# "NOCIL Limited
# Q1 FY2020 Earning Conference Call"

## July 31, 2019

**MANAGEMENT:** **MR. S.R. DEO - MANAGING DIRECTOR - NOCIL LIMITED**
**MR. R. M. GADGIL - PRESIDENT MARKETING - NOCIL LIMITED**
**MR. P. SRINIVASAN - CHIEF FINANCIAL OFFICER - NOCIL LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the NOCIL Limited Q1 FY2020 earning conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements do not guarantee the future performance of the company and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S.R. Deo - Managing Director of NOCIL Limited. Thank you and over to you, Mr. Deo!

**S.R. Deo:** Good morning and very warm welcome to everyone present on the call. Along with me, I have, Mr. R. M. Gadgil, President Marketing, Mr. P. Srinivasan, CFO and SGA team, which is our Investor Relation Advisors. I hope you have received our investor presentation by now. For those who have not, you can view them on stock exchange or on our website. We all know that Indian Auto Industry started to slow down from second half of last financial year, the reasons being liquidity crisis, weak rural demand, high insurance cost, fuel cost, new axle norms, no clarity on BS-VI norms and hike in registration prices. Further the global slowdown has also had its impact on the Indian Auto Industry and Auto Component Industry.

Tyre companies took shutdowns of 5 to 7 days per month in April to June 2019 to control high inventory. We have about 50% of our total revenues partially impacted by the slowdown. The slowdown for us started in Q4 of 2019 where our revenue came down to Rs.242 Crores vis-à-vis Q3 revenue of Rs.262 Crores. This trend continued in Q1 of FY2020 wherein we clocked a turnover of Rs.230 Crores. Our full year FY2019 EBITDA margins stood around 27% and our revenue in Q4 of FY2019 and Q1 of FY2020 have declined leading to lower absorption of fixed cost, which resulted into EBITDA margin of about 25%. As per the current trends, we believe that volumes delivered by us in Q1 of FY2020 have bottomed out and we are confident to see steady increase in volume from Q2 of FY2020.

We continue to see positive tractions in export, particularly in South East Asia, the latex market and also US due to US-China trade tensions. Further new orders will lead to steady increase in our volumes in the current year. Once the utilization improves, we will start getting benefit of the operating leverage, which will improve our margins. However, despite short-term challenges, the global tyre manufacturers are having a positive outlook on medium- to long-term and thus have committed an investment outlay of over $8 billion to $10 billion, which is good news for rubber chemicals players like us. The capex plan for the domestic tyre industry is also aggressive. Just between three domestic players, MRF, CEAT and Apollo the investments approximately of Rs.10000 Crores to Rs.12000 Crores are already happening. So we believe that this is a short-term phenomena and auto industry is expected to bounce back.

The medium-term and long-term prospects of the industry are promising and demand for auto industry would continue to grow year-on-year. Apart from the auto industry improving, the replacement market also has to bounce back. NOCIL will be the one, who will benefit the most with capacity availability and better cost position and longstanding relationship with both domestic and international tyre majors. Now coming to anti-dumping issue, the company has made necessary application before the Directorate General of Trade Remedies (DGTR) towards extension of anti-dumping duty in respect of its six products. The matter is sub judice at this point of time. On the capex, as we discussed in the last call, the company is progressing well and it is expected that the plant will get commissioned during the second half of this financial year.

On China situation, the tightening of environment and compliance in China, which created some supply chain constraints in tyre industry in FY2018 partially got relaxed on account of US-China trade war tension and slow down in Chinese auto sector. However, in spite of this, your company's export business did well last year and expected to do well in the coming quarters since customers appreciated the better quality and sustainable supply from NOCIL which is recognized as quality dependable, non-Chinese source over low pricing offered by China. NOCILs strong R&D capabilities are considered a very important strength by these tyre majors. Just to sum up, last year our volumes grew by 3% over FY2018 in spite of headwinds visible from Q2 of FY2019.

The current quarter Q1 has been lower in terms of volumes; however, we believe that the volumes have bottomed out in the current quarter and we would see higher volumes in the balance period of this financial year. We still believe we will have a growth in volume terms in FY2020 over FY2019. The new accelerator plant for Dahej will reduce the total import dependence and give the local customers an easy domestic option. Now, I would like to handover to Mr. P. Srinivasan, our CFO to give you update on the financial performance.

**P. Srinivasan**: Thank you, Mr. Deo and good morning everyone. Let me take you through the brief financial overview of the company for quarter one FY2020. The financial performance highlights revenue. The net revenue from operations for Q1 FY2020 is Rs.230 Crores as against the previous quarter, which is Rs.242 Crores. This was on the back of a slowdown in the auto industry and slowdown in the economy due to various reasons already mentioned earlier, by Mr. Deo.

