NOCIL LIMITED

"NOCIL Limited Q2 & H1 FY20-21
Earnings Conference Call"

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NOCIL LIMITED

CHORUS CALL®

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

Moderator: Ladies and gentlemen, good day, and welcome to the NOCIL Limited Q2 & H1 FY20-21 Earnings Conference Call. 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 are not guarantees of 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 '*' 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. Thank you and over to you, Sir!

S.R. Deo: Thanks a lot. Good morning and a very warm welcome to everyone present on the call. Along with me, I have Mr. P. Srinivasan, CFO of NOCIL and SGA team, our investor relation advisers. 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 the stock exchange and the company website.

Coming to the business first half of the financial year was a mixed period for NOCIL. In the first quarter our business was impacted due to lockdown on an account of COVID-19 pandemic, but from July onwards that is from the second quarter, business environment improved, and operating levels increased on a month-on-month basis.

Utilization levels have increased from July 2020 and have crossed pre- COVID levels on monthly run rate basis. In Q2 FY20-21, the company achieved highest sales volume, also volumes for the coming quarter are looking positive. Operating levels at tyre majors also started picking up. There is a medium-term positive commentary both from domestic and multinational tyre companies. Revenue also saw substantial growth despite softer realization. Though volumes have started picking up we expect pricing to improve in the coming quarters. As indicated in the earlier calls, pricing have bottomed out and it is getting confirmed as there was a recent price hike indicated by the competitors in the marketplace for most of the products.

As demand is showing encouraging signs, we are quite confident of ending FY20-21 on a flattish note in spite of COVID impact in Q1 FY20-21. Also to continue our well laid out focus approach of garnering high volumes and reaching more geographies, we persisted on capacity expansion plan, phase 2A Rs.140 Crores have been capitalized and in phase 2B of Rs.140 Crores, mechanical completion will be done in Q3 FY20-21 and trial production to start from Q4 FY20-21. So we expect to capitalize it by March-April 2021. The delay was on an account of non-availability of labour due to COVID situation. Absolute EBITDA improved compared to Q1 FY20-21 on the back of improvement in the absorption of fixed cost and on an account of volume pick up. One may agree that operating EBITDA margins at this rate even in this depressed market conditions is quite commendable. This gives us the confidence that absolute EBITDA will improve once market condition stabilizes. On the industry scenario, we witnessed good growth in automobile sales in October and vehicle manufacturers ramped up production. Most OEMs were of the view that Q2 FY20-21, there was pent-up demand and now on Q3 they are witnessing demand with onset of festival season and preference for personal mobility in the pandemic situation. Some OEMs believe and are confident that the demand will continue even after this festival season and have started ramping up the utilization level to meet this growing demand.

Also, global sourcing strategy is changing with China plus one strategy. As most players both domestic and international are slowly reducing their dependency on China and finding ways to tap alternate supply chain as a part of strategy. India being a smaller player in rubber chemical industry will be beneficiary of diversification of supply chain by customers. NOCIL is expected to benefit in view of available capacities. In terms of future growth opportunities and wind of changing global sourcing strategies, with China plus one coming into focus, there has been an increase in the number of inquiries from the global players and we are confident of converting these opportunities into concrete business.

Looking at current operating environment, we expect a much better performance in the second half of FY20-21 as compared to first half of FY20-21. We continue to explore new opportunities with the customers and alternative raw material supplies in the domestic market under **"Atmanirbhar Bharat"** initiative of the government. The new capacity built up is coinciding with several tailwinds in our business, which will enable us to grow our revenues and profitability at a faster phase in the coming years. That is all from my side. Now, I would like to handover to Mr. P Srinivasan to give you update on the financial performance. Srini over to you!

P. Srinivasan: Thank you, Mr. Deo and good morning, everyone. Hope all of you are doing quite well and safe. Let me take you through the financials of the company for Q2 FY20-21 and H1 FY20-21. The performance of H1 FY20-21 are not now comparable with the same period last year in view of the performance of Q1 which was impacted by COVID-19. As Mr. Deo mentioned, the company reported the highest sales volume in Q2, so the Q2 volumes grew by 15% taking base of Q1 FY19-20. As compared to Q4 FY19-20, it also grew by 15%. On a month-on-month basis, our production has picked up and we are further ramping our capacity utilization under strict safety and hygiene protocols.

Net revenue from operations for Q2 stood at Rs. 222 Crores as compared to Rs. 210 Crores to the corresponding part of the previous year reflecting a growth of 5.7%. Revenue growth was impacted by lower realization, which we expect to pick up or get corrected in the coming quarters. For H1 FY20-21, revenue stood at Rs. 328 Crores largely impacted by the COVID lockdown during Q1. So far as value additions are concerned, value addition for Q2 FY20-21 is Rs. 107 Crores indicating 48.1% of sales as compared to 48.6% of Q1 FY20-21. We are still hopeful to maintain our long-term guidance of 50% as situation improves and return back to normalcy.

