NOCIL LIMITED

"NOCIL Limited Q2 and H1FY20 Earnings Conference Call"

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NOCIL LIMITED

MANAGEMENT: **MR. S. R. DEO – MANAGING DIRECTOR, NOCIL LIMITED**
MR. R. M. GADGIL – PRESIDENT, (MARKETING), NOCIL LIMITED
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Moderator: Ladies and Gentlemen, Good Day and welcome to the NOCIL Limited Q2 and H1 FY20 Earnings 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 the date of this call. These statements are not the 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: Good evening and very warm welcome to everyone present on the call. Along with me, I have Mr. R M Gadgil – President (Marketing), Mr. P Srinivasan – Chief Financial Officer and SGA team, our Investor Relation Advisor

I hope you have received our Investor Presentation by now for those who have not you can view them on stock exchange and our website.

A quick update on auto industry, on the global front increased trade tensions between the US and China saw major economies posting weaker numbers impacting the global economy. The trade conflicts have negatively impacted market sentiments across the globe. For NOCIL, we saw growth of 10% from the export market for the 1st half of year 2020 compared to the same period last year.

As discussed last time on the call we are pleased to inform you that we have received a very positive response from US customers and by September 2019 we have crossed 500 MT of sale of rubber chemicals. The Indian auto industry continues its slowdown for the first half of the fiscal year 2020. Auto numbers which was released two days back gave a good picture for the month of October with domestic dispatches primarily in 2- wheeler and PV segments were good. Overall, inventory level of most of the auto segments is less than 1month now which is good sign for the industry. With the reduction in the inventory levels, we hope to see better traction in our business on the back of reviving demand of the auto industry.

Before going to our performance for the September quarter and first half of the fiscal year 2020, we feel proud to inform you all that NOCIL has been conferred the ICC award for Excellence in Management of Environment for the year 2018 for its plant at Dahej, Gujarat. The award recognizes the Company's effort in reducing the Environmental footprints by employing various techniques to reduce pollution. The award function was organized by Indian Chemical Council (ICC) on 27th September 2019 in Mumbai. This is the 2nd award which company has received from ICC. Last year the company had received an award for Development of Indigenous Technology. It has already received Responsible Care award from ICC for 3 years during FY17-18. This shows the Company's strength and efforts towards Innovation and developing environment friendly technologies. Our R&D capabilities and technological strength help us to be competitive in both Global and Domestic business.

Now coming to the anti-dumping duty:

The matter is still subjudice and is pending before the supreme court. We shall update you all on the same as soon as we receive any further news on the said matter.

On the CAPEX front

Phase I capex of Rs. 170 crores have already been completed in January 2019.

Our CAPEX programme - Phase II of Rs. 255 crores for expansion of capacities of rubber chemicals including the intermediates consumed towards manufacture of rubber chemicals started the trial runs effective 17th October 2019 at Dahej Plant. Commercial production will start on receipt of approval from major customers. The plant will meet the domestic demand of antioxidant portion of the rubber chemicals business.

Our total capex of Rs. 425 crores are now complete and was funded by internal accruals. However, due to weakness in demand in auto industry, the capacity ramp up has been delayed than expected earlier. This has resulted in increase in overhead expenses and slower cost absorption leading to the operating margin contraction.

Coming to the financial performance:

Even in this subdued market we were able to maintain our sale volume like the last quarter. However, revenue was impacted due to softening of realization, yet we could maintain our Value - addition above 55%.

EBITDA for H1 FY20 stood at Rs. 104 crores with a margin at 23.7%. Relatively lower capacity utilization and higher conversion cost impacted the performance.

Just to sum up:

In view of prolonged slowdown and its overall impact in H1 FY20 we have degrown for the first half by approximately 7%. Though some green shoots have been witnessed in October car sales number, we believed that we may not be able to make up fully for the lost sales of H1 in the coming quarter of FY20. We believe we could end up the current financial year between 0% to 5% degrowth.

Now I would like to handover to Mr. P Srinivasan to give you update on financial performance.

P Srinivasan: Thank you Mr. Deo and good evening everyone. Let me wish you all a Happy Diwali and a prosperous New Year. Let me take through the financial of the company for the quarter ended September 19 and half year ended September 19.