Value addition for Q1 FY2020 is Rs.129 Crores as against Rs.131 Crores in Q4 FY2019 more or less flattish. Though on the absolute terms we were flattish, we have improved by 240 basis points to 56.4% in Q1 FY2020 as against 54.2% in the previous quarter. The reasons can be attributed due to better product mix and softening of RM prices.

Operating EBITDA for Q1 FY2020 is Rs.56 Crores as against Rs.59 Crores for Q4 FY2019. The EBITDA percentage continues to be around 24.5% for both current quarter as well as the previous quarter. The profit before tax (PBT) for Q1FY2020 is Rs.51 Crores as against Rs.55 Crores in Q4 FY2019. The profit after tax for Q1 FY2020 is Rs.33 Crores as against 36 Crores for Q4 FY2019. With this, I 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 Dhaval Shah from Girik Capital. Please go ahead.

**Dhaval Shah**: Sir, what is the volume growth in this quarter?

**P. Srinivasan**: The volume growth in this quarter for April-June 2019 as against January-March 2019 is minus 3%.

.

**Dhaval Shah**: Correct and year-over-year?

**P. Srinivasan**: Year-over-year is minus 6%.

**Dhaval Shah**: So there is a good amount of price decline for our finished products?

**P. Srinivasan**: We are talking about volume impact number one, number two we would like add that this volume what we have recorded in Q1 FY2020 is more or less bottomed out, here onwards as Mr. Deo mentioned just few minutes ago the volume has to increase sequentially i.e. on quarter-over-quarter basis.

**Dhaval Shah**: So, Q-on-Q you will start seeing growth in volumes?

**P. Srinivasan**: Q2 onwards you should see the improvement in volumes, which means in the Q1 volume performance we have bottomed out, we are now supposed to improve from here on.

**Dhaval Shah**: Got it and Sir, we are negative 14% on the topline year-over-year and 6% is attributed to volume, so remaining is all your price, so even the price realizations have bottomed out?

**P. Srinivasan**: We are coming to a stage we believe that the prices have also bottomed out.

**Dhaval Shah**: Okay and how much was the exports share in this quarter?

**P. Srinivasan:** Exports will be about 28%-30%.

**Dhaval Shah:** Same as last year. Okay Fine.

**P. Srinivasan:** Yes, we will continue to maintain the same percentage.

**Dhaval Shah**: So, this better opportunity in South East Asia and North America, where we must have improved our volume to these countries, but I think that has got compensated by the de-growth in domestic market, am I reading right?

**P. Srinivasan**: De-growth in domestic market yes, not fully compensated, but as we look at the ways things are going to emerge over a period of time, we will try to offset a lot many things in the future because the supplies have started to these markets especially US market, so as the time progresses we are going to consolidate our business position there.

**Dhaval Shah**: Okay. Thank you.

**Moderator**: Thank you. The next question is from the line of Nav Bharadwaj from Anand Rathi. Please go ahead.

**Nav Bharadwaj**: Good morning Sir. Thankfully we have been able to hold onto good gross margin even during this tough time, so congratulations on that and the point is almost the continuation of the previous question, as to when we speak about prices, have there been any order that we have received, which are at a higher price point than what we did in the last quarter?

**R. M. Gadgil**: To answer your questions, we have either been able to hold our prices or prices for this quarter are a shade lower. When I talk of shade, I am talking may be 1% or 2% lower than what we were doing earlier, so this indicates that international price levels seem have bottomed down, there is not much of space left to go down. This is also corroborated by the fact that if you see finished rubber chemical prices, side by side with raw material prices as they have moved, raw materials also seem to have bottomed out, so here after I think should look up.

**Nav Bharadwaj**: Great and for the capacity that we have capitalized recently, what kind of a capacity utilization will be workable number for the coming quarters?

**R. M. Gadgil**: This is slightly difficult to say, the products have started coming out, these products are under approval with the major customers. Some cases products are already under plant evaluation, so the laboratory level evaluation is already over. These are on factory trials. We should see volumes growing starting from October-December quarter when the commercial orders will start coming in. This should be stepwise and one of the products here is 100% imported into the country today, because there is no other manufacturer. The moment these products are approved at the factory level, I am sure the local tyre companies would like to bank on a domestic supplier as they usually do.

**Nav Bharadwaj**: Great and a small accounting question, is the current depreciation number a good run rate to work with for the rest of the year?