Coming to operating EBITDA parameters, the operating EBITDA for Q2 FY20-21 stood at Rs. 31 Crores as compared to Rs. 48 Crores compared to same period of the previous financial year reflecting a de-growth of 35%. EBITDA margin even in this depressed condition stood at 14.1%. For H1 FY20-21, the operating EBITDA stood at Rs. 39 Crores. We are quite confident and hopeful to improve the absolute EBITDA in the coming quarters. On profit before tax, the PBT for Q2 FY20-21 stood at Rs. 23 Crores as compared to Rs. 42 Crores in the Q2 FY19-20, de-growth of 45%. For H1 FY20-21, it was Rs. 32 Crores. The profit after tax for Q2 FY20-21 stood at Rs. 17 Crores, it is not comparable as there was an income tax credit in the previous year on account of deferred tax, on account of the concessional tax regime adopted by the company. For H1 FY20-21, the PAT stood at Rs. 28 Crores. On the balance sheet front, as Mr. Deo said Rs.140 crores will be capitalized by the end of this year or April 2021, which is currently shown under Capital Work -in-Progress. The company has comfortable liquidity position as of September 30, 2020. We continue to be debt free and we are able to take care of our funding requirements through our internal accruals. With this, I would like to open the floor for question and answers.

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, So, I have 2 questions, first is for Mr. Deo and second is for you. Mr. Deo if you can help us explain, this volume growth what we have done for Q2, if you can just explain us that like is this volume growth is because of some new customers and new geographies or the existing customer taking more volumes at the new locations? Because what I understand is that tyre companies have plants across the world. So is this growth predominantly from the export market where the new customers have started taking some additional volumes at their plants globally or it is more because of the existing plants started taking more volumes because we have now all those capacities to offer them on the table, so if Mr. Deo can explain us?

S.R. Deo: As I explained in my speech, the tyre industry whether they are domestic or international, they are looking at alternate sources. So what they have done is they have transferred some of the volumes which they were predominately buying from China to NOCIL. Now, this has happened both at domestic industry and also at international level and that is where we see the volume growth.

Nirav Jimudia: But, Sir, have we also invested in terms of expanding our distribution network in the export market or in the domestic market also because importers also have a distribution base here in India, so how we score above all those parameters where we try to provide them something like just in time supply. Because pricing is one of the aspect, but what other parameters you would like to score in where you can provide some edge vis-à-vis with the competitors?

S.R. Deo: See, as far as the domestic tyre industry is concerned, we do not have any distribution network, we deal with our customers directly. As far as our delivery to customers are concerned, we assure our customers that we are going to be a Just In Time (JIT) company and I think we have been doing the business more than 30 years, they know the strength of NOCIL in terms of delivering the product when they want. But this is not only to restricted to domestic industry, even our international customers, when they give us a schedule we ensure that every schedule is honored. We have absolutely no problems in terms of delivering the product to customers nationally and internationally. and besides the product quality, besides the volume available with NOCIL, of course the pricing and the delivery, in all the 4 parameters NOCIL is much better than many of the Chinese companies and that is where the shift is happening because most of the tyre industries are looking at alternative source of raw material.

Nirav Jimudia: Sir, many thanks for the answer. Sir, my second question is to Mr. Srinivasan. Sir, you have mentioned in the presentation that fixed cost absorption have started reflecting in the numbers, if you can give us some perspective in terms of Q2 of last year and Q2 of this year, so how is the fixed cost looking like, has there been any reduction in terms of absolute numbers or whether it has grown from base of last year because I think we have seen a very healthy volume growth, so just wanted to understand your perspective on the fixed cost, how it has been panning out?

P. Srinivasan: Nirav, I can say only one thing on index parameters we may have seen a positive impact of 5% on fixed cost parameters.

Nirav Jimudia: Okay, let us say the base was 100 last year, it can be 95 despite such a high-volume growth what we have seen?

P. Srinivasan: Yes.

Nirav Jimudia: Okay, thank you a lot for the answer and Happy Deepavali and a Prosperous New Year.

P. Srinivasan: Happy Deepavali, thank you.

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

Rahul Jain: Thanks for the opportunity. Sir, my first question, with regards to the pricing you mentioned about a recent price hike by competitors and pardon me for my ignorance on this and also with regards to our case, you have mentioned that pricing will gradually improve in the coming quarter, but if you could share some more details, I am not asking for the exact price hikes or price revision, like I found from the interesting slide in your presentation with regards to volume where you have taken the base as 100 and put our volumes right up to Q2 where we have shown the volumes to 115, so just wanted to understand if you can relate the same thing with the pricings for the last 3-4 quarters in terms of index again, so if the price was 100 say 4 quarters back, how it has moved in last 3 quarters and as we speak today where could be the price?

P. Srinivasan: Can I answer in a different manner? Q2 FY19-20 included a portion of antidumping duty for the month of July 2019.

Rahul Jain: Sure, I will exclude that, so maybe we can speak after that?

