"NOCIL Limited Q4 and FY21 Earnings Conference Call"

May 28, 2021

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

Moderator: Ladies and gentlemen, Good Day and welcome to the NOCIL Limited Q4 and FY21 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the belief, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

S R Deo: Thank you ma'am. Good morning and very warm welcome to everybody present on the call. Along with me I have Mr. P Srinivasan our Chief Financial Officer and SGA our Investor Relation Advisors. I trust and pray that you and your families are safe, healthy and secure. Hope you all have received our investor presentation by now for those who have not you can view them on stock exchanges and the company website.

As stated in our earlier calls and communications the performance of the current financial year was impacted due to lockdown in Q1 FY21. As the economy started to unlock gradually we saw our performance started to improve from July 2020 onwards. Our business operations started to pick up pace and we saw a month-on-month improvement in our production levels. It is commendable on the part of the NOCIL team that during this challenging environment we manage to achieve the highest ever sales volume in FY21 expanding the year by about 14% than when compared with degrowth parameters which was largely prevalent for most part of H1 FY21.

As already stated during the previous investor call the tyre import restrictions did help the domestic tyre customers to operate at high utilization for the last 7-8 months of FY21. The pickup in volume is backed by uptake from tyre majors in domestic as well as international markets. The demand from them has been driven by a buoyant replacement market and an improving OEM segment. Revenue have grown by over Rs. 47 crores in Q4 FY21 indicating an increase of over 17% sequentially as against the similar increase in our input cost.

Going forward we expect further price increase sequentially to get reflected in QE June 21 earning as we expect price increases in some of our inputs. Resultantly on the revenue front, we could achieve a growth of 9% on a full year basis in view of the price increase put into place from January 2021. This was indicated earlier to all investors during Q3 FY21 investor call. With improvement in opening of economy we had expected to improve our volume guidance for the future. At this juncture we are not in a position to give any growth guidance for FY22 in view of the recent surge in the second wave of COVID-19 pandemic. We shall be able to give our estimates for FY22 during our next earnings call as situation due to pandemic is quite fluid.

The recent expansion plans announced by some of our domestic tyre customers augers well for our business. Given that our capacities are in place, the unutilized capacities will enable the company to continue the growth trajectory going into the coming years as we worked over being valued as a reliable partner to all the major tyre companies. The China plus strategy has played a pivot role in achieving that goal. It may be recalled that we had capitalized phase 2A of Rs. 140 crores last year and as indicated during the previous earning call we have commissioned phase 2B amounting to Rs. 160 crores in Q4 FY21 after successful trial runs. Apart from the small capital work in progress of Rs. 14 crores all the pending capital WIP at the beginning of FY21 have been commissioned and capitalized in the books of accounts.

Quickly, on the industry scenario, the global consumption of rubber both natural and synthetic rubber have shown signs of upward trend. The annualized consumption for the first 6 months of calendar year 2020 showed a degrowth of approximately 15% compared to the corresponding period of calendar year 2019 whereas the annualized consumption for calendar year 2020 degrew by 6% indicating improved consumption during H2 of calendar year 2020. The auto numbers also echoes the same trend of volume pickup aided by increasing demand for OEM leading to revival in demand for tyre measures in both OEMs as well as replacement market. The OEM demand is returning after muted performance in last couple of years as well as disruptions due to COVID related challenges in the initial part of the year.

As a matter of additional information, the monthly rubber consumption has reached to early 2019 level. With NOCIL being one of the key player in non-Chinese area with presence across entire portfolio of rubber chemicals the outlook seems to be positive. Our aim is to achieve to continue the ramping of our capacity utilization and if these indicators sustain, we are reasonably confident to achieve 100% utilization by September 2023 that is all from my side.

Now I would like to hand over to Mr. P Srinivasan to give you update on the financial performance.

P Srinivasan: Thank you Mr. Deo and good morning to everyone. Hope you all are doing quite good and are safe. Let me take through the financials of the company for Q4 and annual FY21:

The performance for the year of FY21 are strictly not comparable with the same period last year of FY20 in view of the Q1 FY21 performance which was impacted due to lockdown. On the sales volume front the volume grew by 49% taking base of Q1 FY20 whereas as compared to H1 FY21 the growth during H2 FY21 has been 75%. On a month-to-month basis as stated by

Mr. Deo our production has picked up and we are further ramping up under strict safety and hygiene protocols.

