"NOCIL Limited
Q1 FY2021 Earnings Conference Call"

August 25, 2020

MANAGEMENT: MR. S. R. DEO – MANAGING DIRECTOR, NOCIL LIMITED
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Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY2021 Earnings Conference Call of NOCIL Limited. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees 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, Managing Director of NOCIL Limited. Thank you, and over to you, Sir.

S.R. Deo: Thank you. Good morning, and very warm welcome to everybody present on the call. Along with me, I have Mr. P. Srinivasan, our CFO; and SGA, our Investor Relations advisors.

We hope that you and your families are safe, healthy and secure. Hope you all have received our investor presentation by now. For those who have not, you can view them on stock exchange and company website. This COVID pandemic has not only impacted us today, but it looks like we have to learn to live with it in future also. Apart from health care, which was a major concern, the economies across the globe were impacted. The lockdown imposed by countries across the globe as well as by India, from end of March, was mainly to protect human lives, but significantly affected the livelihood of many. Business operations of all non-essential services were adversely impacted with us being no exception. Lockdown imposed by the government due to COVID-19, completely wiped out our manufacturing activities for the month of April and early May 2020. The manufacturing started from mid-May and picked up thereafter. The impact of the same is visible in our Q1 results, where due to restriction, our ability to service got severely constrained.

Further, the sub-optimal level of operations at the customers end till June 20, further impacted our manufacturing activity. The net result of this factor obviously led to drop in sales by about 50% compared to the last quarter. Fortunately, we did not experience any adverse impact on our sales realization for the quarter. As you all know that in case of lower operating activities absorption of fixed cost will be lower which in turn will impact EBITDA, which happened in our case as well. As volume picks up, we are confident to improve the absolute EBITDA of the company in the coming months and quarters.

Despite such an adverse environment, we are continuously working on the strategy of maintaining volumes, market share from our customers and exploring the option of seeking additional volumes wherever possible. Our production level has started ramping up month-on-month basis, and pace of the de-growth has slowed down to a large extent. From July onwards, we are running at a higher level. Our sales in July have been much better than June and the first 3 weeks of August, as of today it gives us confidence that the momentum has picked up from end June is still sustaining. With the given outlook, we do believe that if these indicators sustain the sales volume of pre-COVID level are quite achievable. This, of course, does come with a rider that any interruption happening at our end or customer end or vendor's due to COVID, will definitely impact the operational parameters.

As government relaxes the lockdown phase and more sectors of the economy starts getting into action, the replacement tire business is expected to pick up and this obviously forms 70% of the tire business. OEM volumes are still reeling from the impact of COVID, resulting in sluggish vehicle manufacturing, although the monthly activities are on an increasing trend from the data released by SIAM. As stated in the previous concall, the restriction on tire imports has led to many domestic tire companies to ramp up their utilization, giving an indication of pickup in volumes in the coming months. We have resumed operations at all our manufacturing facilities and are making concentrated efforts toward ensuring we are ready as the demand picks up. Export segment continues to grow, and our efforts in this segment is to widen our spread across different customers with a global presence.

Just to reiterate what we shared in our earlier concall, even during this time, some reputed international customers have approached NOCIL and have started discussion with us to be their global supplier across all continents. This is a huge opportunity for the company. By virtue of our long association with most international tire companies, the company also enjoys a preferred supplier status with their Indian operations. With increasing presence of these players in Indian market, NOCIL stands to gain significant leverage as a domestic supplier to these plants as well.

With expanded capacity, the company is well prepared for meeting the incremental requirement. I think this is the brief from my side. Now I would like to hand over to Mr. P. Srinivasan to give you update on financial performance. Over to Mr. Srinivasan.

P. Srinivasan: Thank you, Mr. Deo, and good morning, everyone. Hope you all are doing good. Just to reiterate or run through the brief financials of this quarter ended June 2020. To start with the performance of Q1 FY2021, obviously it is not an indicator of a normal quarter or operations, and therefore, it is not strictly comparable with any other previous periods. As already informed by Mr. Deo, the revenue for the quarter got impacted by COVID lockdown. Therefore, the revenue from operations stood at Rs.107 Crores, around 50% of normal levels as our manufacturing facilities were shut for the month of April and early May 2020. With ease in lockdown restrictions, our manufacturing operations resumed from 8th May in a phased manner with strict safety and hygiene protocols. As Mr Deo indicated, on a month-to-month basis, our production levels are increasing, and it is continuing now.

The value addition for the quarter ended June 20 is at Rs.55 Crores, which is about 48.6% of sales. This was an abnormal quarter where we had legacy cost of inputs booked during pre-COVID times, temporarily impacting our valuation.

On the operating EBITDA, it was subdued due to the under absorption of fixed costs on the back of sub-optimal operating levels. Therefore, operating EBITDA stood at Rs.7 Crores at a margin of 7.4%. We are confident to improve our EBITDA margins as sales starts picking up, volumes start picking up which are already being reflected in July numbers as well as the first 3 weeks of August performance. PBT for the quarter as a result is at Rs.9 Crores, which includes the interest income on tax refunds of Rs.9.5 Crores, that helped us to show a profit before tax. The profit after tax is at Rs.12 Crores with margin at 11%. The taxation expense for the quarter ended June 2020 includes credit on account of previous year's income tax assessments. The orders of which was received by the Company during the quarter.

