"NOCIL Limited
Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen., Good day, and welcome to the NOCIL Limited Q3 FY2021 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 the date of this call. These statements are not guarantee of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S. R. Deo. Thank you, and over to you, Sir.

S.R. Deo: Thank you. Good Morning and a very warm welcome to everyone present on the call. Along with me, I have Mr. P. Srinivasan, our CFO, and SGA, our Investor Relations 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 the stock exchanges and the company website.

To start with, the performance for the first nine months of the current financial year got impacted due to lockdown in Q1 FY2021. As the economy started to unlock gradually, we saw our performance started to improve from July 2020 onwards.

As stated during our previous earnings call, 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 NOCIL team that during the challenging environment, we have managed to achieve highest ever sales volume in Q3 FY2021 even beating our record volumes achieved in Q2 FY2021.

On a sequential basis, we saw a volume growth of 25%. We do expect to maintain this current momentum in Q4 FY2021 as well. Further, the tire import restrictions also helped domestic tire customers to operate at a higher utilization for the last four months and we expect this momentum to continue as well during Q4 FY2021. The pickup in our volumes is backed up by uptick from tire majors in domestic as well as international market. The demand from them has been driven by a buoyant replacement market and an improving OEM segment.

Given the monthly auto number released, we expect the demand momentum to continue in the coming quarter as well. Any resurgence of COVID-19 will have a temporary effect on a particular market be it domestic or export. The introduction of vaccine augers well for the citizens at large and we are quite confident that the world will sail through these challenging times.

Our revenue has grown by approximately 25% on quarter-on-quarter basis indicating resilience in our business strategy. As stated during the previous earnings call, the pricing scenario has started showing an increasing trend and we are confident this uptrend will not only improve revenue but also the profitability aspect during Q4 FY2021.

Given the recent performance and on the basis of contracts entered with major customers both domestic as well as export, we are revising our guidance upward from a flattish growth for FY2021 to a growth between 8% and 10% for FY2021. This is despite after recording a significant drop in volume during Q1 FY2021

Similarly, we are revising our guidance on the revenue front from flattish to a record growth of 8% to 10% on a full year basis in view of the price corrections put into place from January 2021. Given that our capacities are in place, the unutilized capacities will enable the company to continue the growth trajectory going into next year as we work towards being valued as a reliable partner to all the major tire customers apart from servicing the non-tire customers as well.

The China plus strategy has played a pivotal 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 achieved mechanical completion of phase 2B amounting to Rs. 140 Crores in Q3 FY2021. We have started trial productions from January 2021, apart from small work in progress, all the pending capital work in progress will be capitalized in the books of accounts during Q4 FY2021.

A quick outlook on the industry scenario. The global consumption of both natural and synthetic rubber has shown signs of uptrend. The annualized consumption for the first six months of calendar year 2020 showed a degrowth of approximately 15% compared to calendar year 2019 whereas the annualized consumptions for nine months of calendar year 2020 degrew by 11% indicating an improved demand in Q3 of calendar year 2020.

The auto numbers have also shown trend of volume pick up aided by increase in demand for OEMs leading to revival in demand for tire majors in both OEM 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 levels. As per IRSG forecast, the growth for calendar year 2021 in Indian market is expected to be around 7%. This is significant that overall growth in rubber consumption normal is about 3%. Also, as a global sourcing teams of customers is increasingly working towards China plus strategy the non-Chinese supplier for rubber chemicals stands to benefit from the shift greatly.

With NOCIL being one of the key players in non-Chinese area with presence across entire portfolio of rubber chemical. The outlook seems to be positive. Our aim is faster ramping up of capacities and if these indicators are sustained, we are reasonably confident to achieve 100% utilization by September 2023 instead of March 2024 stated during the previous earnings call.

This is from my side. Now I would like to hand over to Mr. P. Srinivasan to give you update on the financial performance. Thank you.

P. Srinivasan: Thank you, Mr. Deo, and Good Morning, everyone. Hope all of you are doing good, safe, and fine.

Let us run through the financials of the company for the Q3 and nine months FY2021. The performance for the nine months is not comparable with the same period of last year, in view of Q1 FY2021 impacted by lockdown due to COVID-19.

On the sales volume front, the volumes grew by 44% taking base of Q1 FY2020 whereas compared to Q2 FY2021 the growth has been around 25%. As stated in the previous earnings call on a month-to-month basis, our production has picked up and we are further ramping up under strict safety and hygiene protocols.

On the revenue front, the net revenue from operational Q3 FY2021 stood at 275 Crores from Rs. 222 Crores in Q2 FY2021, sequential growth of 25%. It may be noted, the Rs. 275 Crores is the highest ever quarterly revenues from rubber chemical segment. The growth has largely driven by better volume uptake for the reasons already stated by Mr. Deo. For the nine months FY2021 the revenue stood at Rs. 603 Crores.

As Mr. Deo pointed out, we have revised our guidance our Annual Guidance to an increase by 8% to 10% on the revenue front. Value addition for Q3 FY2021 stood at Rs. 119 Crores, which is 43.4% of sales. As stated during previous earnings calls, our absolute EBITDA improved in Q3 FY2021.