**P. Srinivasan**: Yes, for the rest of year is okay.

**Nav Bharadwaj**: Alright, thank you gentlemen. Best of luck.

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

**Pavan Kumar**: Can you just give us an idea of size of the opportunity that is available in the US market as of now?

**R. M. Gadgil**: The US is a very large market, I mean rubber consumption wise it would be amongst let us say the top three markets, what has really happened is sometime around May of last year when the trade war broke out, duties were imposed at 10% on most of the rubber chemicals coming in from China, which were the major supplier into US. Subsequently those duties were hiked by another 15%, so Chinese rubber chemicals invite 25% import duty there, which is what has shown up the doors for us. I can share with you with three global major tyre companies with whom we are doing business, we were not supplying to the US plants, those have now been opened up to us, so it is for us to consolidate make more products available to that market and this takes time as people get in with their approvals, okay.

**Pavan Kumar**: As a part of global rubber consumption, how much could be US Sir around?

**R. M. Gadgil**: Can I get back to you with this?

**Pavan Kumar**: Yes, Sir sure. Sir, recently in media it was highlighted the Ahmedabad High Court had actually asked the commission to re-look at your request, so what is that particular order for exactly?

**P. Srinivasan**: It dealt with something on anti-dumping, but I would say it is still sub judice, we will wait for the outcome, is a hearing coming up, maybe series of hearings will be taking place in the next month, so if anything as and when the judgment comes, we will communicate in the course of time,

**R. M. Gadgil** : But you are right, the Ahmedabad High Court has indeed said that you cannot ignore an application for continuation of ADD without a total investigation, so do the investigation and come up with the findings. You cannot throw it out like that

**Pavan Kumar**: Sir, until the investigation is over, does the ADD continue or does not continue, how does it work?

**P. Srinivasan**: Pending investigation the duty has to be extended till the complication of investigation. Depending on the final finding they will tell the new duty or modified duty thereafter.

**R. M. Gadgil** : I will come back to you on the US market; the US market is about 10% of the global market.

**Pavan Kumar**: Okay Sir. Thank you, I will come back in the queue.

**Moderator**: Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

**Jasdeep Walia:** Thanks for taking my question, Sir. What should we expect as far as the gross margin trend is concerned from Q2 onwards, so basically is your volume optimism going forward based on NOCIL reducing prices and driving volumes or it is based on gross margin remaining consistently at current levels?

**P. Srinivasan**: See, based on the interactions what we have from time-to-time with the customers, we are confident of getting an increase in volumes. Now between the period January 2019 to June 2019, some tyre customers had to use their advance license to meet their export commitments and therefore the import shares are given much higher as compared to our domestic players especially in the case of slow down production cuts. We believe that case will get rectified in this coming quarters that is the discussion which we had and secondly as we start improving our volumes, the optimization of overheads will take place, therefore the margins will have to improve.

**Jasdeep Walia**: Sir, I was talking about gross margins?

**P. Srinivasan**: Gross margins so far we have maintained the same level, so I do not see much of a challenge, because both RM prices and the finished goods prices have bottomed out, if at all it has to improve from here on.

**Jasdeep Walia**: Sir, this product that you were mentioning, which is 100% imported in to India, how big is the product?

**R. M. Gadgil**: It is about 8000 tonnes per annum.

**Jasdeep Walia**: And in terms of rupees Crores?

**R. M. Gadgil**: Multiplied by roughly about Rs.300 per kg, it is a Rs.250 Crores business.

**Jasdeep Walia**: Got it Sir. Thank you.

**Moderator**: Thank you. The next question is from the line of Udit Gajiwala from SMC Global. Please go ahead.

**Udit Gajiwala**: Sir, it is good to know that the volumes have bottomed out, so the capex that is on schedule, we would not face any hardships in volume pickup in our new capacities once it is installed?

**R. M. Gadgil**: No, there will be no hardships, but the normal period required for getting approvals for new products from new locations that process has to be gone through, we are already in that process. As I mentioned the product some of them are at various stages with various customers, some have received the first stage approval, some are actually undergoing commercial trial, which is a factory level trial, once those are over we are ready with business, so opportunity come the quarter starting October.

**Udit Gajiwala**: That is good to know and just one clarification, you have mentioned it several times, so in case of the antidumping duty get withdrawn we take a hit of 400 basis points, so that will be on FY2019 margins or the current quarter margins?

**P. Srinivasan**: See, in the unfortunate event if the antidumping gets withdrawn, what we look at the impact to the business lines what we have calculated is about 250 basis points.

**Udit Gajiwala**: At net level?

**P. Srinivasan**: Basically the margins we see at the level where we utilize fully, suppose our utilization goes up much higher, your normal profit margins are likely to go up from that level as well as your antidumping gets withdrawn, it comes down by 250 basis points roughly.