On the sales revenue parameters:

The net revenue from operations for Q4 stood at Rs. 322 crores as against Rs. 275 crores from Q3 FY21 a sequential growth of 17%, highest ever quarterly revenues from the rubber chemical business. The growth has been largely driven by better volume offtake for the reasons already stated by Mr. Deo and also the price increases which came into effect from January 2021. For FY21 revenue stood at Rs. 925 crores as against Rs. 846 crores for FY20 indicate an increase of over 9% as was already indicated during the Q3 FY21 investor call.

Coming to the value addition part:

The value addition for Q4 FY21 is at Rs. 142 crores which is at 44.2% of sales as stated during the previous earnings call our absolute EBITDA has improved during Q4 FY21. As indicated earlier in our earlier interactions with the investors we once again say that we had to incur an unprecedented high price of some of our inputs despite the building blocks not displaying such massive increases. This probably has happened due to temporary shortage of supply chain. We undertook this aspect keeping in mind the long-term relationship aspects with our key domestic and critical international customers.

The logistics aspects also delayed some import parcels with the result that we were forced to buy some spot buying to maintain and deliver our commitment to our customers. Operating EBITDA for Q4 stood at Rs. 50 crores as against Rs. 37 crores during Q3 FY21 indicate a sequential growth of 37%. Conversion cost showed an improvement sequentially by 175 basis points in other words what was 30% in Q3 FY21 it is now 28.3%. EBITDA margin as a result for Q4FY21 is now at around 16% as against 13.5% in the Q3 FY21 indicate an increase of 250 basis points. For the whole year FY21 the operating EBITDA stood at Rs. 127 crores.

Going forward with stabilization of input prices and steady improvement in capacity utilizations and having built capacities for the future, we are reasonably confident that our absolute EBITDA will show an increasing trend and the margin will also increase as both the parameters improves. Profit before tax for Q4 FY21 stood at Rs. 43 crores as against Rs. 29 crores reported in Q3 FY21 indicating a growth of improvement of 45%. For FY21 it is at Rs. 104 crores as against Rs. 152 crores for the FY20. Just to reiterate during FY20 we had the anti-dumping protection in the first 4 months. On the profit after tax the profit after tax for Q4 FY21 stood at Rs. 36 crores as compared to Rs. 22 crores in Q3 FY21. For the year FY21 it stood at Rs. 86.5 crores for the year. With this, we would like to open the floor for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: So, the first question is how much market share have we gained because of our volume push and the price increases that have been effective from Jan, has they been only predominantly to take care of increased cost or is there an element of increasing the trend in terms of consumption?

P Srinivasan: Rohit we can say what we have a data is for a calendar year 2020 as the March numbers are still yet to be finalized. Calendar year 2020 we are seeing a 6.5% degrowth in rubber consumption world over. In India, the rubber consumption degrowth was 5% as against that in performance of calendar year 2020 NOCIL recorded a growth of 5%. So, it is a fact that we have eaten some shares of other players. So, that is point number one. On your second question on the price increases we have already indicated that the price increases were in relation to the proportionate cost increases over particular finished product. So, it is not that we kept the value addition percentage or because when you are having high input costs regime you have to ensure that we are not supposed to load additional price increases to the customer than what is not necessary. So, we have maintain that absolute EBITDA parameters rather than percentage parameters.

Rohit Nagraj: Sir, the second question is now that our CAPEX is completely done and we will be having free cash flow generation over the next couple of years, from the capital allocation strategy what is the management expecting from a long term so I am not talking about one, two years, but from a two to five year perspective, how are we looking at in terms of the next lag of growth?

S R Deo: Rohit I think you have rightly pointed out that as we go along we will have basically the profitability going up. So, as far as the growth is concerned yes we are looking at the growth of the business, but at this point of time I would not be able to give you how exactly we look at the growth we would first see the challenges and uncertainties which are being faced at the current level in the market due to COVID and various other parameters and as we go along when we make consolidate our plans we will let all the stakeholders know.

Moderator: Thank you. The next question is from the line of Aditya Khetan from East India Securities Limited. Please go ahead.

Aditya Khetan: Sir, my first question is that despite some of the one off which we have taken in last quarter as you have told that a particular client had needed some supply due to which we had bought the raw material on spot basis and that had impacted our margin in Q3, but sir in this quarter also we are looking that our gross margins have only seen a minor uptake of 71 basis points only to 44%. I would like to understand that has the benefit to operating leverage has not kicked in and are you witnessing that to come in the subsequent quarters?

