"NOCIL Limited
Q3 & 9M FY2020 Earnings Conference Call"

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MANAGEMENT: **MR. S. R. DEO – MANAGING DIRECTOR - NOCIL LIMITED**
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Moderator: Good morning ladies and gentlemen, welcome to the NOCIL Limited Q3 & 9M FY2020 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not 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 and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" 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 morning and welcome to everyone present on the call. Along with me, I have Mr. P Srinivasan, our Chief Financial Officer and SGA, our Investor Relation Advisor. I hope all of you have received our investor presentation by now, for those who have not you can view them on the stock exchange and the company website.

To start with, let me summarize the first nine months of FY2020, which has been challenging for the auto and tire industry and obviously for NOCIL, since significant part of NOCIL's business continues to be auto centric. Let me summarize the salient features of our performance for the period April to December 2019 as follows:

Domestic rubber chemical industry witnessed degrowth of 14% which is lower than the auto industry, which has seen degrowth of more than 18%. However, our export segment continues to grow at about 9%, thanks to our market penetration, new account relationship in USA market as well as some improved performance in the specialized application businesses like latex industry.

At the company level, the volume degrowth has been about 7% during the said period. On the value front there has been price pressure across all the segments, and it is about 15%. On the new product approvals with respect to the dahej accelerator products, which started production in Jan 2019, approvals from major domestic customers are in place and the commercial lots of sales volumes have started from January 2020.

On the second phase of the project, which commenced trial products in mid-October 19, samples have been sent to all the customers for approval. The capitalization of the said project will be done on the receipt of approval from major customer and already communicated to the investors at large.

The EBITDA level of Q3 FY2020 of 18% gives us the confidence even in current challenging situation that business model is quite robust and can perform at better levels as the condition stabilize. This was due to the timely steps on technological initiatives and shift in focus on the export segment with respect to product meant for specialized applications.

Coming to the strategy. Midway during the current financial year we decided given that the expansion of capacities is nearing completion, we would like to gain volume market share from our customers and pursue newer customers. The price trends in the market have been on a decline and we did not want to stop supply due to pricing situation. With our capacities that has been scheduled to be doubled, as a strategy we aggressively are pushing volumes in the market. Further we are consciously looking at sales from all our 22 products and we would utilize our capacities so that the productions and sales are optimized. The strategy may have a temporary impact on our margins, but it falls in line with our long-term strategy to expand our sales substantially in view of the expanded capacities coming on the board shortly. The depressed market conditions as it appears are showing signs of bottoming out. Under this scenario we believe that our strategy of increasing volume and thereafter regaining the operating leverage benefit will bring back better margins in coming years.

Going ahead we will continue our strategy of gaining market shares and optimally utilize our resources. I am happy to inform you that we are expecting to do highest sales volume performance in the last quarter of FY2020 and confident of maintaining our earlier guidance of margin degrowth in volume for FY2020 in the range of 0% to 5%.

With this background, now I would like to hand over to Mr. Srinivasan for giving you a financial update. Thank you very much.

P Srinivasan: Thank you Mr. Deo and good morning to every one of you on the call. Let me take through the financials for the company for Q3 as well as nine months ended December 2019.

The net revenue from operations for Q3 FY2020 stood at Rs.194 Crores as against Rs.210 Crores in Q2 FY2020 a drop of 7.4%. There is a drop of Rs.16 Crores. The broad components of these reasons are explained. Rs.3 Crores is on account of impact of ADD withdrawal in this quarter as against the previous quarter where two months of ADD got impacted. Rs.4 Crores on account of degrowth and Rs.9 Crores as Mr. Deo said there has been price suppression for retaining the volumes. This was largely due to the prolonged slowdown, which we feel is not of a permanent nature.

Revenue for the 9MFY20 is Rs 634 Crores as against Rs 801 Crores in 9MFY19 a drop of 21%.

The value addition for Q3 FY2020 is Rs 102 Crores as against Rs 121 Crores in Q2 FY2020, which is a drop of 16% on quarter-on-quarter basis. The prices of raw materials have been on the stable front as far as the quarter ended December 2019. Value addition for 9MFY2020 is at Rs 352 Crores as against Rs 445 Crores in 9MFY19, down by 21%.

The operating EBITDA for Q3 FY2020 is at Rs 36 Crores as against Rs 48 Crores in Q2 FY2020 a drop of 25%. Operating EBITDA for 9MFY2020 is at Rs 140 Crores as against 231 Crores for 9MFY19

Operating EBITDA was down by 39% on a year-to-year basis. The operating EBITDA margins for 9MFY20 stood at 22.1%. Operating EBITDA for the current quarter stood at 18.4%.

You can also notice that the total conversion cost as a percentage stood at the same level at the reduced volume compared to the previous quarter. There has been an effort to control this cost as well.

Profit before tax for Q3 FY2020 is Rs 29 Crores as against Rs 42 Crores for Q2 FY2020. PBT for 9MFY2020 is Rs 122 Crores as against Rs 222 Crores for the9MFY19.

Profit after tax for Q3 FY2020 is Rs 21 Crores, and for 9MFY2020 is Rs 109 Crores as against Rs 148 Crores for 9MFY19.