During Q3 FY2021, there is a drop in gross margin or value addition from 48.2% to 43.4%. Some of the major factors we would like to attribute are as under:

- In the previous earnings call, we had assumed sales volume at an index level of 134. In reality, we could achieve 144 as more orders came in from the customers. To cover the shortfall, we had to buy at an unprecedented high price of some of our inputs, despite the building blocks not displaying such massive increase. This probably happened due to temporary shortage or supply chain mismatches in those particular inputs. We undertook this aspect keeping in mind the long-term relationship with key domestic and critical international customers. Our long-term goal is to achieve 100% utilization, so we sacrificed consciously on margins to gain our market share.

- Further, the growth in volume was largely out of products in which we participated in an aggressive manner set to capture market share. There were some logistic constraints on delayed input parcels with the result we were forced by some spot buying to maintain and deliver our commitment over customers.

Going froward, we are reasonably confident that in respect of products which even as on date are expected to record more than 50% gross margins, the unutilized capacities thereof coupled with these temporary price aberrations of inputs if get corrected based on historical trends and building blocks, our long-term guidance on gross margins continue to remain at 50% and we will inch towards that over a period.

On the operating EBITDA parameters, the Q3 FY2021 stood at Rs. 37 Crores as against Rs. 31 Crores in Q2 FY2021, a sequential growth of 18%. EBITDA margin for the quarter stood at 13.4% which was marginally lower as compared to 14% in previous quarter. For nine months FY2021, the operating EBITDA stood at Rs. 76 Crores. The profit before tax for the Q3 FY2021 stood at Rs. 29 Crores as against Rs. 23 Crores during Q2 FY2021 a growth of 28%. For nine months FY2021 it is about Rs. 62 Crores. Profit after tax stood at Rs. 22 Crores as compared to Rs. 17 Crores in Q2 FY2021. For nine months FY2021, it is at Rs. 50 Crores.

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 Prateek Poddar from Nippon India Mutual Funds. Please go ahead.

Prateek Poddar: Couple of questions, one is when you say that your gross margins contracted a bit, what is the predominant factor, is it the high input cost because demands surged is very materially as a result of which you had to buy from spot or was it sacrificing margins to gain market share and second question is when you say long term guidance like gross margins will out 50%, how do you define long-term, is it when you achieve 100% capacity utilization?

P. Srinivasan: Prateek, we would like to clarify one point. I think we clarified in the speech that there is a combination of gaining market share where you have to supply additional volumes. The larger picture is that when we originally estimated our sales volume at an index of 134, we were covered for raw materials at a lower price for the same but when sales volume went up to the index 144, we had to cover the short fall at spot prices as some of our input parcels got delayed, point number one. Point number two is these products where we gained volume share, we deliberately took an aggressive intend to capture market share. Now there have been cases in some of the inputs where the price rise have been unprecedented, it does not warrant based on the building blocks petrochemical scenario or base petrochemical index trend or etc., so we believe once these things gets corrected and assuming there are lot many capacities which is underutilized in some of the specialized products etc., once those approvals come in, those ramping up takes place our sequential guidance will keep on increasing, what we are saying is if we ultimately inch towards 50%, today we are at 43.4%, it will not happen overnight but it will ultimately inch towards 50%.

Prateek Poddar: When you say ultimate journey towards 50%, is it in line with capacity utilization like in September 2023 as you said you are 100%, is it that by?

P. Srinivasan: It all depends on the products getting approved and as soon as we get approvals, we start ramping up the capacity utilization. What we are saying is today is February 2021 and we are talking about September 2023, we have a journey of 28 to 30 months. During these 30 months if the specialized products or these niche products gets higher market share or higher upliftment, we are going to benefit. Another assumption is that the raw material price gets corrected over a period as price mismatches do not last long in the historical trend and are of temporary nature. Once that correction happens, automatically value addition parameters start getting rectified.

Prateek Poddar: Last question, I heard a comment on January 2021 price corrections were happened, is that a fair understanding that some of these abnormal rises in input cost is now being passed to the OEMs.

P. Srinivasan: We are dealing with tire customers. We are not dealing with OEMs.

Prateek Poddar: Yes, tire customers?

P. Srinivasan: We have agreed based on the competitive pricing scenario and we indicated during the previous earnings call that price corrections have started happening in November or December 2020; however, in our case we have quarterly contracts we started implementing price hikes from January 2021 and this price increase is because of the cost increase pressures, so the entire competition is showing the same thing we have to follow the things we need not do anything extra.

Prateek Poddar: I am saying in this quarter, the gross margins will be better than the last quarter, not asking for a number, just directionally?

P. Srinivasan: Q4, yes sequentially there should be some improvement.

Prateek Poddar: Great. Thank you.

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

Saurabh: Thank you for the opportunity. If I look at your guidance, so for Q4 you are looking at about 20%-24% price hike, so is that proper assessment?

P. Srinivasan: No, I think we never gave a specific guidance for 25% price hike of Q4, what we said is on an overall basis, the overall revenue parameters, and the sales volume for the year under review will be at 8% to 10%, so you do the backward calculations to arrive at their price hike.

