not really. I would say it's kind of more or less stable from our evaluation.

Harshil Parekh: And sir, you mentioned in Q4 that the volumes are expected to pick up from current levels. However, if you look at the first quarter of FY '24 as well as the second quarter, they're still below the Q4 levels. So, are there any, again, specific reasons like the market are so much volatile that we earlier had some orders in Q4, which got revised going into Q1 and Q2? Is it something like that?

V. S. Anand: So, you're talking about Q4 of last year versus Q1 and Q2 of this year, right?

Harshil Parekh: Yes, sir. We mentioned the Q4 levels -- the volumes improved from the Q4 levels -- Q4 of FY '23.

V. S. Anand: Yes.

Harshil Parekh: But in Q1 and Q2, they're still below the Q4 levels.

V. S. Anand: Yes. So, from an index, we are slightly lower, yes. Like we mentioned, while the pressure on realization were there, we also decided to play it on the volumes front, yes.

Harshil Parekh: Okay. Okay, sir. Understood. Understood.

Moderator: The next question is from the line of Jayesh Parekh from JMP Capital.

Jayesh Parekh: Sir, my question is on China +1 strategy. Now as you know, the China is controlling almost 80% rubber chemical market currently. Currently, China's internal consumption has also gone down. Since last almost 3 to 4 quarters, their consumption is going down. Simultaneously, globally, everybody is working under the pressure of margin. So I feel that everybody -- why everybody will follow China +1 strategy then their own margins are under pressure. So everybody would like to buy from a country where prices are better.

So do you really think that China +1 strategy will work at least for the next 2 to 3 years unless and until there is a change in Chinese economy itself or change in the global economy itself in terms of all parameters. I personally see chemical industry has been thinking of China +1 strategy since last 3 years. But in reality, you are the better person to answer whether it is really working.

V. S. Anand: Yes. Thank you, Jayesh, for the question. I think if you were to respond to this question, I think, and when you look at the global market, you can't brush it with just one brush and you can't say this is the approach across the world. Again, when you look at customers, you can't use the same brush. So, I think there are customers, who take this seriously, many of them, and there are ones who do not take it seriously, like you said, when you're up against the wall then you do what is to be done at that point in time.

But there are, I must say there are many customers who are looking at this whole performance very strategically. And they don't see that this short-term impact on pricing, they see the value of more long-term partnerships, supply reliability, more of geopolitical tensions that may arise.

So answer to your question is it's a mix of both. And it's for us to work with those customers where we see that the China +1 will really gain traction. And that's what we are doing.

Moderator: The next question is from the line of Abhijeet from Sharekhan.

Abhijeet: Yes, sir, I have 1 question. We expected new capacity which we focus to have a higher global market share, but last couple of quarters, you have given the environmental thing. I would like to understand that what is our strategy to gain the market share further. Overall -- if not for FY '24, what is the overall long-term volume growth guidance? So, except for '21 and '23, again, the volume growth challenges are coming to us. So, I want to understand on this front and then when will we see the optimum utilization on the expanded capacity?

V. S. Anand: Abhijeet, your audio was not clear to us, but let me attempt and I think you need to come back if I'm not able to answer your question. So, while we have said, we will have positive traction on volumes coming up, if you look at the last financial year that should -- we are a positive traction there.

But coming back to your question on when we will hit full utilization, earlier we were able to give a certain guidance based on a certain stability that we saw. But given today's uncertain environment, it would be very difficult to put a finger and say this is where we will hit it. And I think that's something we will -- as we get more clarity, we will be able to share an update with you on that front.

Abhijeet: Yes. So, my question is that not from the perspective FY '24, but like what kind of volume growth we can see maybe '25, '26. I understand that is a difficult question to answer given the current scenario. But given our interaction with the customers, like is there any sort of visibility that gives us confidence in terms of long-term volume growth?

V. S. Anand: Absolutely, Abhijeet. I think while we will continue to face short-term challenges with different global situation that we have, definitely in the medium to long term. '25, '26 with the engagements we are having with customers, they are quite positive. The volumes will grow. We are well positioned for that. At the same time, we have long-term ambitions to grow our market share globally. So, we are quite positive about the volume growth.