P Srinivasan: I think gentlemen Mr. Deo have addressed in his opening speech. We made a statement that these are disproportionate price increases in our input cost and you cannot adopt the same value addition percentage in a high price regime. What you need to do is you need to protect your cost positions and that is what we have done. We expect the price parameters to stabilize over a period of time and once the raw material price stabilizes all those value addition parameters which earlier was the guiding factor hopefully starts getting rectified and let the market stabilize I would say.

Aditya Khetan: So, sir if you can give a rough idea so how has been the Benzene and Aniline gap for the last three years as compared to the accelerator or anti oxidant realizations, is there any idea which you can give?

P Srinivasan: I think these are two specific questions maybe my request is you can address a separate query we will address it separately.

Aditya Khetan: Sir one more question when I look at the last year financial from FY18 to FY21 so that is 3 years, so consecutively we had seen a decline in gross margins I would like to understand like the factors besides removal of anti-dumping duty. Since we are a cost plus model and we can actually pass on the raw material pricing effect to the end, but that does not seem to be going for the last two, three years so what are your thoughts on this?

P Srinivasan: The first thing is till July 19 we had the anti-dumping duty protection which we have always said it is in the region of Rs. 45 crores per annum. Further, we have filed the new anti-dumping petitions in respect of 4 products and if duty gets accepted and approved etc. then some of those benefits can come in on the new cases which we have filed. Second is that a situation arose where the auto sector degrew by more than 15% of the last two years between October 2018 to October 2020. This resulted in a temporary excess supply over demand and obviously the competitors will try to push for their volumes and so the price pressure was there. I think what we have seen from December 2020 or January 2021 those excess supply over demand have got neutralized. At this stage what we understand at least based on what data which we are seeing is that the price corrections are happening in relation to the cost increases largely due to the supply demand mismatches has been settled. So, in certain products maybe the demand is more than the supply that is a separate issue, but what we are trying to say those corrections have happened and once these corrections happened then delta parameters all those get rectified over a period of time. What is more important is we have also taken a conscious call having setup the capacity you need to ramp up your capacity utilization and that is our priority. So, it is a mix of both. The good thing is the corrections have started happening as we go along these things will improve over a period of time.

Aditya Khetan: Sir, one last question if we look at a working capital cycle or the receivable days so that has shot up to around 190 days in FY21 the receivable days particularly so versus our average of 85 days to 90 days, so can we expect this to normalize in the coming years?

P Srinivasan: I think gentlemen you have missed the point basically you should relate the receivables to the quarterly sales. If you see the quarterly sales of Rs. 322 crores I guess the receivable is Rs. 308 crores which is directly proportionate to that and mind you, receivables include the revenue plus GST. So, if you look at Rs. 308 Crores, it includes the GST component of maybe 18% so it would be about Rs. 275 crores excluding GST. So, if you look at Rs. 275 Crs on a revenue of Rs. 322 Crs, it is about 80 days or thereabouts.

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

Rahul Jain: Sir, firstly on the high value products as what you have been mentioning in the couple of calls and also in your presentation that you have a strong position in high value added products, so as we speak today if you could share some more details on the high value products proportion in this year which has ended and how those plan out in the next two years to come?

P Srinivasan: The specialized applications revenue parameters as a percentage of total revenue continues to be hovering around 25%. Though we have plans to improve that percentage what we can say is today may be after 3 months we will be in a better position to give guidance on that.

Rahul Jain: And sir with regards to other expenses I believe you capitalized further CAPEX in this quarter, but other expenses have gone up by almost 16% - 17% whereas the volume growth has been around 3%, so is this increase related to the capitalization of the entire capacity and thereby capacity not being utilized. So, some of the expenses have come in this quarter at the same time how do we look at the other expenses part going ahead?

P Srinivasan: Gentlemen I think you missed one thing in Q3 had a stock change debit of Rs. 20 crores whereas in Q4 the stock change credit of Rs. 5 crores. So, when you have a stock change debit it means the production was not adequate to meet the market and you have sold out of the inventory. Whereas in Q4 when you have a Rs. 5 crore credit this production is equivalent to market demand or production is slightly ahead of demand. So, therefore the conversion cost as in Q4 sequentially compared with Q3 will be on a higher side that is point number one. The important point is we have seen the trend from say for the last 2 years or last 8 or 9 quarters we believe the conversion cost as a percentage of revenue is coming down what has been guidance so maybe it was at peak level of 35% in Q2 FY19-20 now today is 28%. So, we already have made an improvement of 6% to 7%. So, I think on that front we are making a conscious effort to bring it down over a period of time and those things will come as we ramp up more capacity utilization.