Saurabh: When we are saying 50% gross margin guidance in the long term but last quarter only at almost 48%-49% kind of gross margin, so is it fair that next year we will be at that kind of margin in 2023?

P. Srinivasan: We have answered the question just now to the previous gentlemen.

Saurabh: Last bit on the volume front, how quickly the volumes of the phase-II which will capitalize in this quarter will start ramping up?

P. Srinivasan: I think Mr. Deo answered that, we are targeting September 2023 to ramp up the entire capacity utilization, so this will be a step up. I think it is journey of 28 months – 30 months.

Saurabh: Thank you.

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

Rohit Nagraj: Good morning Deo Sir and Srinivasan Sir and thanks for the opportunity and again congrats on good set of numbers and volume growth. My first question is in terms of the demand side, so in last quarter we had mentioned that we have gained certain volumes from the international players in both operating at global level as well as domestic level, so what is the current trend and has this again impacted our volume growth in Q3 and we expect the same trend in Q4? Thank you.

P. Srinivasan: I think if you look at the sequential growth, we have said that the total Q3 volumes have increased by 25%, what we are saying for the guidance for Q4 and full year FY2021, we are saying the guidance of 8% to 10% volume growth, what we are trying to say that maintenance of the current volume of Q3 will be maintained in Q4 as well around that range. So, if we aggregate the four quarters, it will be 8% to 10% growth in sales volume.

Rohit Nagraj: I mean understand the quantitative part I was talking more from the qualitative aspect in terms of how the trend has been from the customers both domestic and international?

P. Srinivasan: That trend has been positive. We are seeing an improvement; we have been giving guidance in past calls also that the international customers are requesting us to participate on a global scale rather than continuing at the regional scale and some of those initiatives are translating into additional business volumes in this quarter as well.

Rohit Nagraj: Thank you. Second question is you had indicated early utilization of our facility by September 2023 based on the current trend, so in terms of the next leg of growth do we have to plan probably year earlier before the capacity utilization you said 100% and whether we have the ability to debottleneck and further expand the capacity or will have to go for another brief in further?

S.R. Deo: Rohit**,** I think as the business grows there are always plans to grow but before we share it to the stakeholder, we will actually keep on working on that and at the right time, we will definitely share it with the investors.

Rohit Nagraj: Sure. Thank you so much and best of luck. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Thanks for the opportunity Sir, very good performance in terms of operational parameters, very commendable. My point or my question is how competitive are we after these two years - three years of your experience this China plus one strategy, we were trying for high market penetration particularly American customer, so combined all these points if you can give some medium to long term strategy in terms of competition and export strategy?

P. Srinivasan: Mr. Kothari, there are two-three issues. I think some of it has been answered. One is on the market front; the customers are also looking at a China plus one strategy very closely. We think China is an essential part of any supply chain of any organization or any sector, so even rubber chemicals will also be similar, we do see that is happening for other industries are going to go through the de risking of supply chain. That is number one. The question is when someone is going to de risk this supply chain whether you are being a non-Chinese player, are you having additional capacity or spare capacity to offer in the market. We believe we were in the right place to offer capacities and that has been translated into additional volumes beginning this year. Very frankly, we were not expecting these rebounds at the beginning of the year especially look at April-May-June thereabouts, but the fact that this has given us confidence that we have jumped big way**,** so when we are looking at the index level of the previous year December 2019 and December 2020, we are looking at 45%-48% jump in volumes, it is a huge confidence this time for all of us that yes, we are here to supply to the market. We believe we are in the right place because we are having a portfolio of 22-23 products that also augers well for the business in the sense that a customer comes to you as a one stop shop, we cannot ask the customer to go to different shops, so if you are able to provide all products under one roof, it has its own merits and advantages and it has its own risk management strategy, so a culmination of several factors, we are getting in the right zone. We intend to take it forward and we intend to consolidate our relationship and deepen our relationship with all our customers.

Sunil Kothari: Since two-three years we have started supplying some quantities in exports markets, so any larger picture is you getting any major order?

P. Srinivasan: Actually, in exports this quarter, we have moved from something at a level of 100 to about 160 thereabout, so the long-term objective of being export at 40% of revenue I think we are in that direction and we see more orders likely to come in the next year.

Sunil Kothari: Great Sir.

Moderator: Thank you very much. The next question is from the line of Niranjan Sakhalkar from Equitas Capital Advisors. Please go ahead.

Niranjan Sakhalkar: Thanks for the opportunity. The first question was on ADD, what would the impact on gross margins and EBITDA margins and when do you expect final order to leavy the ADD?

P. Srinivasan: We would like to clarify. The ADD was filed by us for a single product, the interim duty was recommended at three different stages, $1.2 per kg for China, something like 53 cents per kg for Korea and about 8 cents for USA in view of the CIF price differential but the interim duty recommendation has not been accepted by the government because the government do not enough justification for an interim protection, now the final findings are yet to come, the investigations are on, we are not terminating the investigation, the investigation is on so once the final findings comes out somewhere around April-May 21, we will know the outcome of it, so it is little premature to talk about any benefit to it.

Niranjan Sakhalkar: Okay. Another question was on nine months basis, I see your cost of goods sold has increased by 15% and volume growth is around 5% but we see the pricing over the same period has fallen by double-digit, so can you just explain what is the difference over here?