Abhijeet: Okay. And 1 more question, if I may ask. The pricing has been quite volatile. We have seen in the quarterly results also that impacted our margins as well. So once the China dumping thing is over, like can we reach 40% plus or more than 45% kind of EBITDA level again going forward?

P. Srinivasan: 40% EBITDA?

Abhijeet: INR40 per kg, INR40, INR45 per kg kind of EBITDA on per unit basis?

P. Srinivasan: I don't know, gentleman how you derive at INR45 a kg, we are not able to understand that. What we can say is that, if you see the last 3 years' performance -- our last 4 years performance, when you look at an overall basis, I think we are more or less in the same range. We are not materially different. In fact, what we can say '21, '22 was a little better year. '22, '23 was marginally down, marginally down.

'23, '24, we still maintain that we are in the correction mode. So, the real benefit will come in. And I think what Mr. Anand was trying to guide is that there will be quarterly aberrations but given the objective what we have and the visibility and interactions we have with customers, long-term stability is definitely assured for this business. Therefore, the results automatically will come.

Abhijeet: So, if I rephrase my question here, once the China dumping issue is over, what kind of sustainable margins we can make?

V. S. Anand: Sorry, have we given the guidance on the market?

P. Srinivasan: We have not given any guidance. We never give guidance on margins...

Abhijeet: No, no. I'm not asking about the guidance perspective, but my -- I just want to understand because there is a lot of volatile prices that would have not been there once it ends, maybe 1 year down the line. I just want to have a perspective on margin trajectory. It is fine if you don't give a specific number also.

P. Srinivasan: We will address it separately. We can come to the question to -- and then we'll refer in due course of time.

Moderator: The next question is from the line of Praveen Kumar from Equitas Capital Advisors.

Praveen Kumar: I had 1 question. So, I was trying to put together various things, which you have said over the last few calls, including today's. One is that you are seeing supply chain tailwinds in terms of supply chain diversification. Secondly, you are 1 of the largest non-Chinese producers. So, you should be 1 of the first port of call for many of these global tire manufacturers, who are looking to diversify, right?

Thirdly, you have also mentioned in today's call that a lot of the global measures are already your customers. And in fact, what you're trying to do is sell them more of your existing products? So, putting all these together, 1 would expect that the timeline for conversion of orders for new products to an existing customer, right? Because if they are already your customers, they might have already done due diligence on several of your other products. And what would be required is incremental diligence on your new products, right?

So, putting all this together, 1 would have expected greater traction coming through into your export volumes and into your overall volumes as well. So just wanted to understand how do we reconcile this to- with the performance that you've seen till date?

V. S. Anand: Yes. Thanks, Praveen. So again, the answer is a combination and let me try and explain this. So, what happens here is typically, as you start even though if you're an existing customer, for every product, it is the same process of approval because you are approving a product from a particular site. If you go to another site of theirs, again, the approval process goes on. It could be slightly curtailed here and there a bit.

But the process is more or less very similar for every site when you start with a small lab sample, then you start with the trial a lot. All of this needs to be run in production, tested, approved and then you keep going up in the scale as you go along. So that takes a bit of time.

On the other hand, while as you rightly said, we should have seen a lot of traction and things should start coming in, but also the overall demand per se has come down. And as they start shifting some shares to us, their overall demand comes down. So they do it at a gradual pace, but it takes a little while longer. So I think it's a combination of both that you don't see the sudden traction that's able to come in.

Praveen Kumar: Understood. Reading through what you're saying, should we expect that there should be a greater kind of a snowball effect somewhere down the line in terms of your export volumes when your traction finally starts paying off? I mean, is that what 1 should expect?

V. S. Anand: Yes. That's normally the expectation, but I would keep my fingers crossed and hope that happens here.

Praveen Kumar: Okay. I mean, because again, we had done a channel 6 for the last several years, and 1 keeps hearing that NOCIL is one of the more quality and reliable suppliers, right? So I'm just trying to understand what is behind your apprehension in being more positive about this.

V. S. Anand: So I'm very positive and like I mentioned, I think it's just that the external environment and the uncertainty that I'm kind of, let's say, positive with some caution. Yes.

Moderator: The next question is from the line of Nilesh Ghuge from HDFC Securities.

Nilesh Ghuge: Yes. Sir, just 2 data points. What was your specialty volumes contribution in Q2 to the total volume of the company for this quarter? And secondly, the -- how much -- what was the percentage exports to the total revenue in Q2?