Rahul Jain: And sir just bit to just reconfirm of what you have mentioned in your initial remarks and also your replies to the earlier participants, we do understand raw material prices went through the roof, they have a sharp increase both in Quarter 3 and Quarter 4 and probably initial part of the new year and did I understand it right as we go ahead if the raw material prices are becoming more stable and probably follow a decline trend, but once we have increased our prices on the product and given the supply demand situation the raw material decline will somewhere get reflected into our better gross margins is that a fair assumption?

P Srinivasan: See if you are maintaining the delta, delta on a lower base will look higher and delta on a higher pace will look lower. When your absolute delta say for example it is 50 on 100 it is 50%, but 50 on say 120 it will be 40%. So, you have to understand that part it is a relative context.

Rahul Jain: Just a small bit with regards to the capacity addition in Quarter 4 given now that we have categorized the entire CAPEX expansion, so what could be the average capacity utilization in Quarter 4 and that will be in related to what total capacity you would consider that?

P Srinivasan: We have announced capacity of 90,000 tons during Q4 though additional 20,000 got capitalized commissioned in late last quarter of March 2021. So, if I look at the production parameters vis-a-vis the capacity setup at the beginning of the quarter it is about 85%.

Rahul Jain: So, you are saying 85% on 90,000 not on 1,10,000?

P Srinivasan: 1,10,000 has come now so that we are saying it will take September 2023 before we touch 1,10,000.

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

Nirav Jimudia: Sir, I have to two questions one to Mr. P Srinivasan and then to Mr. Deo. So sir when we add new customers in the export market so how much time they normally take for taking the incremental volume so let us say when they start with a particular volume and they want to take the higher volumes for their plants across all the geographies, so how much time they take for taking those incremental volumes across their several global plans and once they start taking the volumes, how is the stickiness of volumes with them, so if you can help us understand?

P Srinivasan: I think this is a regular aspect which we have to deal every quarter with every customer. In so far as international customers are concerned whenever we are discussing with the large tyre players you need to understand your long-term strategy and how deep you are committed to their requirements. So, if you are consistent enough to supply volumes on a regular basis I think the volumes will come in. Obviously, they will first try us with few plants, then they will expand it to their various plants. So, based on your satisfactory performance of commitment, deliveries etc. and also the commercial terms obviously, the improvement and volume parameters will improve over a period of time. Typically, it is very difficult to give any specific deadline that one customer may respond very favorably in one year some other customers may take 2 years or 2.5 years. So, it depends on customer-to-customer and product-to-product.

Nirav Jimudia: But sir if you can give us some example based on your past track record I am not talking about the future, but based on your past track record with the customers, how quickly they will ramp up the volumes so let us say if they are taking x so how quickly they go up to x plus 20%?

P Srinivasan: I think the only example which we can share probably is the US market becoming accessible to us post the US levying sanctions from China exports. So, maybe we started on x may be 3 years ago today we are at almost 3.5x to 4x and it is improving every year.

Nirav Jimudia: And sir the second question is to Mr. Deo when we see our largest competitor in China they separately mention the CAPEX amount they intend to spend on treating the environment waste, so just want to understand when we build out CAPEX what we have spent Rs. 470 crores in phase 1 and phase 2, how much is the CAPEX build up for treating environment or this was not required in phase 1 and phase 2 and we have not build up in our CAPEX numbers? This is one and a part question to this is I was just reading to one of the press release about our largest competitors so they have mentioned that they have reduced their power consumption per ton of finished goods by roughly 4.7% on a YoY basis, so if you can explain whether we also benchmark our power cost in terms of reducing per ton consumption every year or how do we set our benchmark for this?

S R Deo: Your first question about benchmarking NOCIL with Chinese competition. Now I would say that it is unfortunate that a Chinese company has to talk about a very specific investment on environmental issues because historically they were not paying any attention to environmental issues and now, they have to do for their sustainability and are spending money on environmental issues. In fact, if you really look at NOCIL, NOCIL has been extremely careful in terms of handling safety and environment. So, when we build our CAPEX in the CAPEX or when we build our technology the two major things which get addressed as a part of the CAPEX is safety and environment. So, we do not have to mention the separate numbers in terms of safety and environment they become a part of our CAPEX and probably that is one of the reasons NOCIL has very good recognition not only as a company with product, but with a company which has a very high level of sustainability which is now being emphasized by Chinese companies which NOCIL never had to do. So, I think that hopefully answers your first question. The second question will you please just give me a hint I will be able to answer.

Nirav Jimudia: I was just telling that so far as what you have mentioned in one of the press release is that they have reduced their power consumption per ton of finished goods?