P. Srinivasan: I think we have already explained the prices has been constant for the first nine months, there was no movement upward or downward. It is more of a representation of weighted average basket mix but in raw materials what we are seeing in Q3 some increase in raw material cost and we are expecting in Q4 also some increase in raw material cost as well but the important point is in Q4 we expect the price corrections to happen and neutralize all the cost increases and desperate all those cost increases, we are likely to see an increase in profitability margins.

Niranjan Sakhalkar: That is helpful. Last one the question is can you give me some trends of what would be the expected capacity utilization by end of FY2021?

P. Srinivasan: Based on the capacity commissioned, we are operating probably at 80%-85%. On the upcoming capacity commissioning, there are some capacities likely to be commissioned by the end of the year. Once that comes in, that may be different parameter but as of March 2021, I am looking at current operating rate of 85%.

Niranjan Sakhalkar: 85%. Okay fine, Thank you.

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

Shivan: Good morning Sir. Couple of questions, one is that you said you have aggressively sold quantities during this quarter, so any new client additions that has happened, any new clients that have been on boarded?

P. Srinivasan: I think we have already answered these parameters for this fact in the previous calls, basically this is the relationship. Now a tire account relationship which are global relationship. What it essentially does is that over a period of time new geographies are getting opened up, so for example if you are dealing with an international customer in say Asia, he may have a plant in Japan, but he may also have a plant in Europe, he may also have a plant in America, so therefore as we start consolidating our relationship, these plants like Europe or America also get opened up, so that is how the relationship works. It is not that new accounts are acquired, it is a relationship which is deepening, and so new outlet for supply of goods is there.

Shivan: Putting it differently, I would like to know whether we have expanded a geographical presence as in we have done new chapters or new country of the same client but a different plant, something of that sort that is what I am trying to understand?

P. Srinivasan: I think we just answered to the previous questioner, we indicated to the gentlemen that from a level of 100 index on exports we have gone to 160 level, so that answers very specifically how many geographies you have expanded.

Shivan: You have mentioned in your slide of the presentation that you have got a pipeline of new generation of rubber chemicals, if you could just give some color on the opportunity size and will it be through the existing capacity or there will be newer capacities for this?

P. Srinivasan: Those things are with research team. This is the continuous process, the research team continuously are in dialogue with the entire technical team and as and when new products do come up, the preliminary work, the study is going on for a period of five years before getting into commercial scale, so none of these are planned or none of these new generation or none of these are in the current expansion side. If and when those things materialize, there will be new set of commercialize or capital expenditure for that.

Shivan: Okay Sir and bit from a longer-term perspective, we are leaders in the rubber chemicals space, but do we possess or are we looking at getting chemistry skills in other chemistries or is that going on through the R&D team?

P. Srinivasan: I think Mr. Deo will answer that.

S.R. Deo: I think if you really look at rubber chemicals space itself, we have a huge scope of expanding rubber chemicals and as we said that by September 2023 probably and earlier indications which has been given that with this investment of Rs. 450 Crores we will be very close to 2x, that 2x also probably would be 8% to 9% share in the world market, so there is a huge scope to expand in the rubber chemical business itself. However, we also keep on working in terms of various other chemistries and as and when we succeed and we find that there is a feasibility of the business, we will come back to.

Shivan: Okay. Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: You have indicated that currently you had 80%-85% utilization and you also mentioned that certain new capacities have been added and you also indicated that now by September 2023 it will reach full utilization? So, if you were to take the volume that you have done in this quarter as 100, in September 2023 when you hit the peak utilization, the volume would be what, 150 versus 100 that you have done in this quarter?

P. Srinivasan: I think 144 x 1.4 is something like 200, ultimately, we are going for 100 to 200, so when I am looking at 144 x 1.4 that will be 1.96 or 200. When we started in June 2019 may be 100, we are now looking at 200 over a period of September 2023.

Sachin Kasera: You also indicated that the intention is to take the value addition close to around 50% over the next few quarters, it may happen slowly and gradually, second question is how does export have a role to play in this in the sense you mentioned that export share is also growing so is it that export value addition is better and as our share of exports keeps going up this value addition can also further improve or if you could just throw light on that?

P. Srinivasan: Exports typically before the start of this expansion plan was of 30% of revenues. We had indicated in our previous earnings calls we intend to take it 40% on the expanded capacity. So, basically on 100 we were at 30% on 200 we will be at 40% that means indirectly we are indicating that on incremental growth we will have dominance in export share. Point number two, exports in its basket have certain products specifically meant for exports which are specialty chemicals or specialized applications where the competitive parameters and the marketing parameters are far different than a commoditized product. So, that also helps us achieve our long-term objectives.

Sachin Kasera: So, when you say 50% value addition does it capture the benefit of higher share of export and exports having more specialized and?

P. Srinivasan: Yes, it includes, and it is as per the plan.

Sachin Kasera: Okay, Sir just one last question. Do you also expect certain operating leverage as you said your volumes will approximately go by 40% to 50% from the current day to next six quarter to eight quarters so, as that happens do you also expect from operating leverage to come in and to give some cushion to some improvement on market?