P. Srinivasan: Yes. I think it is much lower. We expect in the previous quarter, the latex business has shown a download slope. So therefore, the specialty percentage has dropped down. So it's below 15.

Nilesh Ghuge: Okay. And sir, exports -- how much was the exports to the total revenue in Q2?

P. Srinivasan: I think we -- I said just some time back, it is between -- somewhere between 30% to 35%. .

Moderator: The next question is from the line of Sailesh Raja from B&K Securities.

Sailesh Raja: Sir in U.S., antidumping is getting over next year. So if they don't extend it, how it will impact our volumes to U.S.?

V. S. Anand: You're referring to the tire industry?

Sailesh Raja: No, sir, rubber chemical.

P. Srinivasan: There is no antidumping for rubber chemical.

Sailesh Raja: In 2017, they have put antidumping duty on rubber chemical.

V. S. Anand: Are you talking about the U.S., sorry?

Sailesh Raja: U.S., U.S. Yes.

V. S. Anand: Sorry, sorry. We misunderstood it as India. So that duty continues. So we expect that with the current situation, it should get extended because I think it's got bipartisan support in the U.S.

P. Srinivasan: The second thing is from a revenue perspective for NOCIL, I would say it is not making a difference because today, we are not charging any duty on the landed price to the U.S. customers because there is other source also besides China, India and EU also is supplying. So EU selling at without duty exports. So pricing advantage is not there as far as we are concerned, maybe some volume correction, if not all in the worst case that might happen.

Sailesh Raja: Sir currently, we are doing closer to 1,500 tons per annum. So what is our target we have for the next 2 years?

V. S. Anand: Sorry. Which volume are you talking about?

Sailesh Raja: In U.S., currently, we are selling closer to 1,500 tons.

V. S. Anand: 1,500 tons per annum you are saying?

Sailesh Raja: Yes, per annum to U.S.

V. S. Anand: We have not declared any specific numbers with each of the...

Sailesh Raja: So 2, 3 years back, we were doing around 500 tons and that gradually increased it 1,500 tons. So in last 2, 3 con calls, we have mentioned that. Is there any target we have for the next 2 years, particularly in the U.S. market?

V. S. Anand: So we have given an index guidance for how the numbers...

P. Srinivasan: We have said from 100 to 300. We have given an index.

V. S. Anand: So we expect that -- so we're still working with customers, and we expect that to continue to grow Sailesh.

P. Srinivasan: So the Americas today constitute 25% of exports today.

Sailesh Raja: Okay. Okay. Sir, we are betting more on adding new customers there or addition of locations from the existing customers.

V. S. Anand: Yes. So existing customers additional locations is what is going to happen, that means when you talk about global customers.

Sailesh Raja: Yes. Okay, sir. Sir, my next question on the conversion cost side, particularly in the power and utilities. So is there further scope to cut down the cost?

P. Srinivasan: In absolute numbers, there is some reduction seen in the utility costs for the half year. So one of the reasons for the reduction in other expenditure is, you can see the SEBI results. It is because of the reduction power in the utility costs, largely because of the efforts taken by the operations team to improve the cost control measures and ensure that those are sustainable in nature. So they have done a lot of work and that benefits are seen in the results.

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

Nirav Jimudia: Sir, in terms of the utility costs, which you mentioned, I think in the annual report, we have mentioned that we have entered into an agreement with Cleanmax for securing the hybrid power. So and along with it, we have even installed a 66 KVA power station line. So last year, our power cost was close to INR178 crores.

So with all these benefits in place and sourcing of a hybrid power, how much savings can we assume provided the current level of coal cost is there. So what sort of savings we can assume on an annual basis when the benefit of this hybrid power along with the installation of a KVA line fructify fully?

P. Srinivasan: So Nirav, just to address a bit, I think when you're looking at INR178 crores for power and fuel cost, which includes the coal, power and the fuel oil, etcetera, FY '23 that's what you might have referred to the annual report. When your the run rate as it stands today, the way things are moving around, we are in the region of something like 15% savings.

Nirav Jimudia: And the entire benefit of the initiatives which we have taken has fructified or still the benefits would continue in the second half also?

