"NOCIL Limited Q3 and Nine Months FY2019 Earning Conference Call"

February 06, 2019

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 Q3 and nine months FY2019 earning conference call of NOCIL Limited. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on date of this call. These statements do not guarantee the future performance of the company 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. S.R. Deo - Managing Director of NOCIL Limited. Thank you and over to you, Sir!

S.R. Deo: 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 also the SGA team, our Investor Relation Advisors are on the line. I hope all of you must have received the investor presentation by now. For those who have not received it or not seen it you can view them on our disclosure to the stock exchanges or our website.

For first nine months, the performance of the company was much better than the previous same period. It was better both in terms of volumes as well as a value growth. We have recently commissioned the expansion capacities at our Dahej plant after a successful trial in December. With this, the company's program of phase-I Rs.170 Crores has been completed.

In so far as the business scenario, the global tire industries have already committed a capex plan of $10 billion for their future growth. As you are aware NOCIL has about 30% of its revenue coming from exports and above all we also have a long-term working relationship with all the tyre majors. The upcoming capex by this tyre industry is a huge opportunity for us. As indicated earlier in our earlier announcements, with this new capex, we expect our export revenue contribution to increase.

One more fact, which I would like to share with you, is a change in the scenario in terms of rubber chemical supplies. You are aware that last year there were disruptions in the rubber chemical supplies due to environmental issues in China. Now this disruption has compelled most of the global tyre industries to look at a secured and a reliable supply chain, which is out of China. NOCIL has a distinct advantage in terms of these merits and we are very confident that with this change, view in terms of securing the supply chain by global tyre industries will boost our export market.

Coming on the domestic side of the business since the last quarter the auto segment is witnessing a subdued demand and it is reflected in the statement of all OEMs. We believe that this is a short-term phenomenon as many growth levers for Indian economy are falling in place and we are certain that in a very short period, the Indian auto industry will take off. The long-term outlook of auto industry is very positive. The Indian tire industry has already announced capex worth Rs. 18,000 Crores. As we have a strong relationship with these tire industries, we are more or less aware about their ongoing as well as upcoming capex programs and this in turn will facilitate the growth in the domestic market and we are hopeful that it will continue to be positive as it was envisaged.

Let me elaborate more on the demand scenario which will help you to understand why NOCIL has announced a capex of 425 Crores. Currently, the global rubber consumption stands at about 29 million tonnes and it is expected that it will grow at 4%. Now if we consider that growth of rubber chemicals, which will be proportional to the growth of rubber consumptions, we see a huge potential for the growth of rubber chemical markets in domestic as well as global scenario. In view of this, we have decided to invest 425 Crores of capex and we are certain that the potential for rubber chemical business will continue to not only be positive but also buoyant.

We are also confident of taking a large portion of non-Chinese segment demand and then therefore we have planned this capex. Also the supply chain disturbances, which happened in 2017, would bring a much more share than what we had envisaged when he had planned the capex. We are very confident about the long-term sustainability of the business and we would like to share with you that the capex and the planning is based on a very, very sound business strategy and the future of this company is going to be very strong.

I would like to thank you for patiently listening to me and now I would hand over to Mr. P. Srinivasan for updates on financial performance. Thank you.

P. Srinivasan: Thank you, Mr. Deo and good morning everyone. Firstly, I would like to give an update on the capex, also the financial statements for the company for quarter and nine months ended December 2018.

The capex update: We had already announced the first phase 170 Crores has been commissioned, out of the total budget sanctioned by the board for a sum of Rs. 425 Crores. Out of this till December 2018, we have spent about Rs. 225 Crores and with a further commitment of Rs.100 Crores already in pipeline. So as of date, the total commitments entered or given by the company including spent as well as what is going to be spent in the near future is Rs.325 Crores out of 425 Crores. In fact 75% of the capex of outlay has already committed remaining 25% orders should be placed in the reasonable period of time in the next coming three to six months.

Coming to the financial performance of the company, the net revenue for the quarter December 2018 is Rs.261 Crores as compared to Rs.249 Crores for the corresponding period of FY2017-2018, which is representing a growth of 4.8%. On the nine months cumulative data, the revenue is about Rs.800 Crores for December 2018 as compared to Rs. 692 Crores for December 2017, which is about 16% growth. The export constitutes 29%-30% of the revenue basket. If you analyze the revenue increase over the last year, which is about Rs.100 Crores, 50% can be attributed towards volume and 50% to be on account of price increases.

Now coming to the value addition aspect, the value addition for nine months for the quarter ended December 2018 is Rs.144 Crores as compared to Rs.134 Crores for quarter ended December 2017, representing a growth of 6.9%. The nine months value additions parameter is for December 2018 is Rs.445 Crores as against Rs.373 Crores for the corresponding period of last year representing a growth of 19.4%. Value addition has already indicated in the investor presentation is revenue minus cost of raw material consumed minus cost of traded goods minus change in inventories.