S R Deo: Now let me tell you one thing I think if you recollect, we are basically ISO 9000/14001/18001, Responsible Care certified company. Also, we have been recently certified for ISO 50001 which is basically the energy conservation. Now one of the major aspects which are seen particular in 14001 and 50001 is a continuous improvement in terms of use of natural resources. Now when you talk of use of natural resources it obviously includes energy. So, basically the performance at the time of certification is not seen in terms of whether you are maintaining the standards it is always seen in terms of continuous improvement in the standards and I think all our auditors are extremely happy in terms of NOCIL's performance because in all the areas whether it is environment, whether it is safety, whether it is energy, NOCIL has been consistently showing an improvement in the performance. Again, I think the Chinese competitors probably have to impress upon that they are improving in this area which has been a culture of NOCIL maybe for last 40 years.

P Srinivasan: Just to add to what Mr Deo mentioned, in our director report there is going to be a mention of the conservation of energy and the benefit is about 5% during FY21.

Nirav Jimudia: So, Mr. Srinivasan like what you earlier mentioned to the earlier participant in terms of the gross margins on a higher base the percentage falls and on a lower base the percentage improves, but sir when I see your quarter-on-quarter numbers I think we have clocked a realization of 14% in a volume growth of 3%. So, let us say Q3 base was 100 and if we take 14% realization growth and a volume growth of 3% actually our gross margins improves by roughly 8% to 10%, so is this a correct assumption or am I missing something in between?

P Srinivasan: I do not want to get into specific numbers yes, but if you are expressing as a percentage, I think on a per kg basis there should be some correction because that is the reason your profit numbers are also going up if the volumes are not significantly increasing so that is mathematical derivation which you can do in any case. So, what is more important is when we are dealing with a customer it is more important to get the volumes, get the market and with the competitive price are we able to manage our cost within that price that is the challenge and that is a continuous challenge for across all products across all customers. So, what you are seeing as an absolute number at the end of the particular reporting period, but on a day-to-day basis when you are dealing with a customer you cannot get into that specific numbers, what we look at averaging and how do we do business as a whole.

Nirav Jimudia: So, sir safe to assume that whether the prices moves up or the prices moves down from the raw material point of view our endeavor would be always to protect the per kg margin?

P Srinivasan: Yeah that is the least we should do if not better because every entrepreneur would like to record profit and generate profits, but at the end of the day the competition, the market condition also influences a lot and in case it is a recessionary market these things get more challenging, but in a stable market, on a growing market these things get magnified or exaggerated or you start showing a better performance because of a introduction of new product or development on a high value products whatever you may call it.

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

Saurabh: Sir, can you give the breakup of domestic and export volumes mix in Q4 as well as for the FY21?

P Srinivasan: In volume terms for FY21 I think we should be 65-35 for domestic and exports. For Q4 maybe it is a slightly 67 and 33 probably for domestic and exports.

Saurabh: Sir, any update on the anti-dumping for the one product as well as for the three products what we have filed?

P Srinivasan: The investigations are currently on so we are yet to wait for the outcome of that which the investigations are on so those queries exchange of communications going on. So, we have not heard the final decision.

Saurabh: So, for the one product it should come any time?

P Srinivasan: Basically, it got hampered due to the second wave COVID in Delhi otherwise this should have come by this time so because of that it has got delayed a bit.

Saurabh: Sir, if you can just give broad like what percentage of NOCIL's portfolio would be these 4 products?

P Srinivasan: No, I think it is too premature to talk about it and it is not appropriate at this point of time.

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

Abhishek Datta: Sir, just wanted to know now that the Chinese economy is also reviving and their exchange rate has also actually appreciated on a YoY basis if I look at on a one year basis, are you getting more legroom to increase the prices for the end products?

P Srinivasan: See Abhishek the main point is being competitive. I think we made a statement in the beginning that the prices are basically competitive in nature. So, you have to look at what is it costing to the customer on a particular product for a particular volume and so long as it is the competitive range you get the business. What we are trying to communicate across to the investors is that there is an unprecedent increase in the input cost and therefore each competitor earlier were not in a position to pass on because the supply was excess of demand, but now in the last 4 months or 5 months we are seeing supply is equal to demand or some cases supply is shorter than the demand requirement that has enabled the price correction happening and that is how we are able to pass on the cost increases. Secondly, in case of NOCIL, we have additional capacities in place so that also plays well for us to offer additional volumes there were required.

Abhishek Datta: Sir Mr. Deo eluded to some price hikes which will be reflected in the month of June, so sir have you taken any subsequent price hikes post the January hike?