**Udit Gajiwala**: Okay. Thank you so much.

**Moderator**: Thank you. The next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

**Rohith Potti**: Thank you and congratulations on quite a heartening performance in such a tough environment.

**P. Srinivasan**: Thank you.

**Rohith Potti**: My first question is on the new plant scenario right now, so we have done capex across both our facilities in two separate phases and the factories coming on line in both those phases at different times, so I was just wondering if you could give us an understanding of let us say Navi Mumbai phase 1, Dahej phase 1, Navi Mumbai phase 2, Dahej phase 2, what stage are the products in, where are we with respect to approvals in each of these cases and I believe Dahej in the last case will be coming on stream in the latter part of this financial year, so if you could give us a detail on where the products are in this particular capex coupled with that what portion of the expenses, fixed expenses are already being incurred by the company and thereby it is affecting our financials?

**P. Srinivasan**: First, in respect on the commitments of Rs.425 Crores, we have already spent about Rs.340 to Rs.345 Crores till date, another Rs.80 Crores will be spent by this remaining part of this year and the products will be commissioned. Second in terms of the entire capex will be funded through internal accruals, no debts. The capacities before this expansion plan were 55000 units including intermediates, which was split between Navi Mumbai 43,000and 12,000 at Dahej. Post expansion of all the facility, the capacity had been doubled to 110000 in which 50% will be at Navi Mumbai and 50% will be at Dahej.

S.R Deo: Phase 1 Rs.170 Crores have already been commissioned, phase 1 Navi Mumbai products are already in the market and we are ramping up the volumes in that product, phase 1 of Dahej is already commissioned and as Mr. Gadgil mentioned you, the samples have been approved at lab level and plant trials are going on and they are at various stages, so we expect that phase 1 of Dahej will have a real commercial sale from Q3 of this financial year. In phase 2 of Dahej, mostly Dahej will be commissioned in the second half of this financial year. Is it clear?

**Rohith Potti**: Yes, so that was very clear, that was very helpful. Thank you for answering it so well. The next question I had was on, I understand the antidumping duty is sub judice, but given as you consistently mentioned in the past that China is the major country in the industry with 70% of the supply and with the automotive pain that is seen there, if you could help us understand what is the scenario right now, has the dumping been quite high despite the duty and how do you see things evolving there, the other players are getting under stocked even today or how is it?

**R. M. Gadgil**: Let me explain, you are quite right. The auto industry is going through pains in China as well. What it does is the domestic market for tyres and therefore for rubber chemicals in China to that extent takes a beating making players more keen to export and look for other markets. Now when that happens they are obviously very keen exporters. India being a major market is something that they would certainly not ignore in their efforts to place larger volumes, but all said and done it is not a one way street, because the domestic players in India like NOCIL will also react to that and we have been reacting in a kind of a calibrated way, so imports have not really gone up, but imports have remained at a level of about say 2500 tonnes per month, which is a 30000 tonnes in a market size of approximately 65000 to 70000 tonnes. So they have not gone up, but I am sure they have availability, they would be keen to sell this for us to defend our markets and at any given point in time there would be imports coming into the country, there would be domestic players selling into the country and there will be players like NOCIL also exporting out of the country, so that kind of a balance would remain. As far as pricing is concerned, which is a larger concern, we feel looking at the raw materials and historical price trends that CIF prices or international prices seem to have bottomed out. I do not think there is much more bottom side left to international pricing or CIF pricing, so what we should see now here after is prices gradually inching their way up.

**Rohith Potti**: Thank you.

**Moderator**: Thank you. The next question is from the line of Dhaval Shah from ICICI Securities. Please go ahead.

**Dhaval Shah**: Thanks for the opportunity. I had two questions, firstly about the exports revenue, which is roughly around Rs.300 Crores on yearly basis, so can you bifurcate it among the top four or five countries, I mean which countries are contributing the most in terms of the export revenue?

**R. M. Gadgil**: By country, let us say Japan would be a major market somewhere in the top four, Malaysia would be a major market amongst the top four, Thailand would be big, and we have significant business in the European Union, we are also exporting into the US, those percentages might be smaller. All in all we are in something like 35 to 40 countries.

**Dhaval Shah**: I mean, this four, five countries, which you mentioned are the top four, five in our export market right?