P. Srinivasan: Okay, if I compare Q3, Q4, Q1 and Q2, see the pricing consist of 2 parameters, the composition of a volume mix, so the average will change because of the volume mix because if you have a high value products going in a higher share in a particular quarter, the weighted average will go up. Similarly, for a low value product goes up the higher share then the weighted average value comes down. Now looking at all those parameters, I would say January 2020 or may be December 2019 onwards, the prices have remained flat. It has not gone down further; it has remained flat. What we are seeing is we have started hearing from the marketplace at least from certain sources we are yet to confirm when we get into the January-March probably we will understand how prices have improved. Yes, we are hearing news that the prices have started showing signs of increase or improvement from the base level and we have always been guiding the investors that all along the prices are coming to rock bottom and that is the reason it remains flat for almost 9 months despite a de-growth, despite a COVID situation the prices did not go down that reflects how the competitions is viewing the pricing parameters. So we believe we have seen the price increases across all segments, it may be varying 5%, 3% I do not know how it is, but when we get into the actual deal we will come to know the real effect, but we are hopeful that from January 21 onwards we should get some increase.

Rahul Jain: Sure and Sir, with regards to this guidance, which you have given on the presentation FY20-21 being flat, I presume on the presentation slide both volumes and our revenue would be flat as compared to the last year, is that correct assumption?

P. Srinivasan: No, we are talking about sales volume.

Rahul Jain: We are talking about sales volume, not the revenue?

P. Srinivasan: Because revenue is not comparable as I said it includes the anti-dumping duty for 4 months, so that is not reflected. As indicated above, any price increase from Jan 21 will ensure that revenue levels for FY 20-21 remain flattish as compared to FY 19-20.

Rahul Jain: Sure, and lastly just a carry forward what the previous participant asked, with regards to approval, we had been talking for probably last 3-4 quarters with regards to trying to get into new customers with whom probably we have never done business or with existing customers for new regions, new geography and you alluded to that in your opening remarks also that we are actually pursuing that, but in that journey where do we stand today, do you feel that in the next 3 months or 6 months we are quite hopeful of tieing up with one or two large customers, which can help us to have sharp improvement in the volumes maybe in the next year going forward?

P. Srinivasan: Basically, we are having a relationship with most of the big tyre companies across the globe, now the tyre companies typically start a business and allocating the business to a particular region or particular country. Now what we have seen in the last 3 or 4 months, there are inquiries from their side and the discussions are going on wherein they want NOCIL to expand the servicing location for their other manufacturing units. So other locations, which were not hitherto taking any volumes from us, we are getting into discussions and the trial and the samples and approvals those process have started. Typically, this takes real commercial deals comes in may be 3 to 4 quarters, but we are definitely hopeful that some improvement is expected on the cards, but I cannot tell you the time, I think it is pretty premature to talk about it at this point in time

Rahul Jain: Sure. Thank you so much, Sir. This is helpful and wishes you all the best and Happy Deepavali and Happy New Year to all of you.

P. Srinivasan: Same to you.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Thanks for the opportunity. Sir, just on the volume front, we had this import ban on passenger vehicle tyres sometimes in the month of June, so has it also benefited us during the quarter and for the current quarter almost 40 days have gone back, so is there month-on-month improvement also during the current quarter, thank you?

P. Srinivasan: I think in the earlier calls we did say the import tyre restrictions does play a role and it has played a role here in the operating capability for domestic tyre companies and being a domestic supplier, we also got benefit to improve our capacity utilization that is one part. Coming to the current ongoing trend, post September, I think we are still seeing this momentum being positive.

Rohit Nagraj: Thank you. Sir, second question is we have said in last call that we have developed new accelerator and we started initial sales and we saw improvement probably towards the end of Q1, so how has been the trend in Q2 and what do you expect in terms of incremental size of opportunity from this particular product?

P. Srinivasan: I think, on this product we are currently about 50% to 55% utilization.

Rohit Nagraj: The opportunity size in terms of revenue, so at 100% utilization with the opportunity size is Rs.40-50 Crores?

P. Srinivasan: Net revenue from the product is about Rs.250 Crores per annum in the domestic market. Our capacities, we are already utilizing 50% to 55%.

Rohit Nagraj: Sure, Sir, just last question on the financials, what will be the debt by FY20-21, currently you are debt free, but after this Rs.140 Crores of CWIP at the end of FY20-21 thank you?

P. Srinivasan: There is no debt.

Rohit Nagraj: No, after the remaining CWIP at the end of the year I am asking?

P. Srinivasan: We are debt free company, so there is no debt today.

Rohit Nagraj: Thanks a lot, and best of luck and Deepavali wishes. Thank you.

Moderator: Thank you. The next question is from the line of Rohit Potti from Marshmello Capital. Please go ahead.

Rohit Potti: Thank you for the opportunity. My first question is from gross margins, despite having the highest volume in our history, we have seen further compression in gross margins, could you please elaborate on this further?

P. Srinivasan: On the value addition front, it is about 0.5% lower, so in absolute term we are talking about may be Rs.80 lakhs or Rs.90 lakhs, so we had some abnormal situations in certain raw material so probably that has impacted us, other than that nothing else.

Rohit Potti: Okay, there is no pricing pressure per se it is more of the inventory issue that led to the compression is it and we are on track even to reach on a steady state gross margin guidance of 50% odd or more?