P Srinivasan: Yes. We have announced earlier to some investors in the present call, that in April 21 too, there are some price corrections commensurate to the cost increases.

Abhishek Datta: And sir finally if I can just again get utilization thing correctly so you are saying that 85% of 90,000 ton is for the Q4 average and what will be the peak utilization like 90% for the whole month 1,10,000?

P Srinivasan: 95% I think we said September 2023.

Moderator: Thank you. The next question is from the line of Niranjan S from Acuitas Capital. Please go ahead.

Niranjan S: So, we compare the gross margins for NOCIL as well as China Sunsine for the period of this March 21 versus H1 CY20, so what we see is the numbers from NOCIL have worsened drastically and whereas for China Sunsine has improved, to given the numbers NOCIL numbers it was 49% in H1 CY20 and now in this March quarter it is 45% and for China Sunshine improve from 23 to 31, so wanted to understand what is the disconnect over here?

P Srinivasan: What we have data with us is that the China Sunsine gross margin is about 40% today and we have the data from calendar year 2013 it starts from 36% to 40% over a period of 7 years whereas we are at 44 today. The second issue is that I do not know where you are getting this numbers of 23%, I am not able to understand, but what we have the data is 36% to 40% over the last 7 years of China Sunshine.

Niranjan S: I saw the press release for H1 CY20?

P Srinivasan: So, maybe there could be some element of expenses which is not forming part of raw material cost as far as NOCIL is concerned in case there are including part of the gross margin calculations. We do a very simple thing gross margin is sales minus RM cost.

Niranjan S: So, do you still stick to the guidance of 50% and as you mentioned in Q3 gross margins say long term or medium term?

P Srinivasan: I think Mr. Deo has answered that, the issue what he says is today we have a situation where there is a high price regime, high input cost regime therefore absolute EBITDA per kg or absolute EBITDA margin is what we are interested in keeping it or in other words protecting the delta as what we call it. So, as the thing stabilizes these parameters will improve.

Niranjan S: So, another question was we saw the recent release of China Sunshine so they mentioned that the focusing on continuous production and increase of capacities, so I want to understand how can you benchmark NOCIL in terms of them and how is it better compared to them?

S R Deo: I think this is a very tricky question to answer in terms of benchmarking the technology, but what I can tell you is as we have been saying we have a research center, we develop our technologies, and our endeavor is to create technologies which are world class. I think in the previous answer I also told you about environment. We also develop our all technologies for environment. So, as far as the technologies are concerned, I will still say that NOCIL is better than China Sunsine in terms of technologies. However, if you look at their volumes their volumes are far higher and that gives them the volume optimization advantage.

Moderator: Thank you. The next question is from the line of Levin Shah from Value Quest Investment Advisors Private Limited. Please go ahead.

Levin Shah: My first question is on this conversion margins so obviously the margins have come down and conversion cost has come down from like 30% to 28 odd percent, but we had previously mentioned that over the medium to long term we are seeing that this conservation cost should come down to 25%, does that guidance will stay I mean we are looking at conversion cost coming down to 25%?

P Srinivasan: I think we have already answered the first part from 35% or 34.5% we have come to 28% over a period of time and this not fully 100% of capacity utilization. So, when you go on to 100% capacity utilization these things will automatically get stabilized, and we are reasonably confident that once we touch 100% capacity utilization these parameters as a percentage of revenue 25% is achievable.

Levin Shah: Sir, my next question is on this export market so in the past we have spoken about supplying some quantity to some of the export customers and post approval and all testing at their front we would see ramp up in those accounts or clients happening, so where we are in that phase, have we started seeing incremental volume from these customers or it is still sometime away?

P Srinivasan: We are seeing improvement and If I am not mistaken, we have already answered to the previous investors on the call.

Levin Shah: So, are we engaging with other few clients where there is a possibility that we might see big volume uptake in future?

P Srinivasan: We are in regular discussions with all the customers and wherever there is a scope for additional opportunity to do additional business we will definitely explore and conduct the same.

Moderator: Thank you. The next question is from the line of Rushabh Sharedalal from Pravin Ratilal Share and Stock Brokers Limited. Please go ahead.

Rushabh Sharedalal: Just wanted to understand on this anti-dumping duty front, so what is the price of the imported PX-13 rubber chemical that is being imported and what is our price and what sort of a percentage of anti-dumping duty on it as a consortium we have made the presentation to the DGFT. What sort of a percentage of anti-dumping duty are we expecting on this PX-13?