Coming to the operating EBITDA, in the annual guidance for FY2018 there was a question on the EBITDA outlook for the financial year FY2019. We are happy to say that we had given a guidance of an average of FY 2017-18, EBITDA for current years two to three quarters and we are happy to say that we have surpassed that in terms of absolute performance. The operating EBITDA for the quarter ended December 2018 is Rs.73 Crores as compared to the Rs.70 Crores for the corresponding period of last year, a growth of 4%. For the nine months December 2018, the operating EBITDA stood at Rs.231 Crores as compared to Rs.178 Crores representing a growth of 29.7%. This improvement continues to be on the back of better efficiency, better product mix, better pricing to the product and cost optimization benefits, which is a continual and ongoing process.

The profit before tax for the quarter ended December 2018 is at Rs.69 Crores, which was flat as compared to December 2017. However on the nine months, the PBT is up Rs.222 Crores for December 2018 as compared to Rs.178 Crores for the corresponding period of last year. The profit after tax was Rs.45 Crores for the quarter ended December 2018 similar to December 2017. The nine months profit after tax was Rs.148 Crores as compared to Rs.118 Crores for the previous year, a growth of 26%.

With this I would like to open the floor for question and answer.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: Good morning. Sir I had just two questions. First question is that what we have been seeing current situation where China produces and consumes almost 70% of the rubber chemicals and what we have seen in last three to four months is like the negative auto sales in China, so if you can give some indication as what has been the desperation of the Chinese rubber chemical companies in terms of placing their volumes or how it is impacting the realizations and raw material prices, that would be very helpful Sir?

P. Srinivasan: Auto slow down has been seen from September 2018 onwards for four months and in China the auto slow down impact was about minus 15 -18% for the last four months. When you compare those performances, we have demonstrated a flattish performance for this quarter, we believe marginally we are a shade better in terms of our performances. Now there were two major factors for this auto slow down, one is the US China trade war conflicts potential impact, the apprehensions and there was an element of conservatism or deferral buying by the buyers which also resulted in a substantial additional sale in July-September quarter as compared to October-December. So the customer in anticipation of Chinese supply coming at a higher price may have procured some additional requirements before the implementation of the first phase of the trade sanctions which got into effect from September 2018. The second thing is in the earlier commitment, the crude price was about \$80-\$85, so the raw material price was much higher. So all those customers who have bought in that rate suddenly are burdened with the high cost input cost or inventories. So now in a falling crude market, in a falling benzene and other petrochemicals market, people are deferring their purchase requirement what we have seen is a more cautious approach, more conservative approach, they do not want to buy at a regular throughput, they want just in time purchasing strategy to optimize and to minimize the legacy inventory cost. It is not only happened in the tire industry, it is happening even across other chemical industries including us. So to that extent, you can see in that is getting reflected in the financial performance. Second question as far as pricing is concerned, we have been communicating to the investors at large that we are a company with a wide range of products of 20-21 products. From what we have seen from offers indicated by our competitors is that in respect of our 19 products, the price reduction has been significant, but it is in commensurate with the reduction in the input cost associated with it. In other words, the EBITDA margin for the product has not shrunk. It has been maintained. So what we have adopted as a strategy for this quarter has been to maintain the margins (as we are a very small player in comparison to the global supply demand), maintain the volumes and not show desperation for additional volume growth consciously because we know that will come at a cost because you have to sacrifice margins. In a market, where there is a slow-down, small players need to follow the price trend setters by the big players. Only in respect of two / three products there could be some supply demand mismatch where the reduction was much more than input price decreases. In terms of nocil performance, this impact was not material when compared to the overall EBIDTA levels or PBT nos are concerned.

Nirav Jimudia: Correct but Sir have we seen the dumping getting increased to India because of Chinese also not able to be sell their volumes in the domestic market because of the auto slow down has…

P. Srinivasan: Not significant. More or less levels are quite constant. It's basically the demand slow down but the dumping volumes or the import volumes coming into India has not seen a material change. It is going to come down. What is more important now is that the tire customers in domestic industry as well are experiencing production cuts ranging from three days, five days, seven days depending on location to location so that is impacting the demand for sales volume.

Neerav Jimudia: Sir the second question would no longer term perspective, if you see from 2012 to 2018 where we have commissioned Dahej and then we had increased volumes plus antidumping duty which has also helped us in getting the protection in the domestic market and increasing our volumes. But on the cost side what we have seen is that absolute cost have not gone up, so with the increase in the volumes our per kg cost have come down. Like power and fuel employee cost on a per kg basis has come down with increase in the volumes?