For the 2nd quarter of Financial Year 2020

Net Revenues for -Operations (net off GST) for Q2 FY20 is at Rs.210 crores and for Q1FY20 is Rs.230 crores. Revenue is down by 8.7% for a Q-o-Q basis. It was on the back of the slowdown in the auto industry with sales volumes trend being flattish. On a Y-o-Y basis the revenue is down by 22.9%. Value-additions for Q2 FY20 is Rs.121 crores as against Rs.129 crores in Q1FY20down by 6.5% on Q-o-Q basis. with margin expansions of 135bps to 57.7%. The reason was better product mix and a stable input price. On a Y-o-Y basis the value addition is down by 20.7%, but on the margin front it has improved by 162 bps showing strong cost position of the Company even in this challenging environment.

Coming to the operating EBITDA:

Operating EBITDA for Q2FY20 is Rs.48 crores and Q1FY20 at Rs.56 crores. Operating EBITDA was down by 14.7% on a Q-o-Q basis. The operating EBITDA margin stood at 22.8% in Q2FY20. The pressure on the margin is due to relatively lower capacity utilization and higher conversion cost which was seen at a level of ~26% - 27% in the last financial year increase to ~33%. The PBT for Q2FY20 is Rs.42 crores as against Rs.51 crores in Q1FY20 down by 16.4% on Q-o-Q basis with margin at 20.2% for Q1FY20.

The Profit after tax for Q2FY20is Rs. 55 crores up by 69% on Q-o-Q basis and by 4.5% on a Y-o-Y basis. This was due to tax credit in this quarter.

In view of the recent amendments in the taxation laws the company made an evaluation of the normal tax rates and the concessional tax rates for the next 5 years and after detail study the management of the company decided to opt for concessional tax rate of 22% plus applicable surcharge. Accordingly, a deferred tax credit of Rs24 crores was considered and this has resulted in the PAT number for the quarter looking higher than the previous year.

Coming to the half yearly performance for the financial year 2019-2020:

Net revenues for operations for H1 FY20 are Rs.439 crores as against Rs.540 crores in H1FY19 a drop of 18.7%on Y-o-Y basis. Value-addition for the H1 FY20 stood at Rs 250 crores as against Rs.302 crores in H1FY19 down by 17% on Y-o-Y basis. Though it is down, in absolute terms, but margin was up by 116bps to 57% in H1FY20 as against 55.9% in H1FY19.

Operating EBITDA for H1FY20 stood at Rs104 crores as against Rs159 crores in H1FY19. Operating EBITDA was down by 34.4% on Y-o-Y basis. Operating EBITDA margin stood at 23.7% for the first half of the year.

Profit before tax for H1FY20stood at Rs.93 crores as against Rs.153 crores in H1FY19 was down by 39.2% on Y-o-Y basis with margin at 21.2% for H1FY20. Profit after tax for the H1 FY20 stood at Rs.88 crores as against Rs.104 crores in H1FY19 was down by 15.2% on Y-o-Y basis with margin at 20%.

With this, we would like to open the floor for question and answers.

Operator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Sir, I have three questions. First, I wish to understand since the ADD is subjudice. Currently are we getting benefit or not? Second if you can give me Y-o-Y volume growth for Q2 FY20 and thirdly have we been able to add any new clients for the new facilities that we have built?

P Srinivasan: Coming to the volume it has degrown by 8%in Q2FY20 on Y-o-Y basis. As far as addition of new clients yes, the approval process is on for the Dahej site and we are happy to announce that some of the customers have already approved for the new products originating out of Dahej site accelerate project. We hope to start the commercial volume on a bigger scale from January 20 onwards and the trial orders have already started now in this quarter. As far as the ADD impact is concerned the prices were negotiated inclusive of ADD at the beginning of the quarter, there have been some moderations to that effect.

Anand Bhavnani: ADD is currently no longer there while the matter is subjudice importers can import without any anti-dumping duty?

R. M. Gadgil: Yes, it is right ADD is not been charged from end of July.

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

Dhaval Shah: Sir, couple of question from my side, you rightly mentioned in Q1 that the volumes have bottomed out so Q2 there is a further realization degrowth?

P Srinivasan: Yes, there is a degrowth.

Dhaval Shah: What is your outlook on that do you see further correction in the price despite change in product mix?

R. M. Gadgil: Well, difficult to predict, but considering that China is something like 75% of the supplier to the global market, we track the Chinese market very closely to see how Chinese prices are moving in the domestic market which in a way tells us what they are likely to do in the international market and from the end of September Chinese domestic rubber chemical prices have been steady. So, I would like to believe that prices have seem to have bottomed out.