P Srinivasan: As far as the anti-dumping duty determination is concerned that should be left with the discretion of DGTR (Director General of Trade Remedies). So, it is not our claim it will be known once the final findings are issued, we can probably know or quantify the impact. Number two as far as our pricing is concerned our pricing is CIF landed price into India plus appropriate custom duties and exchange rate so that is in effect competitive pricing.

Rushabh Sharedalal: So, I just wanted to know that what sort of a difference is there between the price that is imported and our CIF price, just wanted to understand that?

P Srinivasan: If CIF price is 100 and you are just putting exchange rate of 72 then 100 x 72 is 7,200 is the landed price plus normal duty of the 8% whatever it is. So, I think you should understand when foreign competitor is offering in India CIF say $100 the equivalent rupee parameters plus custom duty is what the domestic landed customer will buy from you. Unless you are competing there is no other incentive for the customer to come to you.

Rushabh Sharedalal: So, the imported price and our price is roughly the same, is my understanding correct?

P Srinivasan: Correct.

Rushabh Sharedalal: And just one more question on this anti-dumping duty only, what is the legal team at NOCIL trying to gauge of the situation that is being presently there so the period has been extended by 2 months, so what is the expectation of the legal team at NOCIL?

P Srinivasan: I think it is too premature the matter is under investigation it is not appropriate to make any assumption or comment on that. We have submitted our contentions now it is for the authority to decide and issue appropriate findings.

Moderator: Thank you. The next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

Sanjaya Satapathy: Your hesitation in giving a guidance for fiscal 22, can you just explain it like that how bad has been this Quarter 1 and if this issue of lockdown gets over let us say in Quarter 1 then what will be your expectation of full year number?

P Srinivasan: Gentlemen first point is what we said is while commenting on FY21 we said Q1 FY21 was bad whereas Q1 FY22 as compared to Q1 FY21 is definitely better and we would like to expand our capacity and pursue the growth, but once the lockdown gets opened up or once the economy starts opening up we will work out accordingly, but what we are seeing is the first one and half months or 50 days of sales what has happened is shown a good trend. The question is how long this lockdown will persist we do not know, but to summarize the Q1 FY22 volumes will be far better than Q1 FY21.

Sanjaya Satapathy: And how does it compare with Quarter 4?

P Srinivasan: That is too premature to talk about it today.

Sanjaya Satapathy: I mean you already know the Quarter 4 number?

P Srinivasan: We have Quarter 4 number, but we have this June month which is a bit uncertain. So, we do not know what is going to happen. Wherever possible we are able to conduct our sales, but there are challenges. So, it is little premature to talk about it.

Sanjaya Satapathy: And exports is no way going to mitigate the near term softness of domestic demand?

P Srinivasan: See the contracts are generally entered before the commencement of the quarter. So, once the export volume is fixed you have to supply as per that. There could be some minor tolerance a bit here and there that additional quantity we may export it but not otherwise. And logistics challenges are also there in exports, even in March we have had some delayed shipments which got postponed to April.

Sanjaya Satapathy: And the logistics issue which was there probably with Suez Canal etc., is that something which is not yet normalizing?

P Srinivasan: It is still not normalized there are some challenges.

Sanjaya Satapathy: And sir lastly I just want to understand from you that when you were in the middle of planning your next expansion plan, will that next expansion plan be simple expansion of current product lines or you have scope to decisively move into something which is different from your current product line both in terms of value addition as well as different types of products which will kind of give you not only scale, but also some kind of diversification benefit in times like this?

S R Deo: See basically as far as the expansion plans are concerned we continue to scrutinize various options. Now the options could be in terms of continue to expand in rubber chemicals, the options could be to look at the other products which are value additions and at the end of the day we look at the feasibility and then decide where NOCIL should grow. So, I think we keep both the options open and we will look at it as we go along.

Sanjaya Satapathy: And when do you think you will be able to share your plan sir?

S R Deo: I think right now since we are in the midst of COVID and there are lot of uncertainties in terms of everything, in terms of even the manpower availability I think we will start looking at the real time in terms of implementation and then we will come back to you.

Moderator: Thank you. The next question is from the line of Deekshant from DB Investments. Please go ahead.

Deekshant: Sir, my first question is regarding the DGTR and second about allotment of ESOP around 2004. Sir going on to the allotment first I see that senior management has been allotted with 1,15,075 shares, so can you please enlighten us who is the senior management has been allotted the shares and is Mr. Srinivasan a part of this?