P. Srinivasan: I think that we have answered in the past also we have given a very specific guidance the conversion cost which is directly linked to optimum parameters earlier was 35% this quarter we have already touched 30% and going forward our long guidance of 25% remains, also EBITDA will come around 25% that time.

Sachin Kasera: So, basically, we are seeing 500 basis point improvement in gross margin next six quarter to eight quarters and 400 basis points to 500 basis points improvement in conversion cost next six quarter to eight quarters this is the direction that we can take?

P. Srinivasan: Yes. We still maintain the guidance what we have communicated in the past.

Sachin Kasera: Thank you so much and wish you all the best.

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

Abhishek Dutta: Good morning Sir. Just wanted to check like when you say 8% to 10% volume growth and in the same sales growth does that not factoring the price increase which we are talking about in the fourth quarter?

P. Srinivasan: Obviously, it includes that, I think in the speech of Mr. Deo he specifically referred to that.

Abhishek Dutta: So, in that case the sales figures should have been slightly higher than the volume growth. Is it not?

P. Srinivasan: That is the guidance; let the actual number come only we can talk about it. What we are indicating is the year end performance is what we are looking at and where we are heading towards in that direction.

Abhishek Dutta: And Sir, secondly when you say 80% to 85% utilization currently. So, what is the current capacity like full capacity will be 110,000, what is the current capacity like Sir?

P. Srinivasan: Something like 90,000 tons.

Abhishek Dutta: 90,000 tons and now that we are utilizing 85% at the end of the quarter?

P. Srinivasan: Yes.

Abhishek Dutta: Okay, and Sir this quarter the other expenses are slightly on the higher side, so can we model this as a run rate going forward also Sir?

P. Srinivasan: I think other expenditure consist of the components, the variable component, and the fixed component. The variable component goes in line with your volume of operations if your operational level sequentially increased by 25% those parameters will go in tandem. That is point number one, point number two, the fixed component will be flattish and that we are already seeing that.

Abhishek Dutta Okay, so you mean say that as a percentage of sales it has come down from 27%?

P. Srinivasan: We gave guidance to previous investor who had asked this question we gave a guidance that 30% today is the conversion cost it will ultimately come down to 25% and we stand by that statements what we have given in the past.

Abhishek Dutta: Okay, Sir any announcement or any confirmation from US clients who are looking to book some orders and what was export volume in US this time around?

P. Srinivasan: America started at 500 tons to start with, America today we are going at a run rate of 2000 tons per annum.

Abhishek Dutta: 2000 tons, so these are not trial volumes, these are confirmed order?

P. Srinivasan: These are commercial orders.

Abhishek Dutta How much this 2000 run rate can actually reach over coming period?

P. Srinivasan: It all depends on how the customer; it is a very long–term relationship it goes step by step and I think let us not look at the ultimate objective. Our intension is to supply and the direction in which the customers are responding or requesting, or communication from the customers that why don't NOCIL participate in a global field. It is a very reflection that these markets are opening. It is little premature to talk about any volumes that is for US market. What we intend to say is that it will be an off string and it will continue to grow on a sequentially quarter-over -quarter.

Abhishek Dutta: I meant to say that this price hike which you have taken from January will that the sufficient enough to cover for the sharp jump in raw material prices which we have seen?

P. Srinivasan: I think we have already done the calculations and that is why we are giving guidance that the profitability parameters in Q4 will be higher than Q3 and it will be the highest in this year.

Abhishek Dutta: Okay, thank you so much Sir and best of luck.

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

Mitesh Shah: Thanks for taking my question. I have one question about your volumes, you said that you got the sudden demand in the volumes and the next quarter also you are expecting a similar kind of volume. So, is that a base or you have seen some pent-up demand and that will normalize from FY2022 onwards?

P. Srinivasan: In our view all those other economic parameters the way it is indicative we believe these volumes will be maintained if not grow further. We have not seen any downward trend so far maybe we can wait and watch after few quarters to comment on that. But I think the indications or the discussions what we are having with our customers does not looks like any negative or downward trend it is a momentum which is maintained, and they want to continue that.

Mitesh Shah: Okay, about your gross margins let say return to 50% basically it depends on the raw material management or the change of product mix. I just want to know more about the long-term strategy, how the three year to five years of horizon your change of product mix will drive your margin. Can you guide on that?

P. Srinivasan: Okay, I think we have given in this guidance I will just answer this question apart just to reiterate. We have a basket of 22-23 products in the portfolio, in which about 50% or 45% or in that regular or commoditize products where the margins will be the lower end, the gross margin is the lower end where the competition is acute. We also have about 50% of our product basket which are meant for specialized application where the gross margins are on the higher end. Because our ability to have a weighted average mix that helps us to maintain a guidance 50%. If I go to the conventional rubber chemicals, I do not think so 50% guidance is the right guidance. When we are looking at a weighted average component of specialized application as well as conventional rubber chemicals, we will come to 50%.

Mitesh Shah: The export has better margins than the domestic. Can we expect it?