Dhaval Shah: So, this improvement in GP margin is account of any raw material advantage or it is purely a product mix?

P. Srinivasan It is more of a product mix.

Dhaval Shah: So, the new capex and the new product which you have entered and given even the last phase has now started commercials shall we expect further expansion in gross margin?

P Srinivasan: Dhaval there is a correction in the last phase is on a trial production it has not started commercial production.

Dhaval Shah: So, whenever the commercial starts would you expect GP to move up from here?

P Srinivasan: I think it remains to be seen when the approvals from the customers come in and at that the market conditions. Now today what is happening is slowdown is there so this is not really a representative situation to evaluate all those things, but on a longer term if the business conditions improve and move out of the slowdown to the normal conditions I do expect or one can expect the value addition to be quite maintained or if not better it will improve.

Dhaval Shah: Sir, is there a case of increasing dumping or our customers moving to buy more of Chinese rubber chemicals and not buy from the domestic market?

R. M. Gadgil: . There is always a lag between the availability of import data into the country and the actual imports, but going by the latest data available imports have neither gone up nor have they come down so I would say they have probably stabilized and reflect a kind of strategic thinking on the part of the domestic customers to balance out their requirements between imports and domestic. No one wants to put all the eggs in the same basket.

Dhaval Shah: Sir, so if the imports have not gone down and the end market has degrown that means the purchase has happened from the imports because the market is shrunk.

R. M. Gadgil: Yeah you can see the effect on our volumes.

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

Sunil Kothari: Sir, we have grown 10% exports volumes in first half so can you provide volume degrowth in first half, as second quarter you already said 8% degrowth. What is the first half or first quarter degrowth in domestic volume?

P. Srinivasan as compared to first quarter?

Sunil Kothari: Mr. Deo mentioned exports growth in first half, so what is the domestic volume degrowth in first half?

R.M. Gadgil About 15% to 16%.

Sunil Kothari: Sir, during this first quarter Concall which was by July end we were little feeling more confident about the recovery, so what is your current thought process, what is the change happening do you see this recovery delayed or how do you see the current situation because what we are seeing is now with this 7% volume degrowth in first half we are talking about full year 0% to negative 5% which means we should be doing volume growth in second half so just broad thought process of the situation?

R. M. Gadgil: This is based on best kind of estimates or educated estimates for the market going forward because we are looking at October-December and Jan-March. Now on the domestic tire front we see some green shoots in terms of better automotive sales /car sales which you must be aware of that. Now that should help in terms of reducing the extent to which you have lost business in the first half.

Now how far it sustains remains for everybody to see. From the exports there is currently some positive news and we expect to build on that with some new additional opportunities. If we have picked up say 500 metric tons in the first half in the US market for example or with the newer opportunity we might want to do a little bit more and consolidate more on the export growth so that will cut down some of the volumes that we have lost in the first half and considering that the slowing down has happened for about almost four quarters now. One more thing that in a developing market like India it should be time for a turnaround, and we believe that.

P Srinivasan: Mr. Sunil I would like to have one more clarification on the second quarter performance we were expecting to do better in volume terms, Actually in realistic terms during the month of July and August as compared to the average of first quarter we really perform better. In September the slowdown has been un-precedent one there was a deep-down production cuts as a result the volumes become flat. We were schedule to go on marginal growth.

R. M. Gadgil: Just to add one more thing I talked about better volumes coming from exports, I talked about what looks like green shoots in the automotive industry going by sales and thirdly the benefit of all the Dahej products which are currently under factory trails. So that is a penultimate stage of evaluation with the tire customers if those approvals come in, we should be in commercial quantities for Jan-Mar so that should add volumes also.

Sunil Kothari: And sir last question is this we have done really well in terms of exporting to US which we are targeting for the full year 500 tons and we already completed that, so next year can we expect some bigger opportunity or yet it will take another year or two to become a sizable business?

P Srinivasan: I think this will grow more than 1,000 tons we are targeting about 1500 there above but let us see.

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

Nav Bharadwaj: One if you could help me figure out the breakup of the 22% degrowth that we have seen, the part of the volume we figured was 8%, right?

P Srinivasan: Yeah.

Nav Bharadwaj: The remaining can it be fully attributed to prices or some other factors can be pulled in as well?

R. M. Gadgil: Two effects, largely international price levels came down a bit quarter-to-quarter and let us say two months out of the July-September quarter were without anti-dumping duty, so it is a combined effect.