P Srinivasan: About 20 employees are being extended ESOP grants as per the board remuneration committee and these grants are the ESOP policies which is valid for 10 years from the date of the respective grant and each employee is given the freedom to exercise as per his needs subject to the overall limit of 10 years from the date of the grant. So, some employees have exercised as per their needs that is ongoing process and Mr. Deo, myself and others are also part of this scheme.

Deekshant: I see that you have a very good trajectory with ESOP that is just point of curiosity as an investor from my end, sir second question is on DGTR, I see that the team has put a lot of efforts into this and in regards to the PX-13 case that is ongoing the preliminary finding say that the anti-dumping duty could be of $1,200 to $1,500 now as a team of NOCIL is very good financially we must have done some cost benefit analysis here, if we get this do you think we would see any significant change in EBITDA and net margins and if this happens is there any particular numbers that you can give us as guidance?

P Srinivasan: I think we have answered to the previous question on this, and the investigations are on. So, it is not appropriate to talk about what are the impact on EBITDA because we do not what is going to finally come in. So, let us wait for the final decision from the government authorities. The DGTR levies anti-dumping duty on specific exporters, so you have to look at the weighted average of that and what are the customers options for sourcing and hence it is a jigsaw puzzle by itself. So, let the final decision come then we will take a call appropriately.

Deekshant: Sir, one last question on our expansion front. NOCIL has been really good with the expansion front and we have to utilize the CAPEX very well and you are prepared for the auto sector pickup Kudos to the management, going forward I see you have said this previously that 95% of 1,10,000 capacity is the goal by September 2023, but over the current financial year FY21-22 what do you think should be the company's guidance on capacity utilization what are we hoping for?

P Srinivasan: I think Mr. Deo in his opening remarks made a statement that today being in uncertain areas or challenging areas during this time it is not appropriate to comment on it. During the Q1 earnings calls of FY22 we will definitely give you guidance.

Deekshant: Thank you so much sir. As an investor none of the questions that have been answered have been very helpful on a direct matter. I love the company I have been investor for long and my father has been investor for last 15 years. Sir I would really appreciate when times do get certain we get better guidance. All the best to the company.

P Srinivasan: This are uncertain times, so please wait for the final decision to come.

Moderator: Thank you. We take the last question from the line of Sachin Kasera from Svan Investment. Please go ahead.

Sachin Kasera: Sir, my question was related from the long term horizon say from a 4 to 5 years perspective you mentioned that by Q2 of this year this new capacity should probably fully stabilize and maybe another 4 to 8 quarters from there we should be able to fully utilize it, so since our balance sheet is very strong even now from a long term perspective is there sufficient scope for the company to further keep increasing its capacity in this area or at some point of time we have some adjacent categories as a company if you want to grow?

P Srinivasan: I think partly I have answered this question. First thing if you look back the history of NOCIL I think as we started accumulating cash we have loaded back into the business, the strategy is very clear that there has to be a continuous improvement in terms of capacities and business. So, this basic strategy will continue. Now to answer your question whether we would grow in only in rubber chemicals or whether we would look at some other avenues I think we keep both the options open and as we go along and when the plans are concrete we will definitely share it with you.

Sachin Kasera: My question was from a little different perspective that with these capacities we would be compared to 7- 8 years back we have grown much faster than the market or a CAGR basis, so our market share globally and in India has gone up in the last 7-8 years and we further go up with the next 6 to 8 quarters and utilize full this capacity, so is there enough scope for the company that we can keep growing faster than the market takes 5 years and our market share can keep going up because there is a one limit to the global market share that we can achieve that was my perspective and if we see that there could be certain limitations beyond which we cannot grow our market share in rubber chemicals and we may have to look at adjacency because the company is actually looking at growth options?

P Srinivasan: See if we really look at it I think one of the major changes which has happened in the world market is a China plus strategy. Now how this China plus strategy is being implemented by all the people that will create avenues for NOCIL to grow and since NOCIL is one of the critical rubber chemical manufacturers outside of China, NOCIL has a great advantage to be in this business and continue to expand in case the China plus strategy is being implemented by all the customers to certain extent. So, we also see that NOCIL also could grow in rubber chemical business.

Moderator: Thank you. I would now like to hand the conference over to Mr. S R Deo for closing comments.

S R Deo: Thank you ma'am. So, gentlemen these are challenging times which does bring some element of uncertainty. We are hopeful that India will bounce back and all stakeholders will take India forward and we are hopeful with the capacities already in place we shall see further movement and growth in volume as well as revenues in FY22. I take this opportunity to thank everyone for joining the call. I hope we have been able to address all your queries. For any further information kindly get in touch with us or Strategic Growth Advisor our Investor Relation Advisor. Thank you very much.

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