P. Srinivasan: No, I do not think so the export has better margins to realistic because export has to be evaluated from the different perspective because the composition of specialized application constitutes 60% or 65% of the export basket. So, that undergoes a significant change. So, I think it is not proper to compare because you have to compare on the like-to-like products. On a stand-alone basis on any common whether it be in the domestic market or export market, domestic market will be far more remunerative because of the duty protection. But in case of exports, you have a composition of specialized applications which will help you weighted average exports.

Mitesh Shah: So, what is your specialized chemical mix currently? What expect you to take couple of years?

P. Srinivasan: I think specialized applications are 25% of the business in the company.

Mitesh Shah: Okay, that is it from my end. Thanks a lot.

Moderator: Thank you very much. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: My questions have been answered Sir. Thank you very much.

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

Rohit Potti: Thank you for the opportunity. Mr. Deo said that at full capacity we will be reaching 8% to 9% global market share and we still have a long way to go. So, curious to hear your thoughts on at what levels will customers say that there is too much concentration towards NOCIL, and like China plus one we might need to do the China plus India plus one more or something like that. So, from 8% - 9% at what level can we reasonably go to?

S R Deo: I think we have a very long way to go that is precisely I said that, with our enhanced capacity we could be 8% to 9% player in the world markets and if you really look at the single segment of rubber chemicals manufacturer in China, they could be 40% to 45%, okay. So, I cannot put a number, but I can say that there is a huge potential to grow and probably it will take some time, but it will take a very long time where such things like China plus NOCIL could be an alternative. So, maybe if you want the number it could be 15% to 18% or thereabouts. I think if you are going to be on 9% and if you have to go to 18% it is a very long way to go.

Rohit Potti: Okay, that was very helpful Sir. My next question is in general China is known for its extremely low cost, so if we assume that the global players are going for a China plus one strategy would it be right to assume that on like-to-like basis the price curve for rubber chemicals would be higher going ahead in comparison to the past?

P. Srinivasan: It depends on the raw material cost. I think historically what we have seen whenever the crude and benzene prices rise the input cost for rubber chemicals goes up and the prices of rubbers chemicals goes up. Similarly, whenever there is a downward trend the price gets correction. So, it is a delta which is what matters rather than the absolute trending price levels for a particular set of aspects. Secondly, we believe on China we would like to clarify one other statement that these performances which NOCIL has recorded in this nine months or this quarter etc., are at prices with absolutely a basic custom duty protection of 7.5% other than that there is no other protection, when you are comparing a Chinese competitor one cannot find how much subsidy or benefit, they derive from their government policy is anyone's guess work. But we believe it is quite significant so, our performance to record 14% EBITDA margins it reflects with virtually no extra support or subsidies sought by us from the government. This reflects our capability to be an efficient manufacturer and this gives us the comfort as we can compete aggressively in the global market with China being a dominant one.

Rohit Potti: Understood. So, that was helpful, my last question is in general there is there is a global reduction is capital expenditure on crude oil and its derivatives. So, you have a very wide raw material supplier base, are you seeing any shutdowns or reduction in quantity available from your raw material supplier because of the reduced capitalization in crude or anything of that sort?

P. Srinivasan: No, we do not see anything because most of the raw materials which we are using they are of very generic nature, they are not specific to rubber chemicals. The raw materials could be used in dyes and industry, pharma, and various sectors and since they are very generic in nature, we do not see any problems in terms of crude to this product relation.

Rohit Potti: Great, thank you. That is, it from my end.

Moderator: Thank you very much. The next question is from the line of Nikhil Upadhyay from SiMPL. Please go ahead.

Nikhil Upadhyay: Hi! Good morning and thanks for the opportunity. Sir, two questions, one is like you said currently our capacity is 90,000 tons and we would be reaching 1,10,000 tons so these 20,000 tons would commissioned in Q1 of FY2022 or?

P. Srinivasan: No, it is March-2021.

Nikhil Upadhyay: March-2021 okay, as a result the cost which we are looking at in other expenses of Rs. 55 Crores does it include the cost of all the new plants everything put in or do you think there is some room for this to go up. Lastly Sir, you said that on the gross margin drop you mentioned three major points out of which two I am just trying to understand better; one is you said that there was a mismatch because your expectation of volumes at compared to what we got the orders were much larger as a result you had to buy at high prices, and which impacted the gross margins. But from this quarter onwards that mismatch in terms of pricing and the RM cost should not be there. That is my assumption if you can just explain and secondly you said in order to gain market share, we will compete on price but parallelly if you look at the demand side or the markets when the market is saying, or the customers are saying that we want to go for China plus one and the demand is also strong while some of the Chinese players are not operating at full capacity. I would have expected that our pricing should have been more in line with the market then being more competing on price. So, if you can just help me understand what am I missing yours?