Just to reiterate, the company continues to be debt-free and has sufficient liquidity to take care of its working capital requirements.

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 Nav Bhardwaj from Anand Rathi. Please go ahead.

Nav Bhardwaj: Sir, my first question would be on the employee cost. Like in this quarter, we were at 16.5 crs, and this is somewhat back to our Q3 2019 levels. So, if you could shed some light as to how do we manage this? Is there a contractual labour involved? Or how does this move? And how should we expect this going forward, assuming that our revenues are going to improve from here?

P. Srinivasan: Basically, whenever operations are subdued and, in the way COVID started, majority of management preferred to go for an employee pay cut, job losses and other things. As a company, we decided not to offer increments during the quarter, and to that extent, there is an impact on the payroll staff cost as well as the retiral funds. Basically, what happens is when your increment is sanctioned, the retiral funds also get added into the employee cost. So, because of these 2 factors, we could probably save some cost for the quarter.

Nav Bhardwaj: All right, Sir, and in terms of the other expenses, Sir, what would be a workable number, a normalized workable number?

P. Srinivasan: Nav, I think if you are looking at the conversion cost, basically other expenses are 28.5 Crores as against 50 odd Crores. Basically, during this period, almost for 1.5 months there was no activity. So therefore, there were expenses like plant maintenance, spares, and there could be some contractors service-oriented jobs, which were not there. Therefore, we could save it, but I think, if you are running the operations at a full-scale business, I think those costs will come back to normal. See, maybe some changes here and there will be there, we will definitely look into that, but I think one should not take 28.50 Crores as reference point in the future.

Nav Bhardwaj: Right, Sir. Regarding the volumes, we are almost a few months into the next quarter, as in like, but could you give us an indication of the old capacity, what kind of utilization levels are we at? And the new capacity that we have? If not right now, how do we see it shaping during the current financial year for the new capacities?

P. Srinivasan: I think Mr. Deo very categorically stated that the volume is on an, increasing trend. which is good, It is not right on our part to say that we have achieved this volume and we are in the right zone. Now, let us watch the progress in the next 2, 3 months because more importantly, we have to see how far this is sustainable, how the suppliers are functioning, how the customers are functioning and how we are functioning. fortunately if there is no COVID impact on the business operation, the volume is definitely going to improve, and Mr. Deo gave a very specific indicator that if everything goes well, actually pre-COVID level is a distinct, it is a virtual reality, which can come in, but let us keep our fingers crossed, but at this moment, it is not appropriate to talk about volume numbers.

Nav Bhardwaj: Point taken, Sir. One last point would be, Sir, on depreciation that we have accounted for everything, right? I mean, this is a workable number for sure.

P. Srinivasan: No. , On 150 Crores capital work in progress, that we have, additional depreciation is likely to come in, which will have a 2 Crores or 2.5 Crores impact per quarter So, the workable number post capitalization of 450 Crores, we are looking at 45 Crores or 46 Crores per annum.

Nav Bhardwaj: And any indicative time frame by when will we start that?

P. Srinivasan: That, I think we have already mentioned in the previous call, by October 2020.

Nav Bhardwaj: October 2020, maintain the same guidance. Alright Sir, thank you so much, all the best going ahead.

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

Pavan Kumar: Sir, can you give us an indication of what would be aniline cost as a part of our raw material? And how are we planning to cope with the challenges that they are sourcing in the present context?

P. Srinivasan: We have always mentioned aniline, acetone, MIBK, and nitrobenzene constitute about 65% of raw material cost. Aniline is available from India, Europe, China, and it is universally available.

Pavan Kumar: Okay, but any rough estimate, maybe it is 10%, 20% to aniline as the entire raw material cost?

P. Srinivasan: That is not appropriate at this stage to share it. We have already shared the major inputs, 65% of the 4 major chemicals. I think, let us keep at that.

Pavan Kumar: Okay, and this quarter, volumes from what I understood, Sir, 50% of the volumes of Q4, right?

P. Srinivasan: Yes.

Pavan Kumar: Thanks Sir I will get back in the queue.

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

Rohit R. Nagraj: Sir, first question is in terms of imports of rubber chemicals from China and the current inventories in the domestic market. So, what is your view on the same?

S.R. Deo: See, basically, Rohit, it is very difficult to gauge what is happening in this because if you really see the overall mood, I think on one side, the government is propagating self-reliance. There is also a China Plus One strategy, which lot of people internationally are planning. Both these things are positive signs for NOCIL, and these are only indicators. When these indicators get converted into a business, it will be seen that between the indicators and the actual business realizations, there are lot of constraints and unforeseen situations, like what happens to COVID? What happens to the overall economy? So overall, it looks positive, but that positive indication should get converted into business, and I think it is very difficult to guess.