**R. M. Gadgil**: Yes, and it is actually very heartening because you raised this question, we see weakness in China, we see weakness in Europe, but Japan has been stable and I am very a large chunk of our exports go to either Japan or to Japanese customers like Bridgestone, like Yokohama Rubber, like Sumitomo Rubber irrespective where their plants are. That is one part. The second part is Malaysia, Malaysia is a country and the segment that we are selling to which is people who manufacture gloves and things like that, latex goods, it is very largely insulated from any global slowdowns, being medical related. So, these are very, very stable markets where we are into with dominating position.

**Dhaval Shah**: Right and my second question is, there were some new capacity coming in for accelerators from China if I am not wrong, so how is the demand supply dynamic in the overall market, if you can share, per month demand of this rubber chemical vis-à-vis the supply in the market that would be helpful?

**R.M. Gadgil**: Well the new capacity that was coming up was something like a 10000 or 15000 tonne plant for MBTS, for one particular accelerator, which is not significant in the overall global context. So that would not make much of a difference, but on a holistic view the market for rubber chemicals is still oversupplied and large part of that oversupply is China related.

**Moderator**: Thank you. The next question is from the line of Anuj Jain from ValueQuest Capital. Please go ahead.

**Anuj Jain**: Sir, thanks for the opportunity. I have just one query, what percentage of our revenues is safeguarded by antidumping duty?

**P. Srinivasan**: 50% of our revenues are getting impacted by antidumping duty currently.

**Moderator**: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

**Dheeresh Pathak**: Sir, when the capacity is 110000 that includes intermediates as well, so actual saleable volume would be how much at full capacity?

**P. Srinivasan**: 65% finished good and 35% will be intermediates, the final fine-tuning numbers I do not have right now, but two-third, one-third something like that.

**Dheeresh Pathak**: And Q1 was 6% de-growth volume, so for the full year what volume growth do you expect?

**P. Srinivasan**: We have just said we are positive over volume growth, I think we would aim for a much better volume growth because capacity is available, it depends on how the market shapes up, what we are giving a guidance is from here on quarter-over-quarter we will improve our volume performance that is the only thing we want, let us not get into specific numbers, we would like to do much better than what is available, but let us see how the market changes.

**Dheeresh Pathak**: Last question, have the two-third of the 55000 capacity was fully utilized last year, right when the old capacity was there and new capacity was yet not available, was it fully utilized, the old capacity?

**P. Srinivasan**: Yes, last year we actually, overall with the prorated capacity what came online especially in June 2018, our utilization was about 92%.

**Dheeresh Pathak**: Okay Sir, thank you.

**Moderator**: Thank you. The next question is from the line of Ronak Vora from AUM Fund Advisors. Please go ahead.

**Ronak Vora**: We heard multiple times the fact that the pricing seems to be at the bottom and the confidence in that coming back in some time just wanted to get a sense of how you are thinking about this, is this due to pricing that you have seen in the last several years, is it the price of the raw material that you see for several years or was the spread low, how are we coming to this, if you have some data points I would appreciate that?

**R. M. Gadgil**: I will try and explain that, you look at it in various ways because pricing is a very dynamic subject right, so (a) you take a historical view having been in this business we have data points going back may be two decades, three decades whatever, so you look at how low can pricing sink when the oversupply is well defined and very visible. So you see historical dollar prices of how low the product can go or has gone, then you see it in the context of what was the raw material situation prevailing then. Then thirdly you look at where is the pricing today, fourth thing you look at where are the raw materials today, and the fifth in that you look at is what has changed, let us say if I say my reference is about 5 years back, then what has changed over the 5 years, what has definitely changed over the 5 years is that environmental compliance-related costs have gone up, so in absolute dollar terms, the price can never go down as low as it went let us say 5 years back, we expect something like 30 to

35 cents would be an additional cost incurred today compared to last year, if raw materials are at the similar levels, then the pricing should be 30 or 40 cents higher than the minimum it has seen 5 years back, that is the kind of analysis we bring to the table.

**Ronak Vora**: Sir, this overcapacity that is being mentioned to what extent do you see that the situation being resolved?

**R. M. Gadgil**: Well, the capacity is not going to disappear, a few things will happen, consolidation in the Chinese market where some of the smaller player will go out that is number one. The second things in terms of mopping up this overcapacity in terms of a demand pickup. So demand needs to pickup. First of all it also needs to pickup in China and rest of the world; it is a cycle that we go through. Now what this will do is, this will slowdown further investments elsewhere because anyone taking current view would not be too keen to invest, so this is how over a period time you come to a stage where supply and demand get balanced, which is when people start looking at new investments. The cycles will continue.