P. Srinivasan: I think on the pricing parameters we had very categorically stated in our previous earnings call, we could not implement the price corrections in Q3 because our contracts got finalized in September-2020. We indicated during the previous earnings call that from January-2021 the price corrections will happen, and that action has been put into place. We also stated to few questions some of the investors that our profitability aspect on Q4 will be higher than Q3, so I think that answers most of your concerns on the pricing correction. Second, I think I lost you on the raw material parameters, basically when we talk about raw materials coverage it is based in relation to production volume or a sales volume. Now, if you see the Q3 results in the financials there is a debit of Rs. 20 Crores from the stock change that means we have met some of our commitments out of inventory. We could have also said we would like to maintain inventory and decline the additional orders. So, whether is it right on our part to be in a long-term relationship scenario not to supply a set of finished goods to our reputed tyer customers domestic or exports. I think we could have a chosen the option of not supplying and we maintain our fiscal ratios of the operating ratios in exact thing or the second choice we had why not we capture the market, supply them, and gain a long-term relationship. I think we opted for the later and I think over a period of time this will help us display our commitment to service to them and improve our efficiency parameters over a period of time.

Now, coming to the third part on the conversion cost of other expenditure I think we explained to the previous investors it consists of two parameters, the variable component, and the fixed component. The variable component goes in line with the production capability so if your production rate goes up the variable conversion cost also will go up. In case of fixed one I think there will not be much scope for addition it will optimum or may be some marginal expenses here and there it will be there. I think that probably answers all your questions.

Nikhil Upadhyay: Just one thing Sir, where I coming from on the gross margins side is like if we consider that Q3 was a one off and there was some mismatch on the cost and the pricing because even prior to Q3 our gross margin range was around 46% to 48% and now in future what you have been mentioning that the specialty mix will increase, the export mix will increase, and we have corrected these pricings?

P. Srinivasan: I think when we are looking at a basket, the basket consists of general regular commoditized product as well as specialized applications. When we are giving a guidance of 50% it includes the composite middle average. Now, we have gaps in that capacity utilization as and when that capacity utilization gets ramped up; we believe the value addition parameters will undergo a change. Secondly, the input cost which has been witnessed in Q3 and Q4 are unprecedented hike we never witnessed such a hike, and the base building block does not justify or does not warrant for such high increase in input cost. We believe over a period at around that will get rationalized. We still maintain our guidance of 50% and it is not a situation of a one quarter we are talking about we are talking about a long-term guidance.

Nikhil Upadhyay: My point was in terms of long-term guidance only that this 44% what we have seen in this quarter is just one quarter?

P. Srinivasan: It is an aberration to this low level.

Nikhil Upadhyay: Yes, and even beyond those abrasions we were already clocking at 49% - 50% and when the mix is improving towards higher margin products or higher value addition products, we could be higher than 50% by the time we reached the full utilizations, that is where I am trying to understand?

P. Srinivasan: Let us hope your word comes true, we would be happy to have that. But I think we have been very conservative we would like to be very cautious we do not wish to commit that far.

Nikhil Upadhyay: Fine Sir, thanks.

Moderator: Thank you very much. The next question is from the line of Sumit Chandwani from Arth Capital. Please go ahead.

Sumit Chandwani: Hi! Thanks for taking the question. First question is regarding your other expenses, so the other expenses have gone up sharply in this quarter compared to year-on-year basis. If you can please explain what is causing that?

P. Srinivasan: I think we explained this question has been answered. The other expenses consist of two components basically the variable component and the fixed component. When you have sequential growth of 25% in volume growth that automatically transferred to higher variable conversion cost in so far as fixed cost is concerned, I do not think so we have seen a major change.

Sumit Chandwani: This is because of the addition, new capacities that has come on stream.

P. Srinivasan: No, it is not because of that. Basically, the new capacities established cost has already come in the beginning of the year. So, one need not worry about.

Sumit Chandwani: Okay, sure the other question is around realizations because if you see your last year on a base of 100 your realizations appear to be much higher because the turnover was much higher. So, is it because the change in the product mix or the realizations have gone down in this quarter?

P. Srinivasan: Gentleman, I think one is during last year we had a high price regime at the beginning of the previous year or may be price corrections happen over a period of time point number one, point number two in the first four months of last year we had anti-dumping duty protection which was accounting to Rs. 45 Crores per annum may be over Rs.15 Crores was part of that. So, if you remove that probably these corrections will change.

Sumit Chandwani: Okay so, that ADD is gone off and that is why we will have?

P. Srinivasan: There could be some price parameters also underwent a change. Basically, I think in the start of the speech Mr. Deo mentioned that the auto sector had degrowth for the last two years. So, when the market is degrowing in a negative growth of 15% then you are going to have surplus capacities temporarily this results in price drop and that happened last year. So, those corrections that seems to have got over and the price corrections have started happening. If the market is still surplus and then there cannot be price correction. The fact that price corrections are happening it indicates that for temporary surplus which was there in the market has got evened out.

Sumit Chandwani: Alright, thank you.

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

Agam Shah: Congratulations on good set of numbers. Sir, I just wanted to confirm two-three points, so just mentioned at September-2023 we will be at peak utilization. You mean that we will be utilizing a 90% to 95% of our total capacity including the new capacity?

P. Srinivasan: Yes, more than 95%.

Agam Shah: More than, so it will be 95% of 110,000 ton, right?

P. Srinivasan: Correct.

Agam Shah: Got it, and when you say the gross margins is 50% and margins will improve you said that 25% is your value-added products and value-added products will be driving the margins. So, this 25% will change by FY2023 will it go to 35% - 40% or will it be 25% only since you mentioned 40% to 45% in the general mix?