Rohit R. Nagraj: Okay. That is fine. Sir, the other part, last concall, we had indicated about the restricted tire imports. So, what is your sense since then in terms of the domestic market? So has there been any increase in inquiries from our existing customers? And what is the sense you are gauging from that?

P. Srinivasan: I think Mr. Deo answered it in his regular speech. The operating levels have been on an increasing trend right from mid-June onwards, and I guess still continuing and sustaining. So that answers that operating rates of the tire manufacturing industry in India have increased.

Rohit R. Nagraj: Okay, and one just last clarification. Last time, we had to look at it that there is, the developed one new accelerator, which is an import substitute, and it was sampled out to the customers, and we are expecting some commercial quantities. So, any update on this one?

P. Srinivasan: Yes, it is already on., I mean, it is improved. I must say that the operating of that particular accelerator is on an increasing trend.

Rohit R. Nagraj: Alright, thank you so much, and best of luck Sir.

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

Nirav Jimudia: Sir, my question pertains to the speciality sales for our company. So, like what proportion of our sales last year would be considered as a specialty sale because you have mentioned sometimes earlier in a call that we are also selling some of our products that are categorized as a specialty chemicals. So, if you can just share your perspective on that side of the business? And how it has grown over the last 5 years? So let us say, if you consider a base of 2015. So on a base of 2015, how it has grown, both in terms of sales, operating profit? If you can just throw some light on the same it would be very helpful, Sir?

P. Srinivasan: Nirav, just to clarify, we are selling conventional rubber chemicals as well as some chemicals made for specialized applications. Now in the rubber chemical industry, these constitute about 10% of the overall demand. In case of NOCIL basket, this constitutes about 25%.

Nirav Jimudia: 25%?

P. Srinivasan: 25%,. The advantage in this, it is not a high-value or a high-margin sort of thing. It is relatively a specialized technical application where not many competitors are there. So, the competition is relatively minimal. So therefore, you are virtually getting into a sort of cost-plus scenario. Second aspect is that in the last 5 years, largely it was sold in the export market, in the last 5 or 6 years before, this probably constituted 30% of export sales. Today, it is constituting about 65% of export sales.

Nirav Jimudia: Okay. If you can just explain more in terms of how has been the margin profile over these 5 years? So, is this business a more stable business in terms of generating the EBITDA percentage margins? Or there is also a volatility in this side of the business in terms of the margins moving up and higher? So, if you can just explain on that?

P. Srinivasan: I think the margin profile on the whole has been, if you look at the average margin profile, we think more or less, we will be meeting that criteria, maybe plus or minus 10% of the margin, that is not a problem, but otherwise, everything is okay.

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Nirav Jimudia: Sir, I am trying to ask whether that part of the business, that is specialty chemical. So, are we operating at almost optimum level currently from the old capacity, which we were having, before this expansion?

P. Srinivasan: Yes, definitely.

Nirav Jimudia: Okay, and in the expansion also we have taken care of this side of the business also, I mean, in the expansion also?

P. Srinivasan: Yes, I think the previous question was asked about the new product, there also we have started operating at a decent level. I am not saying optimum level, but decent level.

Nirav Jimudia: Thanks a lot Sir and all the best.

Moderator: Thank you. Next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal A. Shah: Sir, some thoughts on the opportunity for us in U.S., where we have kind of done some work and we are also trying to export a significant number?

P. Srinivasan: USA is a large market, and world's number 2 market in rubber consumption or rubber chemical consumption, we are targeting in that market definitely. With the China trade sanctions coming in against Chinese exports, we have got an opportunity and we have started doing that business from 2019 onwards, and so far, the trend has been good. Basically, I think in the earlier calls, we have been discussing or we are communicating that to establish volume, it is a long-drawn game because you have to establish your credentials in terms of delivery, quality and your pricing approach. It is a combination of 3 or 4 factors before the consolidation of volume happens. So, we are going through an evaluation process and we are pretty confident that it will pick up in the coming years.

Kaushal A. Shah: Sure, and Sir, there was an earlier question also on this. So, in terms of this prevailing kind of anti-China sentiment, both in India as well as in the U.S., we have also, I think, a few months back, made an appeal for the ADD to be kind of resumed. So, any thoughts on that, Sir? Meaning, does it open up any possibilities for us?

P. Srinivasan: I think that we have already answered in the earlier call as well as the annual report which has been circulated. Basically, what we have stated here, that we made an application for a product, one of the main anti-oxidant for the anti-dumping petition. The government first examines the application, whether there is a prima facie injury, and once they are convinced there is a prima facie injury suffered to NOCIL, then they will initiate a case. Now the investigation process will go on as per the DGTR rules, and hopefully, I would say, one year's time, the notification should come favorably. That is what we are hoping for. Let us keep our fingers crossed, but yes, we have taken action to initiate anti-dumping and we felt it was injuring our performance by excessive dumping by China and other competitors.

Kaushal A. Shah: Thank you.