P. Srinivasan: See, the point is we have to look at the current situation how the market is playing out and how competition is playing out. So in this quarter we have seen in a few inputs there is some availability shortage or price hikes, etc., the combination even we have covered our import inputs quite well, but because of some shipment delay we had to buy locally and probably that impacted our Rs.80-90 lakhs as compared to Q1, otherwise 48.6% we could have maintained it.

Rohit Potti: Okay, whether long-term intent is to be 50 or little more, would I be right in thinking that?

P. Srinivasan: Today, it is a depressing market condition I believe once the market situation normalizes our guidance remains up 50%.

Rohit Potti: Understood. My second question is, historically you has had a very close relationship with all your customers and I believe more of solution provider and partnering with customers on product development, etc., so given the whole shift in the ecosystem that is happening, are the customers that approach you for other products what you are already manufacturing right now in terms of China plus one etc., and is there anything in the pipeline for the next couple of years or so?

P. Srinivasan: Mr. Deo will answer this.

S.R. Deo: You have asked a very good question. Yes, the domestic and international customers are asking this question. As you are aware at present, we are busy in completing our projects, which we have started, and we are likely to complete all the projects by March 2021. I would say we are early on the drawing board in terms of maybe on these questions and if we succeed, we will share this information.

Rohit Potti: Understood, Sir. The last question is follow-up, given the demand increase that you are seeing right now, is there any product that you intent to add more than whatever you have in terms of capacity currently, I mean I know you are coming at the end of Rs.450 Crore capacity that you planned 2-3 years back, but if there any particular product, which you are seeing more demand than you think and are you are planning to expand capacity in any particular product further?

S.R. Deo: As I said, our first objective is to complete the project, look at the market, look at the demand, look at the sincerity of the Atmanirbhar Bharat and China Plus and once we connect all the matter, we will think about it.

Rohit Potti: Perfect. Thank you for your answers and Happy Deepavali to all the management.

S.R. Deo: Happy Deepavali to you.

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

Niranjan Sakalkar: Thanks for the opportunity. I had one question, so how do you view this Merchem capacity, which are coming on stream as a threat to NOCIL?

S.R. Deo: I think first and foremost it needs to be watched, second thing we do not see threat as far as the business is concerned.

Niranjan Sakalkar: Okay and the follow-up question on the previous participant, I wanted to know the guidance in the slide you say that the sales volume as well as the revenue will remain flat compared to FY19-20 right or only volume?

P. Srinivasan: I did not get your question please.

Niranjan Sakalkar: Guidance on the presentation for FY20-21 volumes as well as the revenue will be flat, right is that correct or it is only volume?

P. Srinivasan: We just answered to the previous investor, Revenue is not comparable as I said it includes the anti-dumping duty for 4 months, so that is not reflected. As indicated above, any price increase from Jan 21 will ensure that revenue levels for FY20-21 remain flattish as compared to FY19-20.

Niranjan Sakalkar: Sure. Thank you.

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

Sanjaya Satapathy: Sir, I had 2 questions, one is that what is your sustainable EBITDA margin that one can look forward to from the business?

P. Srinivasan: We have been giving guidance all along that in a stable market condition and at peak level capacity utilization we talk about 25% EBITDA margin and that is the guidance we have given and we still believe we will achieve that.

Sanjaya Satapathy: Understood. Sir, what will be your full capacity annually after you complete the ongoing capex?

P. Srinivasan: The total installed capacity including intermediates post commissioning of all project is 110000 tonnes and today we have completed about 85000 tonnes.

Sanjaya Satapathy: Sir, what is the current utilization and when you will reach full utilization?

P. Srinivasan: Today, on the available capacity we are utilizing at 75%.

Sanjaya Satapathy: 75%, okay and the total available capacity will go up by how much from here after the last round of capex in Q4?

P. Srinivasan: Yes, maybe you did not follow it. We have today set up 85000 tonnes production capacity including intermediate as of now, we expect reach it to 110000 by the end of this year and currently, we are utilizing 75% of the available capacity.

Sanjaya Satapathy: Understood and only after you reach somewhere your full capacity that your EBITDA margin will go towards 25%?

P. Srinivasan: Yes.

Sanjaya Satapathy: Thanks a lot, Sir.

Moderator: Thank you. The next question is from the line of Avishek Dutta from Prabhudas Liladhar. Please go ahead.

Avishek Dutta: Sir, just wanted to know in fact we compare last year capacity when you say it has grown 15% volume, what was the capacity last year when you say 85000 tonnes currently?

P. Srinivasan: Last year at this time it was about 70000 tonnes odd.

Avishek Dutta: And what was the utilization at that time?

P. Srinivasan: May be, I would say it was 70%.

Avishek Dutta: Both 70000 as well as 70% utilization?

P. Srinivasan: Yes, maybe 70% or 75%.

Avishek Dutta: What is the outlook of capex for the tyre players any new players have committed capex, has there been any deferment in the capex or tyre players?