Before we start the question and answer sessions, we would like to just give a brief update on the recent amalgamations. The proposed amalgamation of Suremi Trading Private Limited and Sushripada Investments Private Limited with NOCIL. Suremi Trading and Sushripada are currently promoter companies of NOCIL Limited, holding 2.07 Crores shares representing 12.5% and 89.6 lakh shares representing 5.41% on the total paid up capital of NOCIL. The total equity shares aggregates to 2.97 Crores representing 17.95% as of date. Upon this scheme of amalgamation becoming effective, the existing shares held by Suremi and Sushripada will be in the paid up capital of NOCIL, which stands cancelled instead in consideration of this cancelation NOCIL issued the similar number of shares to the shareholders of Suremi and Sushripada as on the appointed date. The scheme has been approved by the Board of Directors, the scheme has been valued by the registered valuer, all those formalities have been done, and it will go to the NCLT Mumbai for regulatory approvals.

The objective is to ensure instead of three level controls the promoters would prefer a direct control over the company, thus eliminating the private holding companies. We wish to assure you that there would be no change in the promoter holding post the amalgamation. If at all there could be some marginal increments if they wish to. With this I would like to open the floor for question and answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin with a question and answer session. The first question is from the line of Anand Bhavnani. Please go ahead.

Anand Bhavnani: I have two questions. One is Sir you mentioned our strategy has evolved a bit in response to the market conditions, now we are targeting volumes and prices have been reduced, just wanted to understand in terms of pricing, the levels that we are currently at in the context of let us say last 10 years are these levels the lowest or there have been even lower levels for us in the past?

P. Srinivasan: I would say almost lowest.

Anand Bhavnani: Okay in the last 10 years so this is like decade kind of low-price levels.

P. Srinivasan: I think what you should not look at price levels as a subject on isolation, you must look at the corresponding input price context also. In our view these price levels have been lowest given the current corresponding input prices and these are not sustainable. We do expect some corrections in the marketplace either in the form of competitions not in a position to supply of our volumes at these prices or coming out of the business or something like that, but one cannot rule out.

Anand Bhavnani: Secondly, generally it has happened that volumes do pickup when we offer low prices, so in our case whatever expectation we had in terms of volume pickup has it followed through? Have we got the volumes that we expected before reducing the prices or has there been even disappointment on the volume growth despite the price fall?

P. Srinivasan: If I may summarize, I would like to explain little differently. See the contract understanding with the customers are like this, suppose we enter into a contract with the customer say for example 100 tons for a particular quarter, based on this understanding they give us supply schedules over during the quarter, it should be in intervals of 7 days, 10 days or thereabout. Depending on the operating rates at their end that supply schedules can get modified or changed. So what we faced in this quarter was October, November we were facing some sort of a prolonged slowdown effect, in fact the operating rates were much lower, but from December 19 onwards what we are seeing suddenly the pickup has started and as a result, we manage to regain a lot of lost volumes still ending up -2%.

Anand Bhavnani: The strategy of targeting volumes, this is across all over 22 products or is it limited to certain number of products?

S R Deo: Basically, see this strategy, I would not call it for all 22 products, we have various strategies of course the headline strategy is volume growth, but as I said we are also looking at interplay. Now in the interplay we have certain products where we have maybe almost 98%, 99% operating risks, now we are looking at all the assets under interplay so that we start increasing the volumes. The concept is very clear that we will continue to be growing volumes and once the volume growth comes, all the rest of the things like the bottom line, the EBITDA, the price everything will fall in line over a period.

P Srinivasan: Anand I would like to add, the product profile, which decides the pricing strategy. Where the competition is more deep and acute obviously the pricing strategy will be much different and as compared to the competition is relatively minimal you can afford to extend your pricing strategy with reasonable margins in your pocket. I suppose you got the point.

Anand Bhavnani: Yes, sure Sir. I understand and I think the same strategy would not be across all geographies even it would be varied according to geography, so in export markets also it might not…

P Srinivasan: By and large being an international market, it is an accepted thing. The pricing strategy generally more varies with the product profile rather than the geography and basically the key thing in this market is the supply chain needs to be identified and approved and of course a reputed quality. Any newcomer cannot participate immediately they have to have a waiting period. So, when a product has five competitions the pricing strategy will be defer as compared to a product has only three supply sources, so to that extent there is a relative advantage and disadvantage.

Anand Bhavnani: Sure. Thank you, Sir. I will come back in the queue for additional questions.

Moderator: Thank you. The next question is from the line of Ketan Gopani from Unique Investment Consultancy. Please go ahead.

Sunil Kothari: Thanks for the opportunity. Sir my first question is if you can provide me absolute volume during Q3 in terms of tonnage, intermediates in finance?

P Srinivasan: See you know our capacity is about 73000 tons, the installed capacity, you can take about 65% thereabout utilization.

Sunil Kothari: Okay 65% capacity utilization of 73,000 tons total capacity?

P Srinivasan: Yes.