P. Srinivasan: That is very common to any business if it is in an expansion mode and as and when the volumes go up, the optimization of cost does happen. There is nothing unusual about it. And this will continue to happen as we complete the 425 Crores expansion and we ramp up the capacity. That is clearly evident in our investor presentation in the margin chart over the last five years. If you see the value addition percentage, which is at 55% or 54% today, okay. EBITDA is about 29%, which means the convention cost over value addition is about 27%. In FY2013, it was 31%. Now this 31% to 27% has actually a reflection of the volume increase, the cost saving measures like energy optimization measures, the fixed cost overhead distributed for a larger volume, these are the benefits which you have seen. This is further going to get reflected in the peak capacity when the post Dahej expansion or Navi Mumbai expansion of 425 Crores gets ramped up to 100%. So in a long-term scenario, this 31 has already come to 27, maybe I look at some more benefits out of that reduction in the coming years.

Nirav Jimudia: I asked this question as I was trying to understand it antidumping duty may go away possibly in June, July?

P. Srinivasan: It is a little speculative or premature for us to arrive at that decision. The antidumping duty today is valid till End July 2019. We have been indicating to the market that the impact of antidumping duty is about 40 Crores in current volumes, maybe an increased volume scenario 50 Crores. , What is going to happen after July 2019 is anyone's guess, I think we have to wait for the election scenario to get over and probably from there we can take on.

Nirav Jimudia: Correct. Because what I was trying to understand is with this duty going out and if we try to save some cost in terms of the operating leverage and the cost optimization, which you rightly explained, then it will try to nullify?

P. Srinivasan: It is a welcome suggestion and we will definitively implement it. There is nothing wrong about it and we will welcome that suggestion.

Neerav Jimudia: Got it. Sir and the last question from my side would be in the last conference call you have mentioned that we have seen a new market like US opening to us. So have we seen some scenarios?

P. Srinivasan: Yes. We have started supplies. In fact modest volume of 500 tonnes per annum has already started. I am talk about 500 tonnes per annum, and not talk about big volumes, so it is modest beginning.

Nirav Jimudia: Okay. But when it has started Sir any indication like from which month?

P. Srinivasan: Yes. Late December supply started and will reflected more from January

Nirav Jimudia: Okay Sir. Thanks for the answers. If I have any further questions, I will come back in the queue Sir. Thank you and all the best Sir.

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

Nisarg Vakharia: Sir. Just one question, Sir you rightly mentioned that the buyers on the auto side has become cautious because of the raw material price collapse, till when do you think further inventory levels have corrected or do you think that one more quarter it will take further inventory levels to correct?

P. Srinivasan: Okay. We would like to clarify that the inventory coverage at NOCIL we have a legacy cost and that is going to percolate even the next quarter. The flattish performance in terms of volume or profitability, we do not see that performance changing significantly. It will be around the same level. So maybe what we hear from the market situation is that the prices seem to have bottomed out. When we discuss the supply chain scenario with business associates or even find out the competition offering in the market place, we get this impression that prices in general seems to have bottomed out. We are expecting an upward movement in prices say from end of March or there about, so we are trying to say this negative or this slow down trend is continued till March or there about. We are hopeful that corrections are bound to happen sooner than later both in our input as well as our finished goods prices.

Nisarg Vakharia: Sir have we let gone of any volumes to protect our margins?

P. Srinivasan: We could have gone for an aggressive pitch if we wished to do, but we would not have got any significant incremental profit margin, so that is the reason we took a cautious call. This is the situation where you have to go for volumes or you have to go for margins, we chose to go for margin protection and probably in hindsight the decision seemed to be working well. Moreover it is not advisable for a small global player to get into the price war as we may get into a never ending price war with bigger players from China where government policies play a major role in the price war.

Nisarg Vakharia: Sir till when do you think we can take the decision of let going your volumes to protect our margins?

P. Srinivasan: Market will correct itself. I would like to clarify few things here. When we start analyzing the data of input and output prices over a three to four years horizon, the input prices are much higher than current levels, but the finished good prices are much lower than the current levels offered by Chinese competition, which in effect reflects the cost of production of China has gone up and will be operating at higher levels due to the environment compliance cost. On an index level what it was 100 maybe three years ago on a product, it has gone to 120, the input cost for that day was 70, today it is 60, so imagine delta. The delta is growing up. So on raw material price, these raw material prices are 10% lower than what was originally witnessed but the finished goods prices have gone up by 20% higher. The delta has increased which indirectly confirms the belief that the cost of compliance is quite significant and it is going to be there permanently unless they do a drastic technological change.