P. Srinivasan: Mr. Deo will answer that.

S.R. Deo: I think the 2 new announcements, which we see these are basically in the what is called as off the road tyres, OTR, one plant is completed and it has been inaugurated in the state of Gujarat and one plant is planned, but as far as this standard tyre industries are concerned whatever capex they had announced earlier they , they will go ahead with the capex and many of the companies like Apollo Tyres have commissioned their plan in Andhra Pradesh. There are no new capex, which has been announced in the last 6 months.

Avishek Dutta: Secondly, when you say that NOCIL has benefited from some of the demand, which has been diverted by internationals and domestic tyre players, what was it led by, was it because of the cost efficiency whatever, can you explain that part?

S.R. Deo: See, basically, few things, first and foremost thing, I think the Prime Minister of the county laid down an objective for all the industries to be Atmanirbhar and I think this has been taken quite seriously by the industries and the industries have started looking more inward as domestic source rather than importing from China and if you look at rubber chemicals, the rubber chemicals more than 90% of the imports are from China that was one change, second thing is the tyre industry there also given an upper hand by putting tyre under restricted list and the expectation was that they will also promote the domestic industry and I think these are all the reason, which has come together where they are looking a domestic supplies as their priority.

Avishek Dutta: Okay. Sir, lastly with new capacities available by Q1 of next financial year, where do you see this 75% utilization going up to by the end of this financial year?

P. Srinivasan: In the last call we said we expect to ramp up over 4 years, we still maintain that, we can achieve that little earlier.

Avishek Dutta: Okay, just wanted to know this 85000 tonnes available capacity, right now we are utilizing it at 75% where do we see it at ending at?

P. Srinivasan: 80% you can say.

Moderator: Thank you. The next question is from the line of Anupam Agrawal from Lucky Investment. Please go ahead.

Anupam Agrawal: My question was on volume, can you give a breakup of volumes growth of 15% into how much domestic and export was in the quarter?

P. Srinivasan: Largely domestic. Exports were not much significant compared with the corresponded quarter of the previous year. If I look at pre-COVID levels I think we have grown by 10% plus in domestic and about 4% de-growth in exports so net by 6%.

Anupam Agrawal: Also, Sir, in your guidance you have spoken about domestic export mix 65:35 so do you stand by that and was in the current quarter?

P. Srinivasan: Current quarter domestic export mix I think it is 70-30, domestic is 70 and 30 in exports in value terms.

Anupam Agrawal: Sir, coming to cash flow our business as of early unique property of throwing great cash and that the fact that we do not have enough capex plan going ahead, what is the plan for utilizing that Rs.140 Crores to Rs.150 Crores cash that you generate?

P. Srinivasan: I think we are working on that. Today, we do not have any plans to announce. Some work is going on and evaluation of other avenues, so as soon as suitable investment decision comes in, we will let you know.

Anupam Agrawal: So, based on pecking orders, capex is first and then awarding shareholder will be the second?

P. Srinivasan: Yes.

Anupam Agrawal: Okay, Sir, understood. Thank you and Deepavali wishes.

Moderator: Thank you. The next question is from the line of Pratik Poddar from Nippon India. Please go ahead.

Pratik Poddar: Sir, two questions, one is could you highlight the capacity utilization rates, you said 75% would be average for the quarter and I am assuming the exit rate will be quite high given the commentary which you have think on tyre manufacturers especially they said that October is even better than September just wanted to confirm that?

P. Srinivasan: Yes, every month the utilization levels are going up, so when we are giving the guidance in the next quarter or coming quarters we are likely to be touching 80%, we talk about 75% utilizations for the quarter under review, so it is not that every month it was 75%, it maybe 72%, 73%, 75%, and 76% something like that, it is a weighted average rate and we are still seeing that by the end of this year we should be touching 80%.

Pratik Poddar: Sir your gross margins at normalized level are 50%, right from Q4 FY19-20 levels, wherein this quarter they were at 48%, so this 200-basis point reduction is it because the tyre manufacturers or the OEMs are not giving you price increase?

P. Srinivasan: No, it is not that. I think you have to look at this. This is not a normal situation. When we talk about 50% it is a normal situation. This is a depressed market condition. Number 2, you had a de-growth year in rubber consumption in the last one-and-a-half years, so when we are getting into a situation of de-growth or temporary excess of supply over demand you are bound to have competitive pressures and unless the competition starts taking corrections and China being the lead player we could not expect the price increases straight away. Having said that I think we already addressed that issues in the speech of Mr. Deo that the indications of the market places that the competition have started showing signs of prices increases, so you can expect over a period of time these corrections will happen.

Pratik Poddar: Got it and lastly Sir Yuan has appreciated that will also help the pricing?

S.R Deo: Yes, I think what you are saying is correct because normally from a level of 7 RMB it has come to 6.7 to 6.73 and this appreciation would obviously affect the Chinese supplier and they would increase the prices to keep their RMB level same, so that possibility cannot be ruled out.

Moderator: Thank you. The next question is from the line of Shivan Sarvaiya from JHP Securities. Please go ahead.