Sunil Kothari: Sir second question is, my question is to Mr. Deo, regarding Mr. Srinivasan when he explained this numbers, what basically we are conveying is that this spread is at 10-year low and which is not sustainable, what I am trying to understand is at 18% EBITDA margin also why this is not a lucrative EBITDA margin and why the spreads to increase, what is the factors which you take in consideration while you are thinking that this is a very low space. So, if you can little bit, in long-term point of view if you can say your thought process, why this is not so?

S R Deo: Partly I agree with you I think 18% still is a very decent margin, but if you really look at our strategy I think we decided to invest, we decided to be a leader in the market place in terms of volume growth and all the strategies are in place in terms of hardware. Now going forward the strategy is very clear, its volume growth and we are certain that once we grow the volume this EBITDA margins of course our expectations will always be higher and we are confident that over a period of time we can grow the EBITDA margin.

P Srinivasan: I would like to add this thing, see you must look at the business. Now we are not offering only products which are regular rubber chemicals. In addition, we are also offering specialty chemicals where the competition is relatively minimal and where it is largely due to our technological edge as compared to other suppliers in the rubber chemicals market. So, once we are offering such a premium product to expect a decent margin can be considered as a reasonable expectation and that too if the market is responding positively. If some competition is offering a price much lower and we are deliberately pricing it much higher, I see your point then I think that is unfair, but when we are matching the competition and we are able to meet the competition and we are able to satisfy the customer the margin is a resultant number rather than a targeted number.

Sunil Kothari: The Strategic question is China in last three, five years we are seeing so many changes in China withdrawing some of the environmental related issues and withdrawing some products in chemical, India is becoming second source globally., We are also global player and a driving force in international market about our quality and our relationship and supply and this recent development also on this virus and all, so is there any thought process that this can become opportunity for India and NOCIL at large maybe over a period of time?

P Srinivasan: I think I would like to address it differently. When we conceived this project of 425 Crores the larger picture which we were looking at is the rubber growth parameters over the next seven years or eight years and how much of the supply is originating out of China and how much is from other than Chinese markets. By and large the customers are realizing, the implications to their respective business if they depend too much on the Chinese source. But they are realizing that to depend on a single source to the magnitude of 75% requirement, it is not advisable proposition in any business sense, so therefore there is an element of neutralization factor coming in and when we implemented this project we had a plan that we would not target the China, we will assume the China will continue to be in the market. Now if Chinese government policies are undergoing a change and as a result there are some supply constraints coming out of it, any competitor who is not in China, who is the non-Chinese player will have to get some sort of a mileage or advantage like any other specialty chemicals so to that extent that is one part. As far as the current health issue on China or virus issue, we are not sure what exactly this gravity it is very difficult to predict, but what we can confirm is, we have been receiving discrete enquiries from various customers both domestic as well as international about our availability to offer, ability to offer some additional volumes if called for. Nothing has concretized, but inquiries have started coming in that to which we can confirm.

Sunil Kothari: My last question is there any dependence on China for raw material so any thought process on non-availability or maybe scarcity within a shorter time period?

P Srinivasan: All major raw materials are covered quite adequately by NOCIL and not necessary depending on China it would be other than China also we are sourcing it is an international products available, maybe a couple of products we are originating out of china, we are not denying it, but I am not sure as of today we do not see any supply constraints at this point of time, as we go along we will let you know in case there are anything.

Sunil Kothari: And any price change, short-term price change in raw material prices?

P Srinivasan: In a few items, there have been increases which has come to our notice, but we are not likely to witness any impact in the March quarter is what we can confirm to you.

Sunil Kothari: Thank you Sir.

Moderator: Thank you. We will move onto the next question that is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Sir you said that you expect a shakeout in terms of capacities globally some players might get out, but your gross margins are still at 52%, so why would any global competitor of yours would get out of the industry at 52% gross margins?

P Srinivasan: What we generally see is when the performance of price suppression has been to this magnitude not warranted, typically in the earlier two such cycles, business cycles we witnessed some shakeouts that is out of the past experiences. We are not saying that it will happen, but we are expecting some element of shakeouts possibility we cannot rule out. It is not a certainty, but one cannot rule out that, and more so in a market where one of the main competitor is using 100% capacity utilization especially in a depressed market conditions one should understand that means there is a possibility that availability in that market probably is there short in some other places.

Jasdeep Walia: Which is this main competitor of yours, which is lying at 100% utilization?

P Srinivasan: China Sunsine. If you see there December data is not published, but as per September data they have 100% utilization.

Jasdeep Walia: Can you give us an update on how you saw the supplier situation in China in third quarter and what do you expect going forward are some capacities coming back or companies they have announced capacity additions?

P Srinivasan: We came to know about two competitors coming in the marketplace, going to the capital market for financing their expansion program I am not sure the latest update on that. As far as additional supplies I think China Sunsine has already commissioned so that is there already in the marketplace. We have heard news some people are planning to expand further, but nothing has concretized so far.

Jasdeep Walia: No, new capacities have come online in the last quarter?

P Srinivasan: No new capacities have come online.

Jasdeep Walia: With this gross margin of 52% is EBITDA margin of 25% possible with volumes increasing in let us say in the next couple of years?