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

Shivan Sarvaiya: Sir, couple of questions. One is on the value addition. Sir, you said that there have been certain legacy costs which has resulted in the temporary reduction. Sir, if you could just quantify the same and give some color there? And Sir, qualitatively, what would be the levers that the company is targeting to go back to the 52-odd percent margins that we used to do? And Sir the second question is on Slide no.19. you have shown the reduction in the global rubber consumption, and the reduction is extremely huge where it goes back to 2013 and goes below 2013 levels. So, how do we look at our capacities getting filled in this environment? And how do we achieve growth and by when?

P. Srinivasan: I will answer it in stages. One is on the value addition part. What we have lost, we have been giving a guidance of 50%, and I believe this quarter, we are at 48.8% or 48.6%. So effectively, we have lost 1.3 Crores or thereabout. So, it is not a significant amount, though for the quarter it is , but in terms of overall thing, it is not a significant overall raw material cost. Basically, we have booked certain raw materials in January, February, and those consumptions took place in April, May, June when the current crude price fall and thereafter it happened. So that is the explanation for value addition, and our belief is that if we operate at reasonably good capacity level, we are confident of maintaining that 50%, unless we decide to go aggressively for volume increase or a price increase or price reductions, etc. As far as the rubber consumption is concerned, I think the Slide 19 very specific states that this is a January-March 20 annualized data. This is the January-March IRSG data has been released. From that, it has been annualized, and there, we find there is a 13% drop in consumption, largely in China which was 26%. So, we believe this year, there will be some reduction and negative growth, but typically, in the last call, we have mentioned that general historical trends is whenever some of debacle happens, the next year will be robust once things settle down. I think we may have to look back to a year 2008, 2009 and 2010, during the Lehman Brothers crisis, how it happened. Maybe that will give an idea of how the business is likely to bounce back.

Shivan Sarvaiya: Okay, Sir. One last question, In terms of any, have you heard of any additional capacity is coming in China? Or are they going to be coming in? Any latest views on that?

P. Srinivasan: Yes. We have heard from China Sunsine, they are coming in with accelerators. They have indicated something in anti-oxidants, but we are not aware of when exactly it is going to be commissioned. I think by the end of this year is what we understand, and something on Insoluble Sulphur. For your information, NOCIL is not in insoluble sulphur.

Shivan Sarvaiya: Okay Sir that is it from me. I will get back into the queue. Thank you.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Just carrying on from the previous participant's question. what is the, maybe perhaps once the pandemic is over and things resume, internally, is there a benchmark that you will have probably set up in terms of when you will are planning to reach a 100% utilization?

P. Srinivasan: I think that this question has been answered during the last call. We had mentioned originally, we had a plan of 3 years, but because of this 1.5 years sluggishness, falling conditions, we believe 4- 4.5 years, we should get it. Say by 2024, we are pretty confident to touch 100% capacity utilization.

Tarang Agrawal: Sure, thank you Sir.

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

Dhavan Shah: So, I have a question on the incremental capex. So, on the Slide no.20, you have mentioned that the asset turn would be around 2x of FY2018 price. So, what is the price level right now versus the FY2018? And you also mentioned that the realizations are more or less stable now. So how do you see the realization will pan out over the period of time?

P. Srinivasan: Dhavan, if you look at current prices, I think we are looking at 1.85.

Dhavan Shah: Okay., and is there any scope of improvement? Because you mentioned that the volumes are picking up. So, are you seeing from, but in short, in terms of the realizations?

P. Srinivasan: No major change, but what we are seeing is that the volume has picked up. The operating level, I must say that for Q2 FY2021, will be in absolute terms, higher than Q2 FY2020. Whether we will touch the pre-COVID level, that is the second issue, but as compared to Q2 FY2020, Q2 FY2021 will be on a higher level.

Dhavan Shah: Okay. and one last question is on the other income and the other expenditure. So, this quarter, we have seen some 7-odd Crores increase in the other income. So, is there any exceptional over there?

P. Srinivasan: I think that we have already announced during the speech that this is old income tax refunds and interest that has been recognized. So therefore, you are able to see a credit in other income by 7.5 Crores, and also you are seeing a credit in taxation provision of 5 Crores.

Dhavan Shah: Okay, and in terms of the other expenditure, can you share how much is the variable and fixed cost over there, I mean the proportion?

P. Srinivasan: This quarter, is not a representative one, but generally, we are talking about 50:50, the entire conversion cost.

Dhavan Shah: Okay Sir, thank you.

Moderator: Thank you. The next question is from the line of Aniruddha Naha from PGIM India. please go ahead.

Aniruddha Naha: I just wanted to understand these tie-ups that you are talking about with global players. Without naming clients, but what kind of modalities are you talking? Are these long-term contracts or pricing feeds? If you could give some idea of how these contracts will shape up in terms of pricing and periodicity?