Shivan Sarvaiya: Good morning, Sir. Couple of questions, Sir, one is on the raw material side, if you could give some colour on how the raw material prices have been in the last couple of quarters and how do you see them moving ahead?

P. Srinivasan: There has been recent challenges on supply chain front on some of the key inputs, which is generally not following the equation in relation to crude etc. Basically due to some plant shortage at the global supplier end, which obviously resulted in abnormally high cost of raw materials in the current levels when you look at spot prices today, but thankfully, as far as NOCIL is concerned due to judicious covering of a raw materials earlier and with sufficient inventory we believe the impact for Q3 FY20-21 will not be that significant.

Shivan Sarvaiya: Sir, you just said that there is an excess of supply over demand that is what is the situation that we had seen in the last year, but if I go back to my notes of the Q1 call you also said that additional capacities are coming from China Sunshine, so how do you this excess supply situation correcting in the near term or this is going to be a long drawn medium term process?

P. Srinivasan: Typically, what happens in a depressed market situation, basically there are two things happening out of China, one is the small plants or so-called medium size entities are virtually getting out of this business because of the chemical pollution control laws. You answered our question that if you are saying the market is not buoyant, it is depressed then you cannot expect a number one player, leading player in the world to invest in capacities. It is very clear message from this side that he is expecting demand picking up once normalcy get restored. I also request you to look at the China Sunsine press releases time and again that some players and in that some Chinese players are not able to operate fully, and that is the reason why you are able to see some corrections already happening. So we do not know what is the internal story inside China, but we do believe that there are some challenges faced by certain manufacturers in Chinese market, hope if those things turn out to be true definitely we are in for our better improvement times, as the supply demand rationalizes.

Shivan Sarvaiya: Sir, my last question, if I just look at back of the envelope calculation then the H2 of this year is expected to be like 40% volume growth compared to H1, so if you could just give some commentary or some colour on how this additional growth is coming from the domestic market or your enquiries that you have been talking about for some time in the export markets are also now turning into business?

P. Srinivasan: I think we do expect some export volumes to pickup, we see some supply constraints due to the COVID issue situations and certain movement of the products during Q1 and Q2, which is already rationalized and which has been rectified, so corrective measures have taken place and we believe those things also will pick. We are also going to supply additional volumes in the international market in the coming quarter, so the growth story is not only in domestic, it is a mix of domestic as well as exports.

Shivan Sarvaiya: Thank you, Sir and Deepavali wishes.

Moderator: Thank you. The next question is from the line of Mitesh Shah from OHM Group. Please go ahead.

Mitesh Shah: Sir, any update on the anti-dumping duty?

P. Srinivasan: So far nothing.

Mitesh Shah: Okay, time when expected in the next 3 to 6 months or?

P. Srinivasan: The deadline is May 2021, definitely before that we will get some decision.

Mitesh Shah: Good. Thanks a lot.

Moderator: Thank you. The next question is from the line of Pavan Kumar from Ratnatraya Capital. Please go ahead.

Pavan Kumar: Sir, congratulations on strong volumes. See, when I look at your numbers, I understand that realizations even this quarter have dropped by around 2% to 3% on a quarter-on-quarter basis and I understand your commentary is that they are going to increase, but what is the kind of price increases that you are seeing from our competitor in the market as of now and my second question would be on working capital, actually your debtor days seem to have increased a bit, so is it going to normalize or how should we look at it?

P. Srinivasan: I think we explained on the pricing parameters, it is a weighted average component on the product mix, so it is not comparable, what we have given guidance is that the last 3 or three and a half quarters, the prices have remained flat that is the point number one. Point number two, we are seeing the competitions has started offering a higher prices across all products. The variation in product wise changes from time to time and customer to customer, so when we get into Q4 negotiations probably we will realize how much we are going to get, as far as this the two questions, what is the next question you have?

Pavan Kumar: Working capital, Sir?

P. Srinivasan: Working capital is the reflection of the level of activity, so once the level of activity improves obviously the working capital with commensurate with that change.

Pavan Kumar: So, there is nothing abnormal?

P. Srinivasan: Nothing abnormal to worry about in fact just to reiterate our collection record from the customers have been quite exemplary, I believe in the last 15 years or 16 years where I am with this company now in this business I think I have seen a cumulative write off of not more than Rs.40 lakhs on the turnover of Rs.7000 Crores to Rs.7500 Crores.

Pavan Kumar: Fine, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Good morning, Sir and thanks for the opportunity. Sir, you said that at peak utilization our EBITDA margin that will be somewhere around 25%, so when do we expect this peak utilization of the expanded capacity of 110000 tonnes, approximately?

P. Srinivasan: We answered just few minutes before, we had earlier mentioned 4 years, now we are trying to complete the ramp up utilization much earlier than that may be somewhere between 3 and 4 years we will complete it.

Bharat Sheth: So, I believe that domestic tyre industry is expected to grow around 7%, so what will drive our volume growth, there could be a possibility that import may come down, export may increase, so what kind of scenario are we really anticipating to achieve that kind of a utilization?