P Srinivasan: If we are looking at a depressed market condition, I think then the questions will be raised and then I will not justify that. But I am looking at a stable market conditions, I will not be surprised if it has 25% EBITDA. Once we start optimizing the plant utilization or leveraging benefits all those things, which are coming in automatically this will take it up, but if the market conditions are depressed to that extent there will be a challenge of 25% to maintain

Jasdeep Walia: Is there a possibility that there might be further price corrections in the coming quarter, or this is it and your gross margin will be stable at 52%?

P Srinivasan: I think if you see the investor presentation, which we uploaded yesterday we have mentioned there, depending on the relationship coupled with higher volume offtake price aggression strategy will be selectively rolled out. So, it all depends on customer-to-customer, contract-to-contract. Now if someone is ready to give high volumes, we may have to participate. Because ultimately what Mr. Deo has said is that we are pursuing our volume increment strategy of growth, i.e. volume growth strategy. In this quest for additional volumes you may have to suffer at times some price corrections consciously.

Jasdeep Walia: In your business the client contracts are selective in the sense one client could have let us say pricing at 100 and other client could have pricing at 110 or once you reduce the price from one client you have to more or less pass?

P Srinivasan: Basically what is happening is the pricing based on current offerings, while we are in discussions with a domestic customer and if the current CIF price is x, and y in the exchange rate plus the applicable customs duty will be the pricing and we have domestic premium, landed premium something advantage as a domestic supplier you may give. Now if the Current CIF levels are undergoing a change on the customer-to-customer to that extent there would be price corrections here and there, but largely it does not happen to this magnitude, it is not 10% variation it could be plus or minus 1% or 2% variation.

Jasdeep Walia: What I wanted to understand was let us say if some client is willing to give you large volumes so you will reduce the price for that client, but would that mean that ultimately that price would be passed on to all your clients gradually?

P Srinivasan: , Suppose let us say for example you are a customer to me and you are offering 100 to me this quarter and next quarter you are going to offer 110 so for the 10 if you are inducing me to supply 10 I may have to give something in return. See it is economics of who is desperate and who is not desperate and what is the timing. I have to also see what are the options for you, so ultimately what is happening is this supplier when he is supplying to the customer he is not looking at what is his price, he is looking at what is the effective cost to the customer at various options and various sources. On that judgment he will take each contract, each product, and each quarter levels and then you will take a call accordingly.

Jasdeep Walia: Sir I understand that for a client who is giving you higher volume you will give him discounts, but let us say another client of yours will come to know that you have given discounts to this other client of yours and then despite him not increasing volumes he will get the same price?

P Srinivasan: Generally, we do not, our pricing strategies are subjective in nature in terms of it cannot be any written-on guidelines, written on formulas like that, its negotiations at that point of time and what the customer options. Now if the customer has other options then suppose for example he has three sources and he is getting at one price X, one price Y, one price Z and the variation is not material, maybe I will pick up X for X volumes, Y for Y volumes, Z for Z volumes, so that is it. So, you must look at the maximum price for the customer what he is getting from other sources not what I am giving to other customers there is no relevance. Suppose for example I will give you a price of 100, just for other Rs.100 a kg and your options of getting at Rs.95 then you will not buy at 100 from me then I have to necessary come around 95 for you to enter into an agreement. Now the same time when I am entering 95 some other customer maybe selling at 101 also that could be maybe getting some other options 102 because since volume offtake regularity may undergo a change. So, it all depends, when are you timing the contract, what volumes, what product and what are the options available to that customer.

Jasdeep Walia: Could you talk about the trend in export volumes in third quarter?

P Srinivasan: 9% growth.

Jasdeep Walia: Thank you Sir. That is all from my side.

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

Rohit Nagraj: Sir my question again pertains to the strategy. So, you said you wanted to gain market share and probably we will have to forego margins for the time being. So here who are we exactly replacing the domestic other players, or we are replacing the imports, which are happening from China?

P Srinivasan: Rohit, I would not be able to comment on the same, because each customer will not so inform you where what are the other sources, you must make a judgment. So only when the data comes out we will come to know whether we replace a local competitor or we replace import, but largely it is imports in India, which is going to be if at all we get the volume increase it is largely imports who are the main competitors for us.

Rohit Nagraj: The other part on the medium to long-term strategy perspective are we looking at any other chemistries other areas where we are currently doing our R&D and maybe newer applications for similar chemistry so how is that progress going on and what do you expect to go from here diversification strategy maybe from allied chemistry perspective?

P Srinivasan: We have nothing concrete to say anything of all those things. I think if at all something it will be very, very preliminary days I think it is not worth discussing at this point of time.

Rohit Nagraj: Just last small bookkeeping question, so you said that the phase II capex will be commercialized, capitalized only once we get from orders and commence commercial production from the plant?

P Srinivasan: I think let us be clear, look into our announcement on October 17, 2019 we have very, very categorically said that plant can be capitalized only once the customer approves because this the approval process is a very time bound process it may take some time, so unless the customers approve I cannot capitalize it because once I capitalize it then I have to keep the plant idle because the approval is not in place. We have already made a statement on that day only, we have made it very, very clear.