**P. Srinivasan**: I would like to add here, we meant the surplus capacity, which Mr. Gadgil mentioned is in relation to the current slowdown, if you recollect in 2017 there was supply demand equilibrium, in 2018, supply was short, demand overshot, in 2019 probably because of the slowdown in Chinese economy, today there is momentary surplus. The important thing is there are no fresh capacities coming up, so the current capacity as we utilize as and when the correction of the downturn gets corrected the surplus situation will get equilibrium.

**Moderator**: Thank you. The next question is from the line of Prateek Giri from Bellwether Advisors. Please go ahead.

**Prateek Giri**: Good afternoon Sir. Very congratulations on good set of numbers in tough environment.

**P. Srinivasan**: Thank you so much.

**Prateek Giri**: Sir, I just wanted to get your sense on this that even when India imposed ADD on Chinese chemical still Chinese players were able to dump their chemicals in India, so is it the same with US ADD, I mean is it that Chinese players are still able to supply to US because of the undue advantage they get in exports?

**R. M. Gadgil**: Let me address this question, for this you have to put yourself into the shoes of a buyer, of a customer. Now if I am a US customer, if I am running a plant in the US, let us say I get Chinese goods at $2.5, let us say for easier calculations at $2 per kg CIF, and let us say typically the Indian price might be say for calculations purpose 2.20, say about 10% higher. Now what the American customer does is calculates at what price those goods land to him at his factory, so in the Chinese case you would know in today context 25% sanctions duty plus normal duty of 6% on $2 from China and you would load 6% duty on the Indian prices and he works out, which is the best option. Now that is how the 25% duty in the US helps us to become more competitive vis-à-vis the Chinese player and this equation of people working out delivered prices to their factory is the ultimate equation used in buying decisions.

**Prateek Giri**: That is very helpful, Thank you very much and I hope that we will continue on this path.

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

**Avishek Datta**: Sir, just wanted to understand how is the replacement market behaving in this situation?

**P. Srinivasan**: Are you talking of tyres?

**Avishek Datta**: Yes.

**R. M. Gadgil**: Very difficult to say, but I did hear from our tyre customers that replacement market is doing much better. There is some traction particularly truck tyres for the replacement market that is the bigger chunk of the market actually.

**Avishek Datta**: Sir, coming to the US market, you have supplied some samples to US market earlier on, so what it is the status over there and what kind of favorable enquires you are getting?

**R. M. Gadgil**: No, I would like to correct that. We are well beyond the sampling stage in the US. After the first set of duties that Mr. Trump imposed in Chinese the interest was alive, we have already been through the sampling and we are already selling into the US last three months, so we are beyond that, of course we have not tapped the entire market, so there still some customers where we would be at various stages of approval and we are trying to expand our tentacles so to say in the US market, carve out a larger space, but we are certainly not at sampling stage.

**Moderator**: Thank you. The next question is from the line of Nikhil Gada from AMSEC. Please go ahead.

**Nikhil Gada**: Sir, my question is regarding this new product, which you are saying which is around 8000 metric tonnes of imports, so just wanted to understand first of all the product is into which category whether it is an accelerator or antioxidant?

**R. M. Gadgil**: It is an accelerator, very largely used by the tyre industry.

**Nikhil Gada**: Sir, is there any specific capacity that we are coming out with, where we have that capacity?

**P. Srinivasan**: Yes, the total accelerator capacity is about 8000 tonnes spread between two finished products roughly speaking 55-45, so this product by itself would be about may be 4000 to 4500 tonnes.

**Nikhil Gada**: I just wanted to ask we will be able to cater to the entire import demand through this capacity right?

**R. M. Gadgil**: We will try and get as much of a chunk of the imports as possible surely.

**Nikhil Gada**: Thank you.

**Moderator**: Thank you. The next question is from the line of Manushi Shah from Sameeksha Capital. Please go ahead.

**Manushi Shah**: I just wanted to know that what is the maximum contribution from US that you expect and by what time will that be achieved?

**R. M. Gadgil**: At the moment if you annualize it, we are probably looking at something like 500 tonnes annually, but it does not take very long to take it to 1000 tonnes because the market is there and the factors and the duties and the landed cost are in favor of buying from NOCIL right, so we have to go through those approval processes, tap new markets, but the climate is very, very fertile for growing our sales in the US market.

**Manushi Shah**: So, in terms of revenue, how would that be like what percent right now and then what is the maximum percentage?

**R. M. Gadgil**: It would depend on the product mix, but if you take 1000 tonnes maybe multiplied by an average price of $3 or something that should be an approximate number.

**P. Srinivasan:** I think that is not representative today in absolute terms, maybe after sometime period passes may be a year or year and a half we will increase our market share there.