Nisarg Vakharia: Great. Thank you so much for answering my questions and all the best to you and Mr. Deo.

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

Dhaval Shah: Good morning Sir. Sir what was the delta for aniline currently?

P. Srinivasan: No, basically the aniline delta average over five years horizon, which we are saying, is about \$400 - \$425. We are hopeful to get into contract something around USD 325-350 levels over the spot benzene.

Dhaval Shah: Correct and what is the start scenario right now?

P. Srinivasan: It is more or less same now.

Dhaval Shah: Okay and Sir what was the deviation in the volumes sold for Q3, compared to what you would have expected?

P. Srinivasan: The guidance which we gave in November 1st in the last investor call was we were planning to grow at 10% per annum for this year but because of auto slow down, which is quite significant, we believe we will be flattish for the second half. The first half we have grown at 10%, so on a year we are looking at 4.50 - 5%.

Dhaval Shah: Okay and just again clarifying, so from next two quarters, you will be focusing more on the margins, margin protection?

P. Srinivasan: Dhaval if others are suffering minus 20% negative growth, and if we are doing a flattish growth I think we can say that NOCIL seems to have gained some advantage.

Dhaval Shah: No, no, definitely and Sir China capacity has started which was pending since sometime?

P. Srinivasan: Please keep in mind that this capacity was set up about eight months ago and the production came just now.

Dhaval Shah: Sure Sir, this was factored in and it was pending, which has come on stream now. Right?

P. Srinivasan: Correct.

Moderator: Thank you. Next question is from the line of Ashish Kacholia from Lucky Investment. Please go ahead.

Ashish Kacholia: Good morning gentlemen. My question pertains to our export opportunities. Since we have got lot of registrations with the customers and particularly as you mentioned US market is open to us, is that kind of playing out as we are expecting because it could have taken order of the growth shortage in terms of volumes?

P. Srinivasan: I think this export markets or export business to US market has made a modest beginning of 500 tonnes per annum from January 2019 onwards. We intend to consolidate our position in the coming quarters. Typically, a tyre company whenever they take a new location volumes they first test it for first supplies and depending on the successful result and understanding of the delivery commitments, pricing, etc., the consolidation or increase in volumes share will come thereafter.

Ashish Kacholia: Thanks Sir. Thank you very much.

Moderator: Thank you very much. Next question is from the line of Udit Gajiwala from SMC Global. Please go ahead.

Udit Gajiwala: Thank you for the opportunity and just one bit of clarification on the capex side that is the phase II, which will get commissioned later during the year. So the presentation states that it will be completed by September or October 2019, so Sir when can we achieve the full capacity utilization of both our phases?

P. Srinivasan: This is what we have been communicating quite regularly. Whenever the capacity comes in place it is not that the capacity can be ramped up straightway. You need to give samples when it is a new location or a new product or a new technology. And various approvals are required if any of these three parameters are encountered, the tyre industry will seek a special approval. We have to take the approval before the commercial order starts. So we believe by October 19 to December 19 the samples will be drawn. Typically the tyre approvals takes three to six months, so the volumes commercials will start probably from April or June 2020 depending on how each customers behave and so therefore the ramping up which we see is over three years and our endeavor is to do much faster than that but on a safer side, we would say three years is the optimum project for us to ramp up the 100% capacity.

Udit Gajiwala: Right. Thank you and the last thing is Sir that are we seeing any slow down in terms of orders? Not from our side, but from the customer side after the slow down in auto sector are any of the tyre companies slowing down their orders?

P. Srinivasan: Yes. Their procurement levels has come down because their operating rates are coming down. So that is the reason we are giving the guidance the flattish now.

Udit Gajiwala: Correct. Thank you so much Sir. All the best.

Moderator: Thank you. Next question is from the line of Nikhil Kale from Asian Market Securities. Please go ahead.

Nikhil Kale: Sir what has been the dips in our realizations for the quarter?

P. Srinivasan: For the quarter, there is not a significant dip, it would be 2% to 3%.

Nikhil Kale: So do we see there is a dip being a little more pronounced because once we pass on this prices, lower RM prices to the customers in the next quarter?

P. Srinivasan: I think we would like to clarify very clearly again. It is important that the EBITDA margin is protected, prices are reflective of the interim prices, the crude prices and thereafter. What is more important is that delta between the input and the output prices, and what we have seen so far is we are maintaining that thing and we hope to maintain the same levels even from January-March quarter if not increased thereafter.

Nikhil Kale: Sir just a followup on this, so because we pass on the prices with a quarter lag, that might also be one of the reasons, lot of procurement has been shifted to the next quarter, so if we just hold on to our margins, would it be the case that some of the customers might really want to then look at some other players in terms of if the pricing for them?