Nav Bharadwaj: Can we numerically attribute a figure to it?

P Srinivasan: Not directly quantifying at this point we can work out and let you know.

Nav Bharadwaj: Just one question October is already gone, so December quarter comparing October to July if you could comment as to how are we seeing the volumes and the prices month-to-month for one month?

P Srinivasan: Just as a guidance we would like to maintain a flattish trend for October-December.

Nav Bharadwaj: Flattish this is sequential or year-on-year?

P Srinivasan: Sequential.

Moderator: Thank you. The next question is from the line of Pawan Kumar from Ratnatraya Capital.

Pawan Kumar: Sir, so if my understanding is right that now there is no impact of ADD in this particular results at least for two months and going forward any kind of ADD being built into the contract or it is just an international prices which determines the customer range?

P Srinivasan: Virtually we are out of ADD in that sense.

Pawan Kumar: This quarter results whatever are showing 15% realization degrowth includes the impact of ADD going off for two months, right?

P Srinivasan: Yes.

Pawan Kumar: And but 15% realization drop, and you also mentioned about a lot of fixed cost going to the system, but your employee expenses or other expenses do not show any big increase?

P Srinivasan: We would like to clarify it little differently when I am looking at a stable growth situation says last year Q2 FY18 and the corresponding operating conversion cost and corresponding conversion cost in absolute terms was constant, but the volumes were dropped by almost 7% I would say 8% so that is getting distributed over a lower volume that is what we meant.

Pawan Kumar: You are saying that whatever is the new facilities cost like recruitment in employee cost etc. is not included?

P Srinivasan: That has already been built in Q4 FY19, it is already there for more than two and half quarters. This Rs.73crores conversion cost or the cost over the value addition that is constant around Rs.73 crores thereabout.

Pawan Kumar: Sir, what is your current view on where our margins could bottom out going forward?

P Srinivasan: The good part is that the value additions seem under control and the challenge is always been as we have been given guidance to you about the volume utilization or the capacity utilization and as and when the capacity utilization gets around to normal levels you should see the improvements in EBITDA margins. See the basic advantage or the plus points with the company has is that the facilities are in place, it is the situation of the prolonged slowdown and as Mr. Gadgil just now mentioned that it has been there for almost four quarters or five quarters and it is time that corrections has to take place and we believe the time has come the correction has to start working and if and when it happens I think we would be in a better position to encash the opportunities in terms of better EBITDA margins.

Pawan Kumar: And any update on what might be the date for Supreme Court rolling on this issue?

R.M. Gadgil No, sorry I think there is no indication as of now.

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

Udit Gajiwala: Sir, I have couple of question what will be a CAPEX for this year and the coming year?

P Srinivasan: CAPEX I think we have already announced of Rs. 425 crores after that there are no new CAPEX other than some marginal debottlenecking or some small CAPEX here and there, but that Rs. 425 crores what has been approved by the board during December 17, January 18 thereabout after that there are no new CAPEX additions and in line with those announcements, the CAPEX execution is on and the mechanism completions are already over.

Udit Gajiwala: And sir can you give the bifurcation that what was the export mix for the quarter and half-year ending?

P Srinivasan: We said that the exports are grown by about 10% for the first half and the domestic has degrown by 15%.

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

Dipen Shah: Just carrying forward from one of the previous questions the anti-dumping duty withdrawal in terms of pricing happens for the last two months, so is there any residual impact on margins which we can expect from the current quarter or as in the 23% what we have recorded is probably the base in the given circumstances?

P Srinivasan: Very difficult to quantify an absolute number, but the broad guidance is that the value addition what is being shown or what has been reported, we don't believe to be much of a challenge going forward at least in the immediate quarter. If the volumes what we perform is okay and it is expected to grow, the EBITDA margins are likely to improve. Conversely, if the volumes remain flat then we are expected to maintain the similar percentage.

Dipen Shah: And should we expect any further additional expenses either on a depreciation front or otherwise once when the new commercial production from the new plant starts?

P Srinivasan: I think once the commercial production of the second capex is started then the additional depreciation will come, and some operating expenses are expected i.e. conversion cost, other than that we don't expect any more changes.

Moderator: Thank you. The next question is from the line of Ashish Golecha from Ajit Securities. Please go ahead.

Ashish Golecha: I wanted to know your revenue share by OEM for new vehicles versus a replacement and wanted to know some insights on replacement demand group currently?