P. **Srinivasan:** I think there will be some small change in the specialty mix going up, but I do not think so it would be appropriate to mention the percent it will not be 25% it will be higher than 25%.

Agam Shah: So, higher than 25%? Okay, and sequentially your margins should be improving right?

P. **Srinivasan:** Yes, we should improve.

Agam Shah: Gross as well as EBITDA?

P. **Srinivasan:** Yes

Agam Shah: Okay, thank you and all the best.

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 and congratulations Sir, with regards to your top line and volume growth and gaining market share more so on the export volume. Sir, just to understand our strategy, I understand that in last about 12 months on one hand our capacities expanded and on the other hand the industry went for a slow down global as well as domestic. So, the natural strategy which you followed was to with the increasing capacity coming into play try to gain market share and try to get a foot folding better new customer segment probably and also some of the new products, and in Q2 Con-Call you had mentioned that the competitive intensity has reduced and some of the competitors probably have taken a price hike accordingly based on our contract getting expired in December we might also go for a price hike in January. But in the meantime, the raw material prices have also gone up. Just to understand Sir, as we speak today two things, you have already mentioned that price hike will be taken to compensate for raw material prices but in our journey are we happy with the market share gains and the volume growth we were trying to get into and say hereon now our focus will now be more on consolidating what we have achieved now and thereby on a steady basis we can see pricing improvement going forward assuming the raw material stands wherever they are?

S.R. Deo: Answer is yes. I think what you are saying is perfectly alright that would be our strategy. The first thing is we have to keep on ramping up our capacity utilization that means if you really see the focus is on top line. As far as the raw material is concerned if the raw materials and we expect that they would be then steady though we have seen bit of a raw material prices going up in Q3 in Q4 whatever is the price rise probably proportionate finished goods prices have gone up. So, the strategy would always be to ramp up the sales volumes as the capacities come up and as you are rightly seeing that right from last one year the strategy has been that and it will continue to be that and that is the reason, we are very confident that by September 2023 all these capacities which we have put in with Rs. 450 Crores investment they would get utilized up to 95%. You are perfectly alright.

Rahul Jain: So, we have done probably with getting into customers and getting a market share strategy and going forward the strategy now we will focus more on the improving our profitability, is that the correct assumption?

S.R. Deo: Yes. I think that gives us the obvious stakes in business once you have increased your top line and then start concentrating on bottom line.

Rahul Jain: Sure, okay thank you so much. Thanks that is helpful.

Moderator: Thank you very much. Ladies and gentlemen, we take our last question for today which is from the line of Chirag Patel from Abhinav Shares. Please go ahead.

Chirag Patel: Hello! Sir, I have question like, as you mentioned we are targeting a gross margin in the range of 50% in coming time. So, as you said in this current quarter or in previous quarter, we faced high raw material cost due to price hike in several materials. So, is there any room to pass on these to customers?

P. **Srinivasan:** Yes, passed on the cost increases to the customers from January-2021. I think we have already answered that.

Chirag Patel: Okay, in what range will it be?

P. **Srinivasan:** I think we have given an annual guidance of 8% to 10% in revenue growth as well as sales volume growth maybe you may have to do the backward calculations.

Chirag Patel: Okay, and if I include all the capacity expansion plan which we have then next two year or three-year timeline what will be the aggregate asset turnover on combined basis for existing as well as new?

P. Srinivasan: I think we indicated at the time of investment the turnover will be 2-times the capital investment, it had come down to 1.85 because of the price decreased but the way price correction has happened I think I am still maintaining 1.95 to 2.

Chirag Patel: Okay, and Sir, this automobile industry is passing through a very disruptive time not in our product but due to electric vehicle and disruption. So, if let us say electric vehicles come will we have any further scope to use our product other than this tyre and gear?

S.R. Deo: Basically, if you really see the disruptive trend in auto industry whether it is an electrical vehicle, whether it is the vehicles which are existing today or may be the future vehicles which will run on hydrogen all the vehicles will require tyres because no vehicle can run without tyre in fact we see that there will be more modernization terms of tyre, there will be more specialty chemicals which will be required in tyres. So, we do not see that as a threat in fact we speak as an opportunity to use our skills in terms of our R&D, product development and we see a very positive outlook in terms of this change rather than looking it as negative also.

Chirag Patel: No, that is what I am pointing exactly that tyre will be definitely the requirement in upcoming times no one can replace it but the additional opportunity due to this transformation which we feel we can put our product in that?

P. Srinivasan: Correct.

Chirag Patel: Okay, best of luck thank you.

Moderator: Thank you very much. Ladies and gentlemen, that was our last question for today. I now hand the conference over to Mr. S. R. Deo for closing comments. Over to you Sir!

S. R. Deo: In the conclusion I just would like to say that there is a very strong tail wing in the business, and we are very confident that we shall end up FY2021 with a growth of 8% to 10%. We believe that with capacities already in place which helps the further momentum and growth in volume as well as revenues in FY2022. 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 Strategic Growth Advisors, our investor relations advisors. Thank you one again.

Moderator: Thank you very much members of managements. Ladies and gentlemen, on behalf of NOCIL Limited, that concludes today's Conference Call. Thank you for joining us and you may now disconnect your lines.