P. Srinivasan: No. I think this has been communicated in the past. See what happens is in the tyre industry what is the approvals are granted, you are an assured supplier, the allocation percentage may undergo a change depending on your price positioning. In simple terms, if 25% allocation is supplied to a particular tyre customer depending on your price offering that 25 may get altered down to 20 or if you price levels are very favorably, it may go to 30 and I am just giving you a very wide range of 20%. The issue is the volume will be allocated because once your approval is registered, the approval has to be validated through supply. You cannot just say your approval is on paper. Approval has to be demonstrated by regular supplies to the tyre industry. So in that sense, no tyre industry would like to disconnect NOCIL, discontinue NOCIL more so as Mr. Deo earlier point where we are a non-Chinese supplier. Please understand this industry unfortunately has China dependency of 70%-75% Chinese supplies, originating out of China and only 25% outside China, and we are the only player out of the non-Chinese category to supply the entire basket of wide range of rubber chemicals. This is a very important score, which we would like to communicate. This is a very important aspect. So please keep that in mind.

Nikhil Kale: Sir the second questions is apart from China Sunshine, which has already stated by them, are we seeing any other capacity additions in China?

P. Srinivasan: No. In fact we are hearing news from other competitor, I do not want to name them, one of their capacity is getting closed in one location, it is getting relocated, so there could be some supply constraints coming out in the next six months, number one. Number two, guidance from a Chinese competitor has recently indicated their intention about increase in pricing scenario going forward in the next six months.

Nikhil Kale: So there is news as that because there has been slow down now witnessed in China because of all the trade tension and then China then going lower on their compliance, all this there is no validation.

P. Srinivasan: I would like to clarify. It is not lower on compliance. The compliance tightening has relaxed a little bit but as compared to December 2017, it is still high. And that can be seen in their offerings in the pricing because their offering pricing are much higher level than what they were used to be, this aspect is very important. The price level barriers have undergone a significant change. They are now used to be as low as what it used to three years before. They are at a much higher place.

Nikhil Kale: Okay Sir. Thank you so much Sir.

Moderator: Thank you. Next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Thank you very much Sir. Sir my question is to Mr. Deo. Sir broadly just I wanted to understand about two to three statement we made during this call is that when we started the expansion scenario looks to be better for international market and second we are saying that we are the only manufacturer other than China providing on certain markets, it is very clear that we are globally competitive and we want to be a larger global players, that context, if you can little bit explain for next two to three year how you see the picture, what type of ability we yet to build this new capacity coming from say 55000 to 1100000 tonnes in terms of tonnage what we are expanding, how you would like give a thought on this situation where China coming back or dependence on China or so many incidences you want to reduce their dependence on China, so how you will be able to utilize these opportunities, something you are in detail whatever you can?

S.R. Deo: Okay. As I explained you due to the last year supply disturbances, the global tyre industry have started looking for a much reliable supply for their rubber chemicals, NOCIL has a presence in global market from last more than 25 years. All the global tyre industries and the major ones are already our customers. What we see in our discussions from last one year that they would like to support NOCIL in terms of increase in the volumes and obviously since we have a relation this will continue. Now the constraint which NOCIL had in terms of volume is getting removed in 2019 because we already have commissioned 170 Crores so we have volumes, we are going to commission the next 250 Crores by October and the volumes will be available. So NOCIL will have volumes and NOCIL will have an opportunity to get into the exports market because as just now Mr. Srinivasan has mentioned that the tyre industries are looking outside China as a reliable supplier and outside China the reliable supplier who has the complete basket of rubber chemicals is NOCIL and that is the greatest opportunity for NOCIL to grow into the export market. The second thing, which has happened in the trade war, now the first question came in, in terms of trade war under products being dumped into India. Now you have to look at it whether you look at it as glass, half full or half empty but this trade war has opened up US market and it is coming at the right time when we are expanding the capacity. So as we had foreseen the growth in the export market when we envisage the projects, we are finding that our assumptions at that point of time are exactly coming in the same line. That is where the growth will come. The growth will anyway come in domestic market because the domestics are anyway growing at 8% to 10% and the growth will come out of export market since the tyre industries are looking for a sustainable quality manufacturer out of China and this is a very large potential for NOCIL.

Sunil Kothari: Right Sir. Thanks for that and Sir last question is to Mr. Srinivasan. Sir you mentioned that the prices has been dropped by around 2% to 3% in current quarter, so this trend is now bottoming out or what you see any?

P. Srinivasan: It will be in January, March quarter also because corresponding reduction in input cost, and corresponding reduction in selling prices. We will be witnessing that that is why our guidance has been flattish trend, flattish performance for January-March.

Sunil Kothari: But flattish means you want to increase little bit volume and price will drop.