R. M. Gadgil: When we talk of OEM and replacement, we are talking of the business models of our customers not ours. We are selling into the tire companies they have a split as in OEM and replacement sales. For us it is a tire companies and the other rubber process that is where we sell. So, it is not really OEM and replacement.

Ashish Golecha: And sir you talked about 5% degrowth in the revenue this is for the current 6 months or for this quarter you are talking about?

P Srinivasan: I think clarification we talk about 7% degrowth in volumes for the first half and we expect to end the year at 0% to 5% degrowth in volumes not in value.

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

Rohit Nagraj: Sir, on the capex front what would be the amount which will be capitalized during this year and what could be the rate of maintenance capex for the next couple of years because it seems that our major capex is over and it will be only debottlenecking and maintenance capex which will be there for the next 2 -3 years?

P Srinivasan: About Rs 250 crores of capex must be capitalized. Now this is subject to the customers approvals. So, once the major customers approval is coming then we will capitalize it. As far as the maintenance aspect of it is concerned that depends on how the plant run at the capacity utilization, but typically 2% of the capex cost can be attributed towards maintenance.

Rohit Nagraj: Sir, on the tax front so if I calculate the effective tax rate for first half it comes at around 6%, so what would be the overall tax rate for the FY20 as such I mean would it be the 25% including the surcharge, etc.?

P Srinivasan: I think the first half is 6%, the second half will be 25% because the deferred tax component has been recognized as in September '19 that is as per the accounting standard. May be if you take the weighted average of these two you will be ending up for year at around 15% tax charge to the P&L for FY19-20.

Rohit Nagraj: And sir just last question on the RM prices front, last quarter we had indicated that they have bottomed out, so what is the case playing during this quarter and that is the precise reason why the gross margins have improved?

P Srinivasan: Yeah to an extent, and to some extent its product mix that plays a role.

Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

Ashish Kacholia: Can you please tell me a little bit about the international pricing scenario of our products?

R. M. Gadgil: Prices have been going down over the last three or four quarters, but the movement between the recent quarters and what we expected going forward has been very small which tends to suggest that prices may have bottomed out and with a pickup in demand prices should start going up again.

P Srinivasan: Some corrections have started happening in few products not materials, but it has started happening.

R. M. Gadgil: In some of the products with the withdrawal of anti-dumping duty, CIF levels have gone up because the exporters or our competitors see an opportunity to increase their price without losing the competitive edge because the additional duty is not there.

Ashish Kacholia: , Are you saying that the rupee prices have climbed after the anti-dumping duty has gone away?

R. M. Gadgil: No, I said the dollars prices are going up, CIF dollar levels into India have gone up because the exporters saw an opportunity to increase their CIF prices because the additional burden of ADD was not there.

Ashish Kacholia: So basically, they have raised the dollar prices to kind of pass on the benefit of that?

R. M. Gadgil: That is right.

Ashish Kacholia: And you know some of the Chinese players China sunshine and all these guys have also kind of added some capacity over the year, are you seeing some desperation to sell and kind of take market share, what is our market share position in the market?

R. M. Gadgil: . The recent capacity increases have been largely in areas where we do not operate, they have happened in products like Insoluble Sulphur for example. NOCIL is not in the Insoluble Sulphur r business so that does not impact us. It does not change the fact that rubber chemicals are oversupplied today, but the situation has not become worse. You had a second question also right.

Ashish Kacholia: Yes, that is regarding our market share that we have been able to hold on to our market share after the ADD has gone away?

R. M. Gadgil: You mean globally.

Ashish Kacholia: In the market wherever we operate, I think I would rather ask about the Indian market because in the global market we are too smaller player to calculate our market share.

R. M. Gadgil: We would need to work it out quarter by quarter, but the market share would not have moved much.

P Srinivasan: I would like to add here the surplus capacities is in relations to the current slowdown situation, in case the business condition slowdown gets corrected then the surplus gets eliminated out and that can be seen by no new major additions by the Chinese competitors or even the global competitors.

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

Abhishek Dutta: Sir just wanted to know can you just share some more update on what is happening in the US market like there been any more inquiries from the US customers?

R. M. Gadgil: Can you speak a bit louder I think you mentioned about the US market and what is happening as far as we are concerned.