Rohit Nagraj: Thank you so much Sir. I will come back in the queue.

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

Tarang Agrawal: I have two questions, if I notice your other expenses for the quarter at around 45.7 Crores it is probably the lowest expenses I have seen in many quarters so how are you able to manage it and do you think it is sustainable going forward that is one, the second question is you had spoken to an earlier participant where you spoke about supplying specialty chemicals where competition is limited and you have some technological and price advantage so what percentage of your revenues would they come in from those chemicals at an average?

P Srinivasan: We have been given guidance in the past also that specialty business in totality as a percentage of revenue will be 25%. The products meant for specialized applications are generating about 25% of the company's total revenue, it includes domestic as well as exports. As far as the operating expenses, which we are concerned I think yes these operating expenses consist of two components the utilities, the selling and distribution expenses, which are variable in nature and the overheads, which are fixed in nature and some toll manufacturing. We make a conscious effort to look at the cost very critically especially in a market condition has depressed or volatile like this any management would try to control cost. So far, we have been fortunate that we could do something in this quarter, we fully hope to control our cost as far as possible. Going forward especially post Dahej the second phase getting commercialized there could be related overheads coming in, which we intend to bring it on board depending on the plant level utilization, which means we are also bringing the concept of flexibility within the resource system wherein a resource dedicated for a particular task A is not confined to part task A he is also given a flexibility to task B. So that option or that process has already been started and some of those benefits have been witnessed in this quarter.

Tarang Agrawal: Because the business environment is a little tepid, so my sense is that, you said there are four broad heads within this expenditure, utilities, S&D, toll manufacturing and others. So, my sense is there must have been a conscious call to reduce S&D expenses, which would be largely variable as you said.

P Srinivasan: S&D is related to volume. So we cannot do much on that, utilities is more of optimal utilization of utilities, say for example if you use a judicious mix of steam, power, own power and purchase power, these things payout quite well and you run the plant very effectively, and you will get all those benefits in a different form. So, I would say it is an effort, which is a continuous effort, which will pay you dividends at various periods of time.

Tarang Agrawal: But in terms of sustenance of this level in terms of the absolute number that comes out, can I see this going forward or it might probably marginally increase?

P Srinivasan: Once the capacity utilization goes up, you are likely to see an increase in this numbers, but not necessarily in the same proportion at these levels. Suppose our guidance has been that this component of conversion cost, which is 65 to 70 Crores in nature, our guidance has been at post utilization of Dahej at a higher level almost near peak levels, our guidance has been this will be 25% of revenue and I do not think so we will like to change all that.

Tarang Agrawal: Okay, I will come back in the queue.

Moderator: Thank you. The next question is from the line of Abhishek Datta from Prabhudas Lilla Dhar. Please go ahead. As there is no response from the current participant, we will move onto the next that is from the line of Dhaval Shah from ICICI Securities. Please go ahead.

Dhaval Shah: I have a question on the demand supply dynamics, so would it be possible for you to share the excess supply currently in the market like post the new capacity comes in what kind of volume growth that the tire industry should grow to match your supply with the demand if you can share the numbers?

P Srinivasan: Dhaval I will give you a very different answer to this. I think if you look at our investor presentation look at the IRSG data of rubber consumption 2019 has seen a degrowth, but that IRSG report, which was issued about a last week or 10 days ago even today they are saying the rubber consumption will grow by 2.5% to 2.8% in the next two years and this generally are on a conservative basis not on an optimistic basis, which is a good sign because the movement you have come about 2.5% to 2.8% growth it essentially means roughly 25000 to 30000 tons of demand of rubber chemicals per annum.

Dhaval Shah: This will take how much time to match your excess supply, the overall industry excess supply?

P Srinivasan: See the point is we do not know the exact story in China, see if you say there is an excess supply then inquiry should not come for additional volumes. Now if inquiries are coming for additional volumes it means there is some supply constraint somewhere. Now I think it is a little premature at this stage to even speculate as we get once more refined data, we will share with you.

Dhaval Shah: Secondly you mentioned these two new competitors maybe from China is coming up?

P Srinivasan: They had approached the capital market.

Dhaval Shah: Yes, so are they coming up with the large capacity and how much time?

P Srinivasan: No, they are not coming with a large capacity especially in terms of Chinese standards, but we expect even if they do successful, we do not expect them to be in the market place for minimum one-and-a-half to two years.

Dhaval Shah: China also takes 12 to 18 months to commission the capacity like Indian players or do they commission early?

P Srinivasan: 18 months is the right time.

Dhaval Shah: That is, it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Datta from Prabhudas Lilla Dhar. Please go ahead.

Abhishek Datta: Sir just wanted to know because of this US, China trade resolution has there been any impact or any pushback which you have seen on news update?

P Srinivasan: No, we are growing in the US markets, we are growing in a gradual manner and we are not going for a big ticket items because first we are discussing with the tire industry then we may go into the other markets. The discussions have started. To start with we got two new accounts then we expanded into four or five, now we increased another five, so it is a gradual process, it is always better to grow in a gradual manner because once you establish your footprint then it is permanently with you rather than going for an aggressive entry and then thereafter you find it difficult to service especially US being a second largest market in the world.