P. Srinivasan: It is a process, basically, when you are a supplier, you intend to be a supplier to a tire customer. They must evaluate you; I am just getting into the basics for better understanding and clarity. So, there is an approval process. The approval process gets triggered if you are a new supplier, if you are an existing supplier with a new location, if you are an existing supplier with a new product, and if you are an existing supplier with an existing product with a new technology. Any of these 4 parameters gets touched, then the approval is required. These tire companies come and visit your plant, examine your records, understand the process and they fix you, they grade you as per their auditing standards of quality, technical competency, there are so many things. Thereafter, we have to send samples, and then only after the samples are evaluated, maybe sometimes some companies even manufacture tires also out of it, get those tires in different conditions before giving accreditation to NOCIL as their approved vendor. Only then the commercial order starts. Typically, these commercial trials are discussed on a quarterly basis. Unless we establish our consistency track record over 3 or 4 quarters, then only the business starts picking up in a bigger way. I hope I have answered your question.

Aniruddha Naha: And Sir, how long does this process take? I mean, within this thing, would it be, if you can give some time frame of when, if at all it is finalise, how long will it take?

P. Srinivasan: If it is a new vendor, it may take 18 months, if it is an existing vendor in the market, maybe six months.

Aniruddha Naha: Sure, thank you very much, that is it from my side.

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

Udit Gajiwala: The questions related to the anti-dumping duty. Sir, this time we have filed up for one product, if I am not wrong, and how much that contributes to our top line?

P. Srinivasan: , I think I already answered in the last time's call. I think this is very sensitive today with the investigations going on. So, I would not like to discuss on that, please. Apologies for that.

Udit Gajiwala: Okay, Sir. Thank you. Rest questions have been answered.

Moderator: Thank you. The next question is from the line of Anubhav Rawat from MNCL. Please go ahead.

Anubhav Rawat: Just wanted to know Sir, there is this chemical called insoluble sulphur. So why do not you manufacture it? Have you ever tried, or do we plan on doing it?

P. Srinivasan: Mr. Deo would answer.

S.R. Deo: I think this is one product, which we have never looked at it because I think, there seems to be an oversupply in this product, and we have concentrated more in terms of antioxidant, accelerator-specialty chemicals and have not looked at it, and we also do not intend to look at it.

Anubhav Rawat: Okay. Sir, is it only because of oversupply? Or is it like it could be a bit tricky, I just wanted to understand that?

S.R. Deo: Basically, I think when you look at the feasibility, you look at everything, you look at technology, quality, the pricing, and the margins. So, it is a combination of the oversupply, the next 5 years demand in the business, the replacement, all these things you look at and then you decide whether the product should be looked at or should not be looked at. So, it is not one parameter, it is various parameters, which sums up the strategy for a particular product.

Anubhav Rawat: Understood Sir. Thank you, thanks a lot.

Moderator: Thank you. The next question is from the line of Ravi Mehta Deep Financial. Please go ahead.

Ravi Mehta: Just two quick questions. Where do you think you are in the journey of the seeding process from the new plant? So, I think that would be at a fairly advanced stage. So are we expecting some decent-sized orders, no.1. No.2, in terms of gross margins, you already explained that by and large we will make a comeback. So, given the entire mix of the accelerators and the specialty chemicals, where do you think will the gross margins reside? I mean, steady state it will be down from the previous years, but maybe 100, 150 basis points lower than the previous years, but say around 23%, 24% would be the corresponding EBITDA margins, would it be fair to say that?

P. Srinivasan: Gentleman, as far as the EBITDA margins are concerned, I think it is too premature to talk about it because the way the current situation is happening, we are unsure how long, how far the operations will sustain and how long customers are operating, what is the demand of automobile. There are so many challenges. The momentum has picked up, we are not denying it, and that is showing a healthy sign, and we are likely to do a better performance in Q2, than last year's Q2, so it is a good sign. As far as the pricing approach is concerned, it all depends on what is the volume you are getting in. So, it depends on the offers coming at that time, at that relevant point of time and how the competition is working. The major issue here is that the competition continues, and the prices are little aggressive. So, one of the competitors recently have announced their results and, in their summary, they concluded that the market conditions are likely to be challenging for the next six months. They also added that the prices seem to have bottomed out. It is supposed to re-bounce back, but we are waiting for the good time. The question is when and how we will build the cap. The other issue which is happening is on the market front, there are two challenges which the customers are facing. One is the China situation and a non-China situation. So, we are being a non-Chinese player, we seem to have an opportunity to ramp up our capacity utilization because inquiries are coming, discussions are happening. These all things will take some time before it certifies into our series of business volumes or operational improvement. So that is what I can say, it is more positive. We cannot be getting into some objective numbers or quantified numbers.

Ravi Mehta: Yes. I appreciate that but given the mix of now that you have all the 22, 23 kind of rubber chemicals that are possibly available in the market and be present in all the categories. Do you think there are certain categories where we could have advantage over competition or even that is not fairly clear?

P. Srinivasan: I think each player in the market has different philosophy. We have certain Chinese competitors who are more interest in volume, and they operate the plant fully and regardless of what is the price whereas we believe to approach the business in a one-stop shop with 22 products to the customer. So, we are not discriminating between customer A or customer B. We want to satisfy and service all customers. So, the approach from our side relatively is different as compared to a Chinese competitors. So that is the first part. The second part is we still feel that we are likely to get opportunities and we are waiting for the right time.