P. Srinivasan: No, flattish in term of volume as such.

Sunil Kothari: Okay and price will again drop?

P. Srinivasan: You will see a reduction in selling prices, correspondingly a reduction in input cost so therefore the EBITDA margin what you are coming do more or less will be stable.

Sunil Kothari: Right Sir. Thank you very much. Thanks a lot.

Moderator: Thank you. We take the next question from the line of Nav Bharadwaj from Anand Rathi. Please go ahead.

Nav Bharadwaj: Good morning Sir. So just a small question, could you give a guidance as to what volume growth can we expect in the next year based on the capacity expansion?

P. Srinivasan: 2019-2020?

Bharadwaj: Yes.

P. Srinivasan: 2018-2019 I think we have revised our revised volume guidance to 4.50% - 5%. 2019-2020 most of the capacity should be in place, so it will be subject to some approvals. We are seeing a significant growth in volume. We anticipate a significant growth in volumes more than double digit. I would not like to mention the numbers because we have to finalize the business plan as we go along. But I think that can be more seen somewhere once the budget gets finalized but independent of that our endeavor is to ramp up the capacity at the faster pace than what it is. And we are quite confident that it will be not a single digit. It will be more than double-digit growth.

Bharadwaj: So as a safe to assume a flat to positive price growth and a double-digit volume growth?

P. Srinivasan: Yes. More than double digit I am not saying double digit.

Bharadwaj: Okay. Thank you. All the best Sir.

Moderator: Thank you. Next question is from the line of Pawan Kumar from Ratnatraya Capital. Please go ahead.

Pawan Kumar: Sir, when we talked about 40 Crores impact on antidumping duty were we talking about at EBITDA level or PAT level, what level were we talking about?

P. Srinivasan: This is EBITDA. Not PAT. When we are talking about PAT, then I am talking about 28 Crores.

Pawan Kumar: Secondly the Chinese capacities whatever were closed down the last year, the smaller ones.

P. Srinivasan: We have not heard anything coming back in fact most of them are small players. They are virtually out. We are hearing some more major player’s capacity getting re-shifted to out of the city location to interior location which means that it will be a potential supply disruption scenario other than the announcements of two competitors in terms of expansions we have not heard any other significant expansions announced by the Chinese competition, just for your information.

Pavan Kumar: Okay so by at least for the next quarter, supply constrains hold?

P. Srinivasan: Yes.

Pavan Kumar: Okay. Fine Sir. That was it from my end.

Moderator: Thank you. Next question is from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Thanks for taking my questions. Just taking the earlier question, this 40 Crores impact is for nine month, correct?

P. Srinivasan: We have been giving a guidance of 40 Crores per annum on the volume of 2017-2018 and will go to 2019-2020, this probably may increase little more because the volume will undergo a change. But antidumping duty at EBITDA level is pretax.

Rohit Nagaraj: Okay. Fair enough. Sir second question in terms of increase you have seen that in the last quarter because of the China US trade war, the inventories in the system have come down, that is the fair understanding correct?

P. Srinivasan: Yes. Inventories are coming down. In fact our strategy has been to buy minimum raw material inventory to ensure that we minimize the effect of legacy cost especially in a falling market.

Rohit Nagaraj: Right and product inventories have also come down.

P. Srinivasan: Product inventory is very reasonable. I think one month inventory is nothing great.

Rohit Nagaraj: No. I am just talking about the industry wise because the pricing and lot of factors the dynamics are changing, the industry wide inventory has been coming down, so is it safe to assume at this inventory level will continue or if demand picks up?

P. Srinivasan: Basically manufacture has two choices to run the capacity at 100% and create inventory because he is optimizing the cost, etc. The second option is to have a flexible production plan in aligning yourself with the marketing conditions. We have gone for the later. We have deliberately consciously trying to scale down the productions wherever we feel the necessity to do so, having said that fortunately this quarter we are managing the inventory management through shutdown also. There is a maintenance shutdown as per the chemical industry safety norms. So that may affect us for a few weeks or 10 days maximum. So I mean business wise we do not see any accretion to inventory resource significantly.

Rohit Nagaraj: All right.

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

Rishabh Shah: What is the current prices of PX13 and correspondingly the landed cost of same product imported from Belgium?

P. Srinivasan: That is price sensitive information from a business interest. I would not like to disclose that.

Rishabh Shah: At least you could tell me that price difference between ADD impacted products and similar products, which are imported?

P. Srinivasan: I think please respect, these are all business sensitive information. We would not like to reveal it at this in the open forum. Please understand our position.

Rishabh Shah: This may be repetitive question. I just had to clarify. There were mention in earlier concalls that the worst-case impact of ADD going away, and EBITDA margins would be like 27% in FY2018, which has come back to 23%?