Abhishek Datta: So, in terms of volumes you had already supplied 500 tons of volumes has there been any more volumes?

P Srinivasan: No, as far as 2019 is concerned I think we are in the region of, originally, we were expecting 500 tons per annum now we are in the region of 1000 tons per annum.

Abhishek Datta: Secondly any update on ADD?

P Srinivasan: ADD means what which ADD we are talking about, and that is already out of the system as on July 24, 2019.

Abhishek Datta: So, no hearing.

P Srinivasan: Even if the hearing comes it is more of an academical hearing because what happens is to restore a duty, which has expired six months ago even Supreme Court will find it difficult.

Abhishek Datta: If you can give that nine month, the topline is down some 21%, if you can give like in 3Q you have given the impact because of ADD degrowth pricing, if you can give for nine months how has been the trend?

P Srinivasan: Nine months I would say we gave a degrowth of I think -7% for nine months the degrowth in volume terms and 14% degrowth is the value terms that is why we said 15% is the overall average. I cannot say how much is antidumping those things it will be difficult to calculate at this point of time.

Abhishek Datta: So, volume is 7% and pricing is 15%.

P Srinivasan: Yes, 14%.

Abhishek Datta: Okay Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Kunal Shah from Carnelian Capital. Please go ahead.

Kunal Shah: Two questions basically Sir, if you could help with the volume growth that has happened for us in the exports in the quarter gone by and also if you could break what is the volume growth for the specialty chemicals, which comprises 25% of our overall volumes?

P Srinivasan: I can share the export growth, which we said 9% for the quarter. I do not have the numbers for specialty chemicals at this point of time, I think maybe once we get a data, we will share it with you, you can send us the query.

Kunal Shah: The second question I had was that in the exports market is that we are replacing some players who is already present in supplying to them or is it completely new product?

P Srinivasan: It is a combination of both. We are expanding in specialty chemical business number one; however, we are also replacing an existing source to the market in US like if US customer has to import from China he has to pay 31.5% duty thanks to Trumps' sanction duties as against India it will be 6.5% so there is a 25% advantage. Because Indian source are cheaper, we are suddenly getting inquiries from US and to that extent we have expanded our footprint there to 1000 tons per annum.

Kunal Shah: Thank you Sir.

Moderator: Thank you. The next question is from the line of Niranjan from Equirus Securities. Please go ahead.

Niranjan: I had a couple of questions, one was on the amalgamation what is the impact of that on the pledge of shares to amalgamating entities, the second question was on if you could provide us the volume and value split of accelerators and antioxidants in the nine months of FY2020? Thank you.

P Srinivasan: First thing on the amalgamation of the promoter holding companies with NOCIL, it has no impact to NOCIL number one. All the shares pledged by the promoter companies will be released during this process of amalgamation schemes that means if the scheme takes six months or eight months to conclude during this time the pledge will be released, so to that extent that shares will be out of the pledge quota. In so far as the antioxidants and accelerators split of volume degrowth or pricing degrowth, etc., that is a little business-sensitive issues we would not like to share it.

Niranjan: But can you give us the value proportion of accelerator and antioxidant you had given that in the past?

P Srinivasan: No, I will tell you one thing, as a business it is 45% is accelerators, 45% is antioxidant and 10% is other specialized products beyond which we cannot share anything friend, please respect our views.

Niranjan: Okay thank you.

Moderator: Thank you. The next question is from the line of Nihil Parekh from Dhanki Securities. Please go ahead.

Kaushal Shah: Sir this is Kaushal Shah, thank you for the opportunity. Sir just wanted a clarification initially I think in your remarks you mentioned that there was a 14% degrowth for you in the domestic market and so this was for Q3 is it or there is some mistake in my understanding?

P Srinivasan: It was for nine months.

Kaushal Shah: So, there was a 14% degrowth in our revenue for nine months?

P Srinivasan: What we said is domestic industry witnessed a degrowth of 14% in sales volume for the nine months December 2019 as against the auto industry degrowth of 18% are we clear now?

Kaushal Shah: Followed and just now I think to an earlier question you also mentioned that in our case there has been a 7% volume degrowth and a 15% value degrowth for nine months?

P Srinivasan: That is for the total business.

Kaushal Shah: Correct so that is for nine months for NOCIL?

P Srinivasan: Yes, we saw 7% volume degrowth and 15% value degrowth for first nine months of FY20.

Kaushal Shah: In H1 in the last call I think you had mentioned there was an 8% degrowth in volume, this time for nine months we are saying there is a 7% degrowth so just wanted to get some clarity because for the Q3 we are saying there is a 2% volume degrowth?

P Srinivasan: Sequentially.

Kaushal Shah: So, this 2% is sequential volume degrowth, overall remains at 7% for the nine months?

P Srinivasan: Yes.

Kaushal Shah: Thank you.

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

Pawan Kumar: Sir can you give us any kind of outlook of FY2021 and over the longer-term how much time will it take for us to feed the entire capacity that we are setting up?