Ravi Mehta: Yes, but in some of the categories, do you think we have a distinct advantage or even?

P. Srinivasan: Yes, definitely. Especially in certain specialty chemicals, we are much ahead. Let me remind you one thing, in all these parameters, the important fact, which we do not intend highlighting, but I just want to bring it to your attention that these margins are reflecting net of anti-dumping duty., but you have a Chinese competitor who is enjoying a benefit of serious subsidies and other government protections. So when we are able to compete and match the Chinese price with our selling prices and still making margins, it gives us confidence that our technology, our business approach is quite robust, and with the blend of 22 products, we are able to manage it quite well.

Ravi Mehta: Perfect, and last thing, Sir, if I may. I mean, you alluded to 2008, 2009 and 2010 being a historical time line from which we can possibly draw. Do you think next year, we are fairly, fairly decently placed to possibly play out...

P. Srinivasan: I think in the coming months and the coming quarters, basically you have the capacity to setup. It is just that you have to play the volumes in. You need to just encash each opportunity, which comes across your way, it may even tend to amount to some aggressive pricing.. Mr. Deo outlined the conference with a statement that it is important to capture volumes because that is where the plant utilization comes in. Unless the plant utilization happens, then the optimization and other manufacturing benefits will come in. So therefore, it is important to ramp up the capacity. That is our focus, and we will continue to adopt that approach to increase our capacity quarter after quarter

Ravi Mehta: Yes. Sir, my question was more from the point of view that you had eluded in one of our meetings that the foreign suppliers, particularly the U.S. guys want a decent supplier, no.2, and that should be non-Chinese. So, given that fact and given that background, I think the tailwind is significantly in our favor in this kind of scenario. So, from that point of view, you see reasonably solid volume growth at least next year, if not this?

P. Srinivasan: Next year and the next 2 years, I am expecting a reasonable volume growth.

Ravi Mehta: Great Sir, thanks for answering me.

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

Aditya Khetan: Sir, my question is on the free cash flow. Sir for the next 2 to 3 years, a good amount of free cash flow would be generated. So how are you planning to utilize the same since we have no major capex plan as of now?

S.R. Deo: See, basically, you are aware that we will be finishing our capex plan maybe by Q3 of this financial year, because if you really see, 150 Crores still continues to be in capital work-in progress. Now having completed the plant as we say, the emphasis will be on increasing the volumes in the market. Obviously, as an organization, we are never static. We continue to evaluate various avenues, but it is too premature to talk about anything at this point of time, but only one thing which I can say that, yes, we continue to evaluate the opportunities which are available in the market, and when we have a right opportunity and the right plan, we would like to share it with you.

Aditya Khetan: Okay, Sir, , on the exports outlook, Sir, some of the export geographies like Japan has witnessed severe impact of the COVID-19. So, what is your export outlook considering we have witnessed good growth in exports over the last year?

S.R. Deo: I agree that the countries like Japan are severely affected, but one thing I can say that our export volumes are more or less same or they are increasing, Now the tire industries which are existing in Japan, they have worldwide operations, and they always would give a business at some other location. So, we are very confident that our export volumes will definitely continue to grow, but the rate of growth will depend on the pandemic, the specific countries, but we are confident that we will have that share in the export market.

Aditya Khetan: Okay. So, we had given a guidance earlier of reaching 40% by FY2022 or FY2023. So, does the guidance sustain?

P.Srinivasan: There, actually, we would like to clarify. We said export will constitute 40% of the revenue basket at peak levels, and we are going to achieve peak level in 2023 or 2024, more possibly early, Rather, I would like to add, we were prepared for 40% export market and 60% domestic market , but if situation changes, and domestic market increases, we will not mind it.

Aditya Khetan: Okay, Sir, and just the last question from my side. So, would it be possible to share the U.S. volume for FY2020?

P. Srinivasan: No, I think it is a small volume. It is not an absolute; We are about, 1000, 1500, each.

Aditya Khetan: Thank you Sir, that is all from my side.

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

Sunil Kothari: Really a great job you are doing on cost measures. Sir, my first question is to Mr. Deo. During last 5 to 7 years, what we have tried and done is we backward integrated with some intermediates, we previously may not be doing in view, some products we added, so now onwards what we are doing is we are adding some specialized products, accelerators and all. So, any major area over which you will be working for next 3, 5 years, where we are liking or maybe we want to add some product market or some opportunities on which you would be working on strategically?

S.R. Deo: First and foremost thing, I think, you have understood it rightly that at the rubber chemicals business, we always decided that we will not depend on buying intermediates because buying intermediates is something where you are actually buying your own raw material from your own competitor because once the intermediate is manufactured, the intermediate manufacturer has always a capability to manufacture finished product, and that is the philosophy on which we have been always working on, and that is what exactly we have done. For antioxidant and accelerator, we are 100% on our own, and we will never buy intermediates. We will manufacture intermediates and then we will convert it into finished product. So that philosophy continues. As far as the future is concerned, I think I mentioned 5 minutes back, as an organization, our first goal is to consolidate the business segments where we have invested, that means, look at additional volumes, look at how best we can ramp up the capacity at the earliest. Simultaneously, yes, the work continues to happen in terms of business strategies, and new products, but as I said, this is too premature to talk and at the right time when we have the right plans, we would definitely share it with you.