Abhishek Dutta: Correct because of this ongoing US-China trade war situation

R. M. Gadgil: The trade war continues, and the additional duties imposed on Chinese rubber chemicals continue. This is to say that the advantage that we have in that market continuous. Now as you might be aware rubber chemicals take some time in terms of their approvals at various customers, approvals of plants, factories specific, customer specific so that takes time, but the process of opening up new markets, getting new locations in the US is already on, but to a certain extent you have seen the improvement in US volumes for the first six months. The US market apart we also see certain new opportunities coming our way from the Russian market where the things like chemical registrations is a slightly time-consuming process. I see that it is coming to a culmination and we have some ready opportunities in Russia which I think we should be able to access very soon.

Abhishek Dutta: Can you just quantify like has there been any enquiries from the Russian tire majors or something?

R. M. Gadgil: We have definite assurances from customers we are dealing with in their other plants, but we were not servicing their Russian plant because the registration requirements by the Russian government which are close to be completed so those plants automatically become accessible to us subject to competitiveness.

Abhishek Dutta: Sir one just small clarification like you mentioned that this EBITDA margins are likely to bottom out around these levels if the volumes do not recover however with improvement in volumes the margins can improve from these levels?

P Srinivasan: The conversion cost being what it is today, it is flat in absolute terms. So, whenever your volumes grow the value additions also grows pro-rata to volume corrections and the conversion cost being constant and there are no incremental numbers your EBITDA margins are likely to improve.

R. M. Gadgil: And we would see that happening from the first quarter of calendar year 2020 because as I mentioned the new product from Dahej are right now at penultimate stage of becoming a business reality which is the factories trails in metric ton lots. Once that is through, we would be competing for that requirement in the country. So, when the trials are completed, I think first quarter of 2020 we would be in business with these new products on Dahej that would effectively bring down the per kg fixed cost.

Abhishek Dutta: Has there been any delay on global tire capex like you used to say that $10 billion capex and in the domestic front, has there been any delay in the capex plans from the tire players or something?

R. M. Gadgil: Well, there has been no significant kind of delays in investment plans I mean everyone has a firm faith that the tires business in this country has to grow. Now that the way people are looking at these investments is to time them properly. To that extent somebody might be going a little slow somebody who is fully committed will just go through the expansion it would vary from player to player.

Abhishek Dutta: Sir just one more clarification just if you can throw some more lights like has there been any increase in inquiries from the US clients just because they want to move away from the Chinese plants and now that you have got a capacity available in Dahej?

R. M. Gadgil: Well, we are getting larger volumes from existing customers. Our distributors in the US market are working actively and getting new approvals their volumes in terms have gone up. I would say to answer your question yes because obviously with a differential or something like 25% in import duties any consumer in the US would look for alternate suppliers right.

Abhishek Dutta: But right now, sir there was some news reports that WTO US is likely to cancel some of the export subsidies which India gets. So, the export to chemicals to US will get expensive, so what is the status on that?

R. M. Gadgil: Let me clarify on this I think we are talking of two totally separate things. The recent news that you are talking about presumably what you have in mind is the WTO judgment regarding some of the subsidies or support that the Indian government was offering to Indian exporters. It is not chemical specific, but some of the schemes that were there for example the MIES which the WTO has said do not stand the scrutiny under WTO rules and regulations. Alternate there is a time for these schemes to therefore to be withdrawn. So, the MEIS is likely to be withdrawn probably going forward a few months, but the Government of India would take steps to implement new schemes which are WTO complaint that does not change the import duty advantage do we have in the US market vis-à-vis China.

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

Dhavan Shah: I have few questions. Firstly, our value addition right now is around 56% so I just wanted to understand what could be the maximum value addition in our business portfolio and what is the gross margin differentiation between value-added and the non-value-added products?

P Srinivasan: I think we were probably one of the highest value addition percentages in absolute terms over the last three to five years if I am not mistaken. There are no basic differentiations in terms of the best products and the worst products or things like that. I would say plus or minus 5% here and there.

Dhavan Shah: And secondly you highlighted that the ADD is still not removed, but the anti-dumping is not levied on the imported products so that has happened from around the

August and September so what is the landed price in August and September versus July if you can share?

R. M. Gadgil: First, we are talking of an entire portfolio of products and price levels individually product to product do tend to vary quite significantly. So, the landed prices would be different for the 20 different rubber chemicals that we might be making. The ADD levels also were individually levied and the levels depended on the product they were not the same. So, it is quite an intricate kind of calculation that you know your requesting now.