P Srinivasan: As far as the longer-term is concerned, we originally had communicated to the investors that we proposed to load 100% capacity in three years from the time of approval, but now we have moderated or revised it to four, four-and-a-half years because of the one-and-a-half year slowdown, that is one part. Second part is as far as FY2021 guidance, if what we are seeing as an indication for December month and Q4 in volume terms and if that happens to be true and turns out to be correct, than I can definitely say that FY2021 on volume front will be much higher than FY1920. If that is an indicator it turns out true, it is good news for business. We are in the stage of finalizing the nos in the coming quarter maybe in the month of May once we come out with the annual accounts at that time, we may able to share some colour on that front.

Pawan Kumar: So, a lot of the domestic players like CEAT, MRF and everybody have come up with new capacities so at those new plants are you getting inquiries from those new plants?

P Srinivasan: Being a domestic player we will automatically get our supply, as a domestic supplier we will get a preference in the sense immediate approvals and no longer approvals, it will be shorter approvals.

Pawan Kumar: But I am asking the question in the sense is there a possibility of a 10% to 15% growth in next year because of these new capacities coming in?

P Srinivasan: I think it is too premature to talk about absolute growth numbers today. What we are saying is that the trend has changed on the volume front on differences, on the negative side it is showing a flattish and now it is likely to show an uptick that is what on a sequential basis that is the trend is visible and we do not expect that trend to get reversed at least in the immediate future.

Pawan Kumar: So, you are saying it is a bit unclear as of now?

P Srinivasan: No, it is clear in terms of the growth is there, but to what extent you are asking of specific number of growth percentage I think that is a little unclear to be talked about. What is more important is these from now onwards the volume should grow that is what we are saying and I think Mr. Deo very specifically said Q4 2020 will be the highest volume performance in this financial year and if that trend is a base hereafter you should grow from there, but I cannot predict the percentage.

Moderator: The next question is from the line of Chirag Patel from Adinath Shares. Please go ahead.

Chirag Patel: Sir my question is regard to the bottoming out of auto industry and the rubber chemical industry at national and global level, so what is your view on that particular?

P Srinivasan: I think that is best addressed based on the data originating out of China recently, even the IRSG report indicators and the operating rates at various customers end. We are getting information, on all these three and we are on that. All are pointing out towards the bottoming of scenario on that basis this we are getting the statement, so it is not a one off statement it is a consistent thought process wherein we have taken inputs from the customers on operating rates, we have taken inputs from IRSG reports, we have taken information from Chinese market what is happening on their operating rates on their auto industry issues so taking one of the holistic view of all these three macro factors we are likely to improve hereon, that is the message.

Chirag Patel: My second question is on like crude prices with respect to our raw material that prices are under pressure currently, so currently the inventory, which we have for raw material is at range of crude and going forward are we going to see any positive impact of the lower prices?

P Srinivasan: Lower?

Chirag Patel: Lower crude prices.

P Srinivasan: See basically it is not crude in the first stage we have a product called Benzene, which is a derivative of crude and our raw materials are derivative of Benzene. So, it is a downstream of Benzene. What is more important is for our suppliers who are supplying the key raw materials they look at Benzene as a reference point and from there they workout the amines or solvents to which they supply to NOCIL. So, there is a correlation with crude but the timing I do not know if there is immediate one month, two-month lag one cannot quantify with every market has its own peculiarities. What we can say is we are not likely to be impacted by any adverse raw material cost in the coming quarter.

Chirag Patel: Thank you.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus AMC. Please go ahead.

Rahul Veera: Sir just want to know some numbers of the private limited that we are merging sir the two companies?

P Srinivasan: What numbers you would like to know?

Rahul Veera: Topline and PAT Sir.

P Srinivasan: They are basically investment companies, they do not do any major activities is I understand, there will be some small assets, which will be transferred to NOCIL that is the core substance It is more of investment companies they have. So, I do not think so there is any manufacturing or trading activity in that sense, and it is not material to be talked about.

Rahul Veera: And what will be the ratio Sir, what would be the dynamics?

P Srinivasan: Ratio means the assets worked out by the valuation experts and the share of swap ratio, etc., they have worked out. Let us for a movement remove the promoter group companies, and assume a new company is getting merge with NOCIL what we do is since we are getting the assets of that company we issue share to the shareholders of that company that is all.

Rahul Veera: Agreed. So, what will be the gross block of the assets?

P Srinivasan: There is no gross block these are all investment companies so there is no gross block in the sense there is no fixed assets in that sense.

Rahul Veera: So, what will be total asset that will be getting transferred to NOCIL?

P Srinivasan: It will not be significant boss it is a very small amount I would say.

Rahul Veera: Fair point Sir. Thank you.

Moderator: Thank you. The next question is from the line of Nilesh Ghughe from HDFC Securities. Please go ahead.

Nilesh Wagle: On one side you are saying there is the volume degrowth seems to bottom out in the industry and you also mentioned that the price depression seems to be more of a temporary nature for the industry, so is this appropriate time to change the strategy from pricing, the volume focus is it right time to change the strategy?