**Manushi Shah**: Thank you.

**Moderator**: Thank you. The next question is from the line of Deepak Lalwani from Alpha Advisors. Please go ahead. As there is no response, we move to the next question, which is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

**Dheeresh Pathak**: Sir, just to understand the level of oversupply in the market, so the total capacity was around 10 lakhs roughly and if any new capacity has come up, how much has that added to a total capacity and what is the total global consumption, just to understand how much of the quantity is unbalanced right now?

**P. Srinivasan**: The point is, we were talking about 1 million capacity of rubber chemical globally demand and earlier was also 1 million, what Mr. Gadgil was trying to explain was or rather emphasize was in view of the slowdown some existing capacity remain unutilized. As a result it was surplus situation. More importantly, there are no new capacities have been added. No significant, hardly less than 1% or 2% of the global capacities have been put into operations or commissioned in the last six months to one year. So we do not see any new announcements, so what is more important today let the slowdown pass as the result the capacity will get neutralized and the market situation will still improve.

**Dheeresh Pathak**: Quantify the slowdown that is what I want to know, how much it has slowed?

**R. M. Gadgil:** It is difficult to take a global view on that, but let us say if you take China as a major market, let us say China represents something like 35% of the market consumption, tyre production in China, auto production would be down double digit for the last one year, so that is a significant impact. The Indian situation, India is one of the largest consumers of natural rubber you can see that. So if tyre companies are let us say shutting down their plants 5 to 6 days in a month, how much does it knock off, roughly about 15% to 20% depending on player to player, so that is a kind of slowdown we are seeing. Europe is a shade slow, the US is holding, Japan is holding, so this is the view for the major kind of rubber consuming area.

**Dheeresh Pathak**: Single digit decline is what we…?

**R. M. Gadgil:** You could probably say that.

**Dheeresh Pathak**: And in a normalized year, the growth is mid single digit or high single digit?

**S.R. Deo:** No, in a normal year let us say, if you say that rubber chemicals market grows or falls directly in proportion to the global rubber consumption and typically global rubber consumption in the reasonable year in stable economic parameters grows anything like 3% to 4%.

**Dheeresh Pathak**: Thank you.

**Moderator**: Thank you. The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

**Falguni Dutta**: Good afternoon Sir. I joined in a bit late, just one question in this antidumping duty, does it stand lapsed today?

**P. Srinivasan**: Not really. It is still sub judice because we have to wait for the outcome of the legal positions.

**Falguni Dutta**: It continues till the time the legal outcome is reached or it is not there?

**P. Srinivasan**: Till the finality on the legal issues gets decided the duty will continue.

**Falguni Dutta**: Sir, one more question on the margins, because the raw material prices also would have come off, do we expect an improvement in our operating margin?

**P. Srinivasan**: I think we just said sometime back as we improve our capacity utilizations in the coming quarter and we improve our volume positions, our margin should improve.

**Falguni Dutta**: Thank you, Sir. That is all from my side.

**Moderator**: Thank you. The next question is from the line of Waqar Khan from Angel Broking. Please go ahead.

**Waqar Khan**: Congratulations Sir on a good set of numbers. My question is regarding the change in product mix, so what kind of change are we expecting and any clarification on the in-house generation of power at Dahej site Sir?

**R. M. Gadgil**: Let us divide the question into two parts; your first question was about product mix is it?

**Waqar Khan**: Yes, Sir.

**P. Srinivasan**: In terms of product mix, we have at the moment and looking at the short-term or looking at it for the next three or four quarters, we have adequate capacities for antioxidants. So there it is only a question of selling more, where we were limited by capacity, which was accelerators to that extent that limitation has now been overcome by the addition of 8000 tonnes capacity at Dahej, which has already fructified on the ground. So the product mix for the next year I would see it as moving or growing in favor of accelerators compared to the previous year.

**Waqar Khan**: Sir, can you give me the breakup of between the two like for the next year?

**P. Srinivasan**: I mean a broad percentage we can give you it is about 55% loaded in favor of antioxidants.

**Waqar Khan**: Thank you, Sir.

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

**Dhaval Shah**: Sir, this 65000-70000 tonnes annual market it must have de-grown by what rate in Q1?

**R. M. Gadgil**: You are talking about the rubber chemicals market?

**Dhaval Shah**: Yes, rubber chemical market.

**P. Srinivasan**: In the Indian context?

**Dhaval Shah**: Because you mentioned 30000 are the imports annually versus 65000 to 70000, which is the local market size. This is an annual number, so in Q1 this local market de-grew at what range. So we had 6% volume de-growth year-over-year versus market would have de--grown at what rate?