Dhavan Shah: But on an average if you can share, I mean the price differentiation is that around 10%, 15% fall in the prices over July something?

P Srinivasan: I would put it very differently I think the impact generally was what we have been giving guidance of 40- 45 crores per annum which means 10 crores to 11 crores per quarter the impact of ADD on the revenues as well as for the profit for the business. Now it depends on six separate products, three to four separate sources and each quarter negotiation at the CIF and applicable duties what they were calculating. So, as Mr. Gadgil just pointed out it is a very intricate or a complex calculation and one cannot derive a simple number, what I can give you as 40- 45 crores was the impact for the year or 11 crores per quarter there about.

Dhavan Shah: And roughly I mean whatsoever the average price of a portfolio between this August and September is, so do you think that these prices are sustainable for this second half as well?

R. M. Gadgil: Well, I will try and answer that again a futuristic question, let us say how the domestic market prices are worked out, the first benchmark is your import options the custom duty paid landed cost of an import alternative. Now that sets the tone for the market pricing over which of course the domestic suppliers by virtue of the just in time delivery and the other services that I give we get a premium on that. It is not exactly equal, but the direction is set by international prices. Now as far as we are concerned, we see international prices is having bottomed out. I would like to believe that prices would remain at the July, September level going forward into October and December. I also mentioned earlier that the Chinese domestic market prices seem to have bottomed out which would mean that their export prices would also now kind of remain at this level till they get an opportunity to improve. So, once it is done, I think it should be possible to hold the realization levels.

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

Phalguni Dutta: Sir, what is the value of exports to the US in H1?

P Srinivasan: It is about 500 tons. Value we have not worked out separately,

Phalguni Dutta: Would it be possible to share us some broad percentage even that will do?

P Srinivasan: I mean it is too premature to even give a number about that, give us some time let us think and workout on that.

Phalguni Dutta: And sir value of the total exports in H1?

P Srinivasan: It is about Rs150 crores.

Phalguni Dutta: And sir in second question you mentioned on pricing, have we seen any price cuts, have we taken any price cuts in September and October, price cut to be in competition to the Chinese prices?

R. M. Gadgil: Yes, we have.

Phalguni Dutta: Both in September and October?

R.M. Gadgil: In September, August after anti-dumping duty removal.

Phalguni Dutta: Sir nothing in October?

R. M. Gadgil: The ADD part was already factored in August itself.

Phalguni Dutta: Yeah that is true sir, beyond ADD has any price cut that we had to take in October?

R. M. Gadgil: Broadly speaking no I mean that would depend on deal to deal because it is the individual contract ma'am.

Phalguni Dutta: Yeah that is true I mean if we take into totality all our products have, we seen any?

P Srinivasan: It is too specific at this point of time to talk about and it is not advisable to share the business sensitivities right now.

Moderator: Thank you. Due to time constraints we will be able to take one last question. We take the last question from the line of Rohit Potti from Marshmellow Capital. Please go ahead.

Rohit Potti: So, my question is on the ADD, so historically NOCIL has shown the willingness to not produce products if the prices were not remunerative. I was just curious is to ADD removable did we do something like that in case if any product become non-remunerative which will curtail production or something like that?

P Srinivasan: No, I think it is a clarification we are supplying about 22 products to the markets ADD was applicable only with respect of six products which clearly shows that we were participating in all the products in the entire basket of rubber chemicals. We are not going to take decision because on ADD being there or not there that could be a temporary phase or not in a permanent in any business situation.

Rohit Potti: I am trying to ask is it like two years back in annual reports you have mentioned that in certain specific products because the prices which the competition was selling did not make sense decide not to produce

P Srinivasan: That is more in relation to the specific account relationship where we felt it is not that remunerative, we were not participating consciously. Let me be very clear it is not that we are not participating the specific accounts where the expectation from a customer were far too very severe and where we felt it is not advisable to get into that.

R. M. Gadgil: Looking back last three or four or five years I do not recall a single product that we stop making or marketing because it did not make sense, but the fact remains that products need to have either a strategic or a financial justification to remain in the portfolio so that evaluation is constantly done.

Moderator: We seem to have lost the line. We will take that as the last question I would now like to hand the conference to Mr. S R Deo for closing comments.

S R Deo: I take this opportunity to thank everyone for joining the call. Thank you very much. I hope we have been able to address all your queries for any further information kindly get in touch with 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 for joining us ladies and gentlemen you may now disconnect your lines.