Sunil Kothari: Great Sir, and Sir, my last question is to Srini. Sir, just ballpark or some indicative trade on the pricing trend during last, say, 1 or 2 year all time realizing because we are adding some qualitatively better product or maybe some specialized product. So overall, how is the pricing trend? Because raw materials are moving, so we are maintaining very good gross margin and valuation, but the overall price trend of our products, is there any indicative understanding?

P. Srinivasan: Just to give an update on it, one of our Chinese competitor has given an announcement that the prices have decreased by 24% or 22%, whereas we have said from the peak levels, we have lost 15%. That is the peak of the price effect, we never touched the peak level of pricing and the Chinese threat or consequential scarcity of product on account of pollution control. So therefore, we have reached minus 15%, whereas they have reduced minus 24% from the peak level.

Sunil Kothari: Okay great, and now we are seeing a stability in the pricing?

P. Srinivasan: At least this quarter, we witnessed stable prices. When we have to look at every quarter, it is a battlefield in every quarter with our marketing chief encounters. So obviously, he and his team will try for the best realization, but you have to understand how the competition is working.

Sunil Kothari: Great Sir, thanks a lot, we wish you good luck.

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

Srihari C: Actually, on the Dahej facility, could you please explain the Opex differential between this facility and your Mumbai facility? And in terms of capacity, what is the share currently? And what will it be once the entire capex is done? And, if you could talk a little bit about the product pipeline, new product pipeline?

P. Srinivasan: I think if I understood the question correctly, you are asking about the capacity? Our manufacturing facilities before the expansion were 43000 at Navi Mumbai and 12000 at Dahej. Post expansion of this 450 Crores, it will be 55k, 55k, 50% each.. The second question on new products, I think, Mr. Deo has already answered it. There some work is going on, but this is not an appropriate time to announce it. As and when some substantial progress is there, we well definitely announce it. I did not understand your opex, the third question, What was that question?

Srihari: Yes, right. So, this could be automated. I wanted to understand how is the operating expenditure different? And to what extent this defers compared to your Mumbai facility?

P. Srinivasan: I think in terms of Opex, what happens is the maintenance per se the old plant in Navi Mumbai is much more older and the new plant in Dahej is new. So obviously, the maintenance will undergo a change. Similarly, the overheads of labor, etc., in Dahej will be relatively lower as compared to Navi Mumbai. However, we knew Dahej will have a new plant acquisition. The entire say 400 Crores or 600 Crores capex additions acquisition will come in Dahej as compared to Navi Mumbai. These are the distinct analysis and features of business variations.

Srihari: Thank you.

Moderator: Thank you. The next question is from the line of Chirag Patel, an individual investor. Please go ahead. As there is no reply from the current participant, we move to the next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit R. Nagraj: Just one clarification. So, in your opening remarks, Mr. Deo mentioned that the few customers are classified mostly from divisional to global supplier. So, anything which has commenced process that has commenced towards this or any validation process which has started in the last quarter or two, three months?

S.R. Deo: Rohit, as I mentioned, these are the statements, or the strategic statements made by the customer. So of course, this strategic segment does not get converted into business, but the positive thing which has happened is they have started sampling our product. Now between the sampling and the actual business, the gestation period could be anywhere between 9 months to 12 months. This segment was made just to give you a strategic indication how the business is moving, but it will take anytime between 9 to 12 months to get converted into actual business.

Rohit R. Nagraj: Alright Sir, thanks for the explanation. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Chirag Patel, an individual investor. Please go ahead.

Chirag Patel: I have one question. With respect to the anti-China sentiment, which is gaining momentum with this pandemic, so how are we looking ourselves to get market share or restricted products, particular to the chemical sector?

S.R. Deo: I think, yes, I agree with you that there is anti-China sentiment, and if you really look at it outside China, NOCIL is one of the largest rubber chemicals manufacturer with a basket of 22 products. So, it looks positive. Could be an opportunity, but these are all qualitative statements which I am making because at the end of the day, how long these sentiments continue, whether this sentiments continue into a business or maybe after a year, it dies down, these are the questions for which I have no answers, but if you really ask me, I think if it continues, NOCIL has a much better prospect in terms of rubber chemicals business.

Chirag Patel: Okay. So, in our capex plan and which are estimate in terms of volume and turnover expectation internally, did we incorporated this sentiment or even though the sentiment will not get vast expectation, we would not have any change in our guidance?

S.R. Deo: No. In fact, I think as we have been saying that we have adequate volumes, And if these sentiments get converted into volumes, we can look at it very differently. So, if there is an immediate need for volumes, I think the volumes are available with us practically for all the major products like accelerators and antioxidants. So, as we go along, we will have to observe how these sentiments get converted into actual actions and business,? No worry in terms of volumes. I think volumes, we will be able to supply if it gets into action.

Chirag Patel: Thank you.