**R. M. Gadgil1**: We tell you that would be difficult to assess because for that what you need is data and specifically data regarding how the rubber consumption in the county has moved. This data is generally available with the phase gap of three to four months.

**R. M. Gadgil**: So their production, again that story is not the same, I mean there are tyre players who have managed the quarter without production cuts. There are others who have built up inventory in the earlier quarter, they had to go for production cuts, so it is a slightly uneven story.

**Dhaval Shah**: Sir just a last question, since you have a positive expectation of quarter-on-quarter volume growth, so you must be having some sort of number in your mind for the tyre companies volume growth or volume de-growth, so what is that assumption?

**R. M. Gadgil**: We have not factored in any large or sensational improvement in the working of the tyre business, we see a weakness at the OEM level and at the replacement level we do believe there is a market, which has to come back, tyres ultimately have to be changed for the wheels of trade to move, so it has to come back, it is difficult to predict when, but if it has been through a weak phase I think it is about time of the replacement demand should come back. That is one part, this is about the tyre business. The second part is about our volume growth, even if the tyre business is not growing you see a situation where let us say quarter beginning October, we are ready with approvals for an accelerator for which our customers have no option expect to import earlier simply because there was no manufacturer in the country. Now obviously they would divide their sourcing, no one likes to depend 100% on imports, they balance it out between domestic and imports. So our volume growth in all likelihood going to come out two or three areas, it is going to come out on a latex products go into South East Asia and it is going to come out of this new accelerator for which we are the first manufacturer in the country and today where the country is totally imported dependent. So we have an opportunity to grow our volumes even if the tyre business remains stagnant.

**Dhaval Shah**: Basically market share gain from import is what you will be…?

**R. M. Gadgil**: From imports.

**Dhaval Shah**: Correct, and Mr. Srinivasan, one question only last time, we had the vision to be 12% global market share by 2024 or 2025 given things were as you had planned that time, so now the scenario must have changed your view to extend your vision to two year ahead or you still feel that even with the current market condition NOCIL can become global with the 10% to 12% market share?

**P. Srinivasan**: We may moderate a little bit, but I think our vision to acquire our double digit market share continues to remain there, we do not change that, timing may change here and there depending on how the industry turnaround happens because the expansion plans are still on with the customers.

**Dhaval Shah**: Great Sir. Thank you very much and good luck.

**Moderator**: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Advisors. Please go ahead.

**Anirudh Shetty**: Thank you for taking my question, my first question is regarding the antidumping duty impact, it is only to clarify, and did you mean that at peak revenues is the antidumping duty has withdrawn the impact 250 basis point on the net profit level or is it at the EBITDA level?

**P. Srinivasan**: EBITDA level.

**Anirudh Shetty**: Second question is as of today broadly what is our mix between OEM and replacement?

**R. M. Gadgil**: No, not OEM and replacement, I understand the question slightly needs to be put a little bit differently, we look at our market as tyre and non-tyre, it is the tyre guys will look at OEM and replacement market, let us say a tyre company would be supplying to car manufacturer let us say Maruti, as well as selling replacement tyres through the dealer network. For a rubber chemical producer like us, there is a tyre segment, which comprises all the major tyre companies, which are MRF, Apollo JK, Fiat of the world and there is a rubber consuming activity apart from making tyres, which goes into things like let us say footwear, rubber parts for cars, for hoses, for condoms, for gloves, for cycle tyres and tubes, we call it as a non-tyre segment, business of the rubber consumption in India is divided roughly speaking 60-40 in favor of tyre, 40 is non-tyre and 60 is tyre.

**Anirudh Shetty**: Got it. Thank you. That is it from my side.

**Moderator**: Thank you. The next question is from the line of Kiran Naik from Modi Fincap. Please go ahead.

**Kiran Naik**: Thank you for giving me an opportunity. Sir, once the Dahej plant is completed and the production starts, when will you achieve the breakeven point?

**P. Srinivasan**: We have been giving guidance on ramping up the capacity over a sustained period of time, it is a gradual scaling of capacity, and we do not foresee much of a challenge in terms of achieving the breakeven point. We do not wish to talk about the capacity utilization for breakeven point for confidential reasons.

**Kiran Naik**: Thank you, Sir.

**Moderator**: Thank you. Ladies and gentlemen due to time constraints that was the last question for today. I would like to hand the conference over to Mr. S.R. Deo for closing comments.

**S.R. Deo**: I take this opportunity to thank everyone for joining the call. I hope we have been able to address all your queries. For any further information kindly get in touch with us or Strategic growth advisor, our investor relation advisor. Thank you very much once again.

**Moderator**: Thank you very much. On behalf of NOCIL limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.