P Srinivasan: We think so that is the reason we have changed the strategy. Time will tell whether our judgments will turn out to be right or not, but I think our estimation and based on our experiences in this industry were being for almost four decades. I think the strategy which we have consciously thought over it and we have taken it I think it will pay us dividends I am confident about it.

Nilesh Wagle: Okay Sir. Thank you.

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

Aditya Khaitan: Sir I would like to know the quantum of imports of rubber chemical from China in Q3 and in nine monthly basis?

P Srinivasan: We do not have the recent data on imports so to answer your question it is a little premature, but I think what we can give you a broad range is 50% of your rubber chemicals in India is supplied through imports.

Aditya Khaitan: And, if it is possible to say can you tell the volume number of phase I?

P Srinivasan: Volume number of…

Aditya Khaitan: Phase I currently, phase I.

P Srinivasan: The volume numbers, I think we have already announced, that is about from 55,000 tons we have gone to 73,000 tons that is the production capacities, 72500 I think that has been announced.

Aditya Khaitan: So particularly for sales can you give separately like…

P Srinivasan: See we have said I think Mr. Deo very specifically said that post commencement of this second phase we are doubling our capacity so 55,000 tons goes to 110,000 tons.

Aditya Khaitan: Thank you.

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

Siddharth: In fact most of my questions has been answered, Sir just one question, it might look little hypothetical just for my understanding I wanted to ask that as you mean that the price remains at current level like what would be the utilization level that we might need to come to that 22% kind of margins level?

P Srinivasan: Siddharth it is a combination of various product profile so I think it is too detail in nature for which we have to do some more analysis for that number one, number two what we can say we have already given guidance and it is we are utilizing at 65% utilizations.

Siddharth: Yes Sir, fair enough.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Sir firstly in Q4 you have mentioned that the volumes will be highest for this financial year is this the right understanding?

P Srinivasan: Correct.

Saket Kapoor: What would it likely in terms of utilization level?

P Srinivasan: Utilization levels I do not want to speculate any numbers on that because what we are only giving the guidance it will be better than Q3 or better than Q1, Q2, Q3 I do not want to get into any specific.

Saket Kapoor: You are giving the guidance that the talk has been formed by the December quarter numbers, whatever bottoming out process has happened in terms of the demand as well as the pricing has happened for the Q3 and now there is an uptick going forward only, this can be assumed Sir?

P Srinivasan: Yes.

Saket Kapoor: Peer comparison can you give in this segment domestically who is our nearest competitor and what is our market share?

P Srinivasan: In India out of the total rubber chemicals demand of say 100%, 50% is imports maybe around 40% are NOCIL and another 10% in other domestic competitors.

Saket Kapoor: So, no major player is there?

P Srinivasan: Imports seems to be the major competitor.

Saket Kapoor: Who our major customer here domestically and the export market both?

P Srinivasan: All the tire companies both Domestic & Global they are our customers.

Saket Kapoor: Okay, anybody from whom we are getting more than 5% of our turnover any major tyre player or is it evenly balanced?

P Srinivasan: That is not appropriate to get into these specifics. It's better to look at the tire industry rather than getting the specific numbers, specific individual entities.

Saket Kapoor: Sir you please clarify one more thing, Benzene derivatives are our raw material that is what you adhere, so how have been the price trend for the Benzene over the year if we compare year-on-year also and quarter-on-quarter?

P Srinivasan: More on a flattish side for large part of the year maybe there was some price increase in the last quarter thereabout, but not materially impacting our input prices.

Saket Kapoor: What are the major inputs if we must track the major raw material?

P Srinivasan: Aniline, Acetone, Nitrobenzene, and Methyl Isobutyl Ketone.

Saket Kapoor: Which are the domestic players who are manufacturing, we are sourcing this for domestically only from the raw material mix?

P Srinivasan: Yes, we are sourcing a combination of domestic as well as imports.

Saket Kapoor: Domestically who is the major supplier to us for the raw material?

P Srinivasan: Would not like to give specific names.

Saket Kapoor: No, not an issue Sir. Thank you for answering the same.

Moderator: Thank you. Ladies and gentlemen due to time constraint we will be taking the last question that is from the line of Meet from YJ investment Advisors. Please go ahead.

Meet: I just want an update at ADD, now ADD has been totally get out from the rubber chemicals?

P Srinivasan: Yes. The performance for the two months of Q2 and entire three months of Q3 do not include any ADD benefits, these numbers are exclusive of any ADD support or anything.

Meet: Thank you Sir and almost all my questions have been answered.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. S R Deo for his closing comments.

S R Deo: Thank you all for attending this conference call. Friends I would like to reiterate that we are very focused to ensure the optimization of capacities and using all strategies into play. As we have over 40 years of experience in this business and have seen similar cycles in the past. Our volumes for Q4 FY2020 as I mentioned earlier will be the highest in the current financial year and we believe that as the market improves in the next financial year with higher volumes and pricing improving, the operating leverage benefit will start kicking in and our margin profile also will improve. 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 me or our CFO or Strategic growth advisor who are our Investors relations advisor. Thank you very much once again. Good day to every one of you.

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