P. Srinivasan: 1000 Crores turnover 40 Crores EBITDA is 4%.

Rishabh Shah: Okay.

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

Anand Bhavnani: Sir just wanted to understand if our exports pan out as we had planned at the time of capacity commissioning, what kind of volumes are we expecting broad numbers and let say 2020, 2021, 2022, see your outlook broad set of tonnage?

P. Srinivasan: See it is nice to have a strategy, nice to have a vision, nice to have plan, but what is going on the ground is something we need to completely different. Then we had a drawn of business plan, no one assumed what Mr. President D Trump is going to do. So it is too premature or too early to comment on what's our volume targets we have, we have given a guidance that if the export mix in the revenue basket is 30% today, long term you look at 40% besides this we cannot afford to give any more guidance.

Anand Singh: Okay. Thank you Sir.

Moderator: Thank you. Next question is from the line of Dipan Shah, individual investor. Please go ahead.

Dipan Shah: This is just a carry forward to earlier question. You said that next year you are expecting a strong double-digit growth now if I get an understanding or more color like if the domestic market remains the way it is today, in the sense that there is a slow down which persists, so just trying to understand whether the strong double-digit growth is predicated on a strong export market which is new clients, which you are started getting or is it more predicted to recover in the domestic market?

P. Srinivasan: I am answering the question into two parts. We were not there in a one single product, which is where it was 100% import dependency the customers in India, we are going to capture some portion of that market share and customers are also keen to offer that volumes to us. Second we are also saying that tyre company expanding we are expecting some new clients coming up, so any new clients coming up, any new locations coming up for the existing tyre costumers automatically volume allocation get enhanced and allocated to NOCIL. Now the third part is yes exports we just said in the US market has just opened up with the modest beginning of 500 tonnes per annum. We believe we will also increase that share also. Having said that then we have this zinc latex product, which is showing a good demand growth. We are increasing the capacity there also, which we did in a big way, it is not a significant capacity, but looking at the business prospects, what is panning out of South East Asia especially Thailand and Malaysia. We believe there is some scope for additional volumes there.

Dipan Shah: Okay. Thank you very much and all the best.

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

Jigar Jani: Thank you. Good morning to you gentlemen. Couple of questions one in your phase one there are two expansions that had happened, one in the Thane site and another one in the Dahej, so I believe your Thane site has started much earlier?

P. Srinivasan: That we announced in end of June.

Jigar Jani: Yes, so I just wanted to ask how much of that capacities ramped up and whether that is now fully utilized?

P. Srinivasan: No, it is not fully utilized because there are two issues. There were momentary period where approvals were awaited from few customers number one. Number two, the auto slow down came in, so having said that we expect that particular facility to utilize with - end of this year.

Jigar Jani: So end of FY2019?

P. Srinivasan: Not FY2019, I am talking about calendar 2019 of FY2019-2020, which should be 100% utilization.

Jigar Jani: Okay and the second one just got commissioned right in December 2018, which is the B part?

P. Srinivasan: Yes, B part.

Jigar Jani: What would be the actual capexes, could you give me the split? How much is spend at the Thane site and how much was at the Dahej site for one A and B?

P. Srinivasan: We have just commissioned now. So my finance team is going to do the cost things and whether there are some GST tax credits and other things what is the exact amount, capex, I will determine maybe after a month, maybe you can drop in a e-mail to SGA, we will communicate to all in due course of time.

Jigar Jani: Sure. No problem.

Moderator: Thank you. Next question is from the line of Sagar Jethwani from Karvy PMS. Please go ahead.

Sagar Jethwani: Sir in the last concall you guided that there are some products in the sampling stage, so information was not revealed, so just wanted to know how is the response from the market?

P. Srinivasan: Response from the market is all the sampling products, which have given the customers, are getting approved very religiously as per the normal protocol.

Sagar Jethwani: Sir Can you bifurcate between export and domestic growth this quarter?

P. Srinivasan: I do not have the numbers right now, but more or less exports have shown a more or less similar growth at domestic levels number one. Number two what is more important this quarter we have reported a flattish guidance, flattish volume what was September, what was last year, the same volume is reflected now.

Sagar Jethwani: Sir last question. So how many new customers are in pipeline Sir?

P. Srinivasan: This is an industrial application business unless some one sets a rubber application industry only then the new customer gets added. Having said that we are catering to almost 3,000 non-tire pan India customers, we are catering to all the global tyre countries of the world, you mean any global tyre company we are accredited and approved vendor or supplier. So it is not a retail consumer market where one has to identify new customer. It is more on application driven industry as and when any one sets up a new plant automatically NOCIL gets added to that.