P. Srinivasan: It is a mix, it is a hybrid on both fronts, domestic as well as exports we plan to grow and we believe we are in the right directions the way customers are responding to us.

Bharat Sheth: Do you anticipate a volume growth up or above 15% on every year to achieve that kind of utilization?

P. Srinivasan: I think we are looking at the final goal, we are not getting into a specific number of 14% or 15%, you have to work backward to achieve that percentage growth, CAGR growth, what we are looking at in three and a half years or above we would like to grow for the full capacity, that is what our objective is.

Bharat Sheth: Thank you.

Moderator: Thank you. The next question is from the line of Navin Shah from Value Quest. Please go ahead.

Navin Shah: Thanks for the opportunity. Sir, my first question is on this pricing, as we had alluded this in the previous conference call that as compared to the pricing thing FY17-18, we are currently 15% lower and Chinese players have gone down by 25%, so pricing trend continues in this quarter?

P. Srinivasan: Yes, that is the price, we have been all along making three clarifications on pricing, we say the prices are bottomed out, we say the prices have been unrealistically low, it cannot sustain for this level for long, it has been there for almost 9 months and now for the last 10 days they have started showing few signs of price improvement happening in the market place at certain customers or certain competitors end. So we believe the corrections are bound to happen and I think it is a matter of time we will have to be patient to get those realization.

Navin Shah: Sir, how long will take for you to have a dialogue with your customers or has that already started in terms of increasing the prices and once that dialogue has started, how long will you take for actual price increase to reflect in your numbers?

P. Srinivasan: It is a negotiation by marketing team with the customer, I do not think we can have any specific time or agenda setup for that. I think every customer is different and we need to understand their sensitivity, so the marketing team will take note of it and the customer are also equally aware of what is happening at the competitors' end.

Navin Shah: Got it. Sir, last question, in our annual report as well we had spoken about getting into new adjacent chemicals or adjacent kind of business segment, so already spoke about it in previous question, but has there any breakthrough that has happened or any advancement in that area that we would like to talk about or is it still very, very far away.

P. Srinivasan: Mr. Deo will answer that.

S.R. Deo: I think as we know in a business the work continues to happen, but at this point of time, we have nothing to share with you.

Navin Shah: Okay, if at all anything happens it will be like 2 to 3 years from now at least that would be the timeframe?

S.R. Deo: I also look at that timeframe, but of course anything which is new and which needs a commercial development it takes 2 to 3 years, I agree with you.

Navin Shah: Thanks a lot, and festive wishes to the entire team. Thank you very much.

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

Aditya Khetan: Thank you for the opportunity. Sir, my first question is on the US market, how is the US market shaping up in terms of demand post lifting of lockdown, also can you share the H1 volume in the US market?

P. Srinivasan: I think we have been all along giving guidance for the America, we started with an objective of 1000 tonnes, we started with 500 tonnes, we went to 1000, now we have come to 1500, annual volume of 1500 tonnes is what we are operating today.

Aditya Khetan: Sir, how is the demand in US market shaping up?

P. Srinivasan: I think of because of COVID, it is improper to judge a market during this year, last year it was a positive growth, this year because of COVID, every market have de-grown, so it is not a comparable situation, maybe as we go along may be after 2 quarters we will get a better position.

Aditya Khetan: Sir, one question on the competitor Merchem, they are installing 30000 tonnes per annum capacity and this is not a small capacity. Total demand of rubber chemicals in India is around 75000 tonnes, so 30000 tonnes is around 25% to 30% of the overall demand, so how you see this capacity coming in and do you see any treat like losing market share or anything going ahead?

P. Srinivasan: I think, Mr. Deo has already answered the question to the previous investor.

Aditya Khetan: Sir, just one question if I can squeeze, in the last 2 to 3 months there has been growing shortage of containers in India for export consignment and that has led to rise in export freight prices also, so my question are we able to send our consignment abroad or our consignment stuck at the ports right now?

P. Srinivasan: We have not defaulted any delivery commitments so far.

Aditya Khetan: Thank you, Sir. That is all.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir, last year this time we have said that given the capacity increase that we had we would prefer volume over price increase that we would have taken,. So given that we have now reached current utilization of 75% very likely to be 80% in the second half, can we say that we have reached that stage where we will now at least take all the price increase that our competitors are taking from now on or that given the capacity that is still pending to 110000 we would still pursue volume over price?

P. Srinivasan: I think this is a hypothetical question in the sense that when we are getting into negotiation; we are not getting into our objective and their objective, we are looking at what is the competitive offer in the market. This is the competitor driven market, so long as you are offering a competitive price why would the customer not give the volume, this is a simple economic decision or commercial decision. The strategy maybe positioning whether you want to be L1, L2, L3, L4 that is up to us depending on the customer, the volume and the product mix, so that is the judgment which we will take but as far as when you want to capture an aggressive market share you have to be competitive. There cannot be any deviation from that and it is not applicable not only to rubber chemical business, it is applicable to any business.

Amish Kanani: Sir, how is the pipeline of enquiring this time versus last year this time on the export side?