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

Praveen Kumar: Thank you for the opportunity. I had one question on the incremental capacity plans of Chinese competitors apart from China Sunsine, players like Kemai Chemicals and Shandong, Yangu Hua Tai. I just wanted to understand, do you have any sense of whether they are progressing with those plans or do you think they are on hold in your view?

P. Srinivasan: If you can look at the press release of China Sunsine in their investor call, probably there is a reference to that., they are saying one of the competitors had IPO plans , it has failed, and the second competitor is operating below the 50%. That is the news we have got from China Sunsine's press release. China is a big challenge, but this is what we could get the information from the conference call. So you can have a look at that.

Praveen Kumar: Okay Sir, thank you.

Moderator: Thank you. The next question is from the line of Chirag Tekriwal an individual investor. Please go ahead.

Chirag Tekriwal: Sir, my question is what was the estimated demand-supply ratio pre-COVID worldwide? And what do you expect demand-supply ratio to be 3 years from now? From your previous presentation, it was incurred that 40000-tonne demand increases every year.

P. Srinivasan: Yes. I think this year will be an aberration,. We are not denying it.

Chirag Tekriwal: So, I am not asking for 2020, post-COVID, I am asking pre-COVID, what was the estimated demand-supply ratio?

P. Srinivasan: We were always looking at 3% to 4%.

Chirag Tekriwal: 3% to 4%, and what was the demand-supply ratio? I mean, was it at 90% capacity worldwide, 95%, and 100%, what was that?

P. Srinivasan: I think in 2018, the market began to experience supply short and demand excess. In 2019, because of the slowdown in the automobile sector, there were no new additions to the capacity, but the supply became excess, demand became short, So I think what is more important is once the economic conditions improve, we can expect supply to be shorter,, but it is too early to talk about it, but this is what the outlook is because as of today, only 2 players have announced expansion plans out of three, Lanxess worldwide have announced some expansionist, NOCIL and China Sunsine. Others, we are not that aware of how much they are expanding. So, any corrections in demand or any improvement in economic activity will create a problem, and otherwise, there could not be any rational for any investment by China Sunsine, to announce for such big investments in the last 6 months.

Chirag Tekriwal: Okay. My second question would be, what would be the capex outlook for the next three, four years only the maintenance capex for NOCIL. I am assuming there would not be any growth capex in the foreseeable future?

P. Srinivasan: I think Mr. Deo already answered. We are working on something. As and when an appropriate time, we will announce it. That is one part. Maintenance capex is not more than 10 Crores a year.

Chirag Tekriwal: Thank you Sir.

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

Avishek Datta: Sir, when you say that your Q2 volumes will be higher than last year numbers. So, what kind of price drop which we have seen on a Y-o-Y basis on a Q2-to-Q2 basis?

P. Srinivasan: I do not have that number right now, Avishek, but on the whole, we have said in 2019- 2020, the price dropped by 15%. but if I am looking at sequential quarter, that is Q1, Q2, there could be marginal corrections here and there, but nothing great.

Avishek Datta: Okay, and Sir, this Q1 revenue drop of 50% on a sequential basis. There is no price correction. It is only volume correction which we are seeing?

P. Srinivasan: It was mainly volume corrections. There were few price corrections, but it was not material to be talked about.

Avishek Datta: Okay, and lastly, Sir, any timeline when this anti-dumping duty, whatever notification is likely to come out, any time line on that, Sir?

P. Srinivasan: That we have already announced. That is about maximum time of 12 months. We are in touch with the government about this,

Avishek Datta: Okay Sir, thank you so much.

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

Pavan Kumar: Sir, what would be the demand, the breakup in terms of volumes on exports versus domestic in Q1?

P. Srinivasan: Q1 actual sales?

Pavan Kumar: Yes. Actual sales, what would be the proportion of exports and domestic?

P. Srinivasan: In Q1 I think we had 50-50 sales volumes with domestic and exports.

Pavan Kumar: Okay, and what was the capex we executed in Q1? And how much of capex is pending until Q3?

P. Srinivasan: I think we still have the entire 150 Crores; it will be capitalized by October.

Pavan Kumar: Okay. So, it is already done?

P. Srinivasan: No, no, October 2020, it will be capitalized, and we said there will be a quarterly incremental depreciation of 2 Crores-2.5 Crores per quarter,

Pavan Kumar: Okay. Fine, and what would be the cash on the balance sheet right now, Sir?

P. Srinivasan: Which period cash balance?

Pavan Kumar: Yes. As on June?

P. Srinivasan: June, I think that is not appropriate to share right now. We will share the cash balances of September. We have already shared it for March 2020.

Pavan Kumar: That is fine Sir. Thanks.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. S R Deo for closing comments.

S.R. Deo: Thanks a lot. I take this opportunity to thank everyone for joining the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with our CFO or Strategic Growth Adviser, our Investor Relations Adviser. Request all of you to be safe under the given circumstances. Do take care of near and dear. Thank you, once again.

P. Srinivasan: Best wishes to all of you.

Moderator: Thank you. Ladies and gentlemen, on behalf of NOCIL Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.