Sagar Jethwani: Good to know that Sir. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Viraj Parekh from KR Choksey. Please go ahead.

Viraj Parekh: Good morning Sir. Thanks for the opportunity. I just had one questions Sir. Sir with respect to our latest capex that occurred at Dahej is what is the timeline we should consider for its ramping up, how much time?

P. Srinivasan: We are taking about 3 years after approvals, basically there is an approval registration process, it takes three months, and some customers take six months, so it depends on that. But having said that we are looking at ramping up three years, but if it is possible for us to ramp up, much earlier, we would more than happy to do that.

Viraj Parekh: Okay. Sure Sir. That is it and all the very best.

Moderator: Thank you. Next question is from the line of Pritesh Chedda Lucky Investment. Please go ahead.

Pritesh Chedda: Thank you Sir. Sir considering that the Q3 had flat volume which means that 4% and 4.5% of revenue growth will be a combination of mix value ad and price fall, so is that the number, which should be indicatively taken for future quarters or there is an element of further price drop to that 4% top line or 4% price led growth?

P. Srinivasan: I think compare to the last quarter we are talking about 2.5% price drop and as we believe that 2-2.5% price drop is expected in the March quarter as well. But having said that the volume the EBITDA margins will be maintained because the input prices also correspondingly come down.

Pritesh Chedda: So which means that this 4% and 4.5% product mix and price decline growth should be now incrementally looked at about 2.5%-3% with the incremental 2% playing out more that is how I should read it?

P. Srinivasan: We are talking about 260 Crores revenue for December quarter, we are looking at 3% mix, 7.5 there about production and price is expected. But correspondingly the input cost also come down significantly.

Pritesh Chedda: There is a delta on gross margin there because of higher material price drop?

P. Srinivasan: You can say that but we also have the legacy cost so our guidance is to report a flattish volume growth and a flattish EBITDA numbers.

Moderator: Thank you. Next question is from the line of Siddarth Mohta from Principle India. Please go ahead.

Siddarth Mohta: Good morning Sir. Can you just enumerate the new plant in terms of returns, would it be similar to the existing plant in terms of the ROCE, the capital efficiency that is question number one and question number two related to that I mean you mentioned that you will be significant second, third supplier in some of the plants and geographies where you are not very strong or not present at all, so would this give you significant leg up because now you cover all the three sub-segments where you have, retar and re-vulcanization so on and so forth.

P. Srinivasan: We were there in most of the things, may be one or two products we were not there that also we are filling up the gap.

Siddarth Mohta: I think in terms of product profile you have covered the gap entirely, so does this now kind of be a significant launch pad for you to gain approvals across significant plants wherever you wanted to be?

P. Srinivasan: Definitely a launch pad in terms of volume, in terms of capability to service the customers on a long-term basis in terms of capability to do service a wide range of produce including the one we were not present earlier that is the significant launch pad, we do agree to your question.

Siddarth Mohta: Question number one if you can, return profile of the new expansion would it be significantly comparable to the existing returns?

P. Srinivasan: I think we have answered in various forums about the EBITDA guidance at various period of time. We believe the business is still looking healthy, on two major factors. One there is a significant corrective action taken place at Chinese end in terms of cost profile because of their environment compliance. Two, quite a few majority players of Chinese competition are listed. So they are also equally accountable for numbers performance or margin guidance to their investors and three we believe the customers at large are looking at as supply chain reliable dependable quality conscious, technology driven, supply chain other than China. That is a very significant aspect and that is where we tend to score because in the non-Chinese category none of the other players have displayed this level of business significant amount of capex investments.

Siddarth Mohta: No Sir. Sorry. The exact question was that whenever you put up a Greenfield as opposed to a Brownfield is the return profile comparable?

P. Srinivasan: In a Brownfield it will be much better because an infrastructure cost is not there as compared to Greenfield.

Siddarth Mohta: Yes so in terms of future cash allocation of whatever free cash flow that you generate would it be significantly back in the business or how do you look at it?

P. Srinivasan: Momentarily if you look at it because of the auto slow down, we are little cautious about further investments. We will take an appropriate call at the appropriate period of time. Yes we understand that we have to consolidate our position in rubber chemicals and we will not hesitate to do so if a situation does arise.

Siddarth Mohta: Great Sir. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen due to time constraints that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

P. Srinivasan: We all thank you for listening to our guidance notes and we hope we could answer most of your queries. Anyone who is remaining unanswered, are free to send an e-mail to SGA or at finance@nocil.com or SGA where I think that is e-mail ids are displayed in the investor presentation. We will be pleased to resolve your queries. Thank you so much.

S.R. Deo: Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of NOCIL limited we conclude today's conference. Thank you all for joining us. You may disconnect your line Sir.