P. Srinivasan: Enquiries have been quite encouraging; discussions are quite encouraging so we are looking at a brighter side.

Amish Kanani: Sir, is it possible to quantify sales value or quantum term, how much was last year this time versus what percentage upthis time?

P. Srinivasan: I think it is a sensitive we would not like to discuss that.

Amish Kanani: Thanks a lot, and all the best.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Good afternoon. Just two small questions, most have been answered. Sir, on the pricing front, I think you did explain that the Chinese player, had mentioned in the commentary that most of their units are either not producing at peak level or had closed down, but in your commentary you said that there were some issues in RM and the prices had risen significantly, my only question is that is the pricing over above the RM price increase or it is just compensating RM price increase?

P. Srinivasan: At this stage, I think the corrections are happening commensurate with the RM price increase as we are seeing enquiry, but when we get into actually negotiation, we will really know that.

Nikhil Upadhyay: Okay, then the demand supply different basically increased, means are better economics for the same product versus RM price increase we are just meeting the same gross profit pattern, this was the reason to understand?

P. Srinivasan: Yes.

Nikhil Upadhyay: And secondly like you mentioned that the 15% volume growth was driven by us because we got volumes from players who are earlier taking products from China and that volume has shifted, which means these are existing customer and in previous call you had mentioned that we had received demand from international players to increase the geography where we were servicing. But if we have to add any new clients it takes almost 6 months to 1 year for the product approvals, stabilization and everything, can you help me understand how is the new client acquisition happening for us because as of now it is more like a Brownfield volume growth, which we are seeing and it is not new player led volume growth, which we have seen?

P. Srinivasan: We actually want to clarify one thing, these are all accounts where we have a relations for years together, decades together. The only issue was we were supplying maybe product A, B, C at a specific location or a group of locations, so what we are doing is we are enhancing the scope of the products as well as enhancing the servicing locations. So this is process which is taking time and again, for each location they will go though evaluation process in their own independent manner to come a conclusion, so it is not new customer, they are all existing customers, if it is a new customer we understand, but this is not a business where we are getting into a new account relationship as such, world over we maybe servicing in location A maybe now we are expanding to location B, location C and above.

Nikhil Upadhyay: Sir, in terms of new customer addition, it would take much longer than 1 or 2 years or what would be the timeline difference between?

P. Srinivasan: There are not many customers who are significantly with whom we are not tapped so far, every account we have a relationship.

Nikhil Upadhyay: Thanks a lot, Sir.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.

Abhilasha Satale: Thank you for taking my question. Sir, I just wanted to understand that in this 110000 tonnes capacity what you will be reaching by the end of this year, how much will be intermediate capacity and how much will be end product capacity and say over 3 to 3.5 years, what will be the peak utilization may be 90, 95, 100?

P. Srinivasan: I think out of the total production capacity maybe two-third would be final product and one-third is the ratio of intermediates. I think this part has been answered in the past question also or past investor interaction as well. As far as the peak utilization is concerned, we always see for 100% utilization.

Abhilasha Satale: So, in that two-third ratio we will be reaching 100% utilization?

P. Srinivasan: The entire production will be aim for 100%, in which two-third will be finished products and one-third will be intermediates.

Abhilasha Satale: Sure, and what will be the domestic/ export ratio, now this quarter export sales have been lower so as we progress further how will that ratio change when will it reach peak utilization?

P. Srinivasan: I think exports, we have only thing given guidance that in our overall plan scheme of things we are aiming for a 60% revenue from domestic, 40% revenue from exports, if there is a scope for improvement in domestic we will be improving that because the value addition percentage on a comparable basis is slightly better in domestic because of the duty component.

Abhilasha Satale: Thank you.

Moderator: Thank you. The next question is from the line of Chirag Kejriwal an Individual Investor. Please go ahead.

Chirag Kejriwal: Good afternoon, Sir. Sir, what will be the price difference between the Chinese and yourself?

P. Srinivasan: Yes, we will be matching Chinese prices, so these margins which we have recorded is based on the matching comparable Chinese prices.

Chirag Kejriwal: So, they are selling at 100, you are selling at 100 approximately?

P. Srinivasan: We have no other option, it is a competitive world, you have to sell it at 100.

Chirag Kejriwal: What is the domestic market share today and what was it 3 years back, what is the international market share today and what was it 3 years back?

P. Srinivasan: I stand corrected, I think the domestic market share typically we were looking at 40%, this quarter we are exceeding that 40% slightly improvement is there maybe 7% to 10% improvement is there. International market share, overall global scheme of things we are about 5% of a world market or may be 6% because of the lower demand maybe we will do 6% in the world market.

Chirag Kejriwal: What was that 3 years back?

P. Srinivasan: Maybe 3 years back, we were 3.5%.

Chirag Kejriwal: Thanks.

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

S.R. Deo: Thank you very much. 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 our CFO or Strategic Growth Adviser, our Investor Relations Adviser. Request all of you to be safe under the given circumstances. Do take care of near and dear and on behalf of NOCIL and SGA team, I wish all of you a very happy Deepavali and prosperous New Year. Thank you very much.

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