V. S. Anand: Apart from Cleanmax and also other initiatives pertaining to solar on-site that we do, we're also looking at core generation that will come next year. So those are additional things that will come in, Nirav.

Nirav Jimudia: One of the statements also in the annual report mentioned that we have succeeded a process engineering in terms of planned modifications to manufacture DCBS in the MOR plant. So if you can just throw some light on this? Because earlier, if I recall, we used to produce this product and we have stopped. So again, I think if we have made the modifications in terms of producing this product again. If you can just share the opportunity, size, or the market size of this product into India or in the export market, that would be immensely helpful.

V. S. Anand: Yes. So this is always part of working with our domestic tire customers to look at opportunities to indigenize. And this is something that we also mentioned in the earlier call that we are looking at wherever possible to indigenize. And this is one example of that indigenization. But the volumes are not noticeably big. It's also part of the package that we sell to our tire customers. So it goes along with that. I don't see very significant volumes coming also, Nirav.

P. Srinivasan: It's more of a part of a sulphenamide product group.

Nirav Jimudia: Got it. And sir, just a last clarification in terms of the capacity utilization, which you mentioned, 65%. So, this is considering the debottleneck of 5% to 10%, which we already completed and considering 65% on the increased capacity or you are taking the utilization pre-debottlenecking?

V. S. Anand: This is pre. Yes.

P. Srinivasan: Some portion has been included. Some portion is yet to be included.

Nirav Jimudia: Okay. Sir, just a last thing in terms of the export market. So, you mentioned that our latex volumes have fallen, but the non-latex volumes have grown. This is the tire customers where we have penetrated in the export market. So, if you can just share, which of the geographies have seen this increase in the volumes from the non-latex side?

P. Srinivasan: I think, Nirav, the address is quite different. I think earlier, we were referring to Asian market exports was 70% and non-Asia was 30%. The Asia has become 50% so therefore the other remaining 20 is going to the western world, EU, and Americas. So that addresses the whole question there.

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

Aditya Khetan: Thank you for the follow-up. Sir, my first question was on to the aniline price correction. So, on a quarter-on-quarter basis, aniline prices have dipped by around 12% to 15%. So, have we taken any inventory loss in this quarter?

V. S. Anand: Sorry, which quarter are you referring to? Which quarter-to-quarter?

Aditya Khetan: Sir, quarter-on-quarter basis, quarter-on-quarter basis, this quarter as compared to last quarter.

P. Srinivasan: Okay. As far as the raw material cost is concerned, we have taken a price benefit. Raw material cost per kg has come down this quarter as compared to the previous quarter. So that benefit is already is considered in this result.

Aditya Khetan: Okay. So, we had not taken any inventory loss, means -- you mean to say that?

P. Srinivasan: No, not much.

Aditya Khetan: On to the volume side, sir, I believe, sir, you're not sharing any sort of guidance, but if you can give us an idea so whether the volume can be in line with the tire industry growth or higher than that? Or it can be like in the low single-digit or high double-digit range or any sort of a trend that you can give so that would be helpful for us to forecast.

V. S. Anand: So, if you look at it again -- I would put it as domestic and international. So, when you look at the domestic market, we already have a high market share. So, the growth will always come from plus or minus -- more on the plus side of a few hundred basis points compared to the growth of the industry because we have a sizable market share already. Whereas the growth in the international markets, where we have a much lesser presence, would significantly be higher. That's how we see it.

Aditya Khetan: Okay. And sir, on to the debottlenecking, sir, which we have completed. So, is it possible to share the capital expenditure business for that?

P. Srinivasan: Not material to be shared with.

V. S. Anand: It's within the capex budget so...

P. Srinivasan: It's not significant in absolute terms.

Moderator: Aditya, are you done with your question?

Aditya Khetan: Yes. I'm done.

Moderator: Due to time constraints, we will take that as the last question. I would now like to hand the conference over to Mr. V.S. Anand for closing comments. Please go ahead.

V. S. Anand: Yes. Thank you. Thank you very much. I'd like to take the opportunity to thank everyone for joining the call. I hope we've been able to address all your queries. For any information -- further information, kindly get in touch with me or Strategic Growth Advisers, our investor relations advisers. We wish you all a happy Diwali and a happy New Year. Thank you once again and take care.

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