"NOCIL Limited
Q4 FY2020 Earnings Conference Call"

June 30, 2020

MANAGEMENT: **MR. S. R. DEO – MANAGING DIRECTOR - NOCIL LIMITED**
MR. P. SRINIVASAN - CHIEF FINANCIAL OFFICER - NOCIL LIMITED

Moderator:

Ladies and gentlemen, good day and welcome to the Q4 FY2020 Earnings Conference Call of NOCIL Limited. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions, and expectations of the company as on 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:

Thank you. Good evening and very warm welcome to everyone present on the call. Along with me, I have Mr. P Srinivasan, Chief Financial Officer and SGA team, our Investor Relation Advisors. I hope you and your family are safe and secure in current circumstances and taking necessary precaution. Hope you all have received our investor presentation by now, for those who have not you can view them on the stock exchange and the company website.

As we discussed in the Q3FY20 earnings call a lot of uncertainty and prolonged slowdown was witnessed in auto industry as a result, we decided that with the expansion of our capacities near completion, our strategy would be to focus on maintaining volumes, market share from customers and explore the option of seeking additional volume wherever possible. If you all may recall, we had indicated during our last call that the volume in Q4 would probably be the highest in FY2020 and will end the year with marginal degrowth in volumes.

I am happy to announce that the good efforts made by our marketing team enabled us to touch the best quarterly volumes as compared to the last eight quarters. As a result, we could achieve 11% volume growth for Q4 compared to the Q3 FY2020. On the annual front we could end the year with degrowth of 4% in volume. In fact, in Q4, on account of COVID lockdown which started from March 22, 2020 we possibly lost sales of about 600 - 700 MT which could have been added to Q4.

As all of you are aware the Indian auto industry witnessed a prolonged recessionary trend of slowdown in sales. Sales in domestic markets have been on a decline since September 2018 and this continued till February 2020. It was expected that some recovery was in anvil but unfortunately due to COVID lockdown the recessionary trend has got extended for the reason which has been explained in the past investor calls. The COVID-19 pandemic outbreak has hit almost all the countries and industries across the world. There have been many disruptions in terms of labor issues, concerns on health, safety management on the shop floor and supply chain disruptions.

To sum it up both the supply and demand sides have got impacted. It may be noted that month of April 2020 was the first time ever in automobile history recorded zero sales. As a result, we expect the near term to be challenging for the auto sector due to lack of short-term demand in view of economic impact caused by COVID-19. The adverse impact of the same is expected to be witnessed by the first quarter of 2021.

However, there are several positive developments about which I would like to share with you.

- Recently some of the major domestic auto manufacturers have also indicated that the market has already bottomed out and the demand is expected to increase from here on.
- June retail sales were better than May and from July onwards it is expected to improve further.
- Most of the major customers have scaled up their utilization levels and continuing with their capital spending though it will be slow but domestic market is beginning it upturn.
- Our customers have indicated to pick up more volumes in the coming months on both domestic as well as international front.

- The recent notification by DGFT about putting all the tires under restricted import will enable the tire manufacturers to increase their operating rates and in turn will present an opportunity for NOCIL to supply additional volume.
- Even during the difficult times NOCIL could dispatch its goods to meet export commitments since mid-April 2020.

- Export segments continued to grow and our efforts in this segment is to spread across different customers with global presence.
- In fact, during these times some very reputed international customers have classified NOCIL in their scheme of things have upgraded NOCIL from being a regional supplier to a global supplier

Coming to NOCIL, with necessary approval from government authority we have started operations at our facilities both in Navi Mumbai and Dahej and we are currently operating in all three shifts. We have sufficient stock of raw materials to meet the production requirement.

One point which I would like to touch is the HSE measure. NOCIL being a responsible care company before we started our plant we decided to create a COVID manual which included practically all the directives which were given by authorities like curtailing the manpower, social distancing, focus on employees health, revision in shift schedule and also to closely monitor all probable cases and take adequate precautions to ensure that no COVID cases gets reported within the operating premises of the company.

Production site have started the operations and company is strictly following all the guidelines issued by the local regulatory authorities. and is complying with all the norms in all the factories and including the head office which we started from June 10, 2020. Every employee who reports to the company undergoes the thermal screening, cleaning thru sanitizers, social distancing practices and compulsory use of masks and mobile apps as prescribed by the Govt guidelines.

Coming to anti-dumping front as you all know that the anti-dumping duty ended from August 2019. H2 FY2020 saw a full impact without ADD which in turn did impact our profitability margins to some extent.

Recently the company has filed application for anti-dumping investigation on imports of rubber chemical one single chemical that is PX-13 the main antioxidant. The DGTR have initiated the said case which essentially indicates that the authorities are prima facie convinced about the existence of dumping into India. The investigation process will be conducted as per the rules and we hope that some favorable outcome be concluded in their findings.

To summarize we feel Indian manufacturing district have got a wonderful opportunity to position itself as one of the cost and efficient manufacturing hub in the global supply chain. India is better positioned in auto and few other industries in terms of becoming one of the major manufacturing hub for the entire world. We see customers increasing their preference for locally produced products and this preference is going to bring in a huge amount of advantage to NOCIL.

Simultaneously the international companies are very seriously looking at supply chains outside China and NOCIL is one of the most reliable supplier of rubber chemicals out of China with additional volumes which are practically commissioned. One more thing is the initiatives announced by the government under Atmanirbhar Bharat Abhiyaan will hopefully boost the Indian auto and auto ancillary manufactures to resume business and fortify the supply chain. This will help companies to ramp up their businesses and reduce automakers reliance on other countries. Going ahead we will continue our strategy of gaining market share and optimally utilize our resources.

Now I would like to hand over to Mr. P Srinivasan to give you update on the financial performance. Srini over to you!

P Srinivasan:

Thank you, Mr. Deo. Good evening to everyone. Just to run through the financials for Q4 and financial year 2020.

The net revenue from operations for Q4 FY2020 stood at Rs.213 Crores which grew by 9.4% on quarter-on-quarter basis and Q3FY20 stood at Rs. 194 Crores. As Mr. Deo said Q4 in volume terms has been the best performance in the two years or last eight quarters. Volume for Q4FY20 grew by 11% as compared to the previous quarter. As already said by Mr. Deo in the second half of FY 20, we aggressively participated in the volume offtakes. We went in with a conscious effort of price suppression, but we gained the volume market share. The net revenue under review was Rs.846 Crores as against Rs.1043 Crores for the previous year FY2019 down by 18.9%.

Value addition process parameters, value addition for the Q4 FY2020 is Rs.106 Crores as against Rs.102 Crores for Q3 FY2020 up by 4.7%.

Value addition for FY2020 is at Rs.458 Crores as against Rs.576 Crores down by 20% on year-to-year basis.

On the operating EBITDA front, the EBITDA for Q4FY20 is at Rs.37 Crores as against Rs.36 Crores in Q3 FY2020. One of the important factors which we have been advocating that the conversion cost as on percentage will change as we scale up the volumes and this got reflected in the conversion cost percentage for the quarter. It came down to 33% from high of 35% on the back of relatively higher volumes for Q4FY20 vs Q3FY20.

Operating EBITDA for the year under review was at Rs.176 Crores as against Rs.290 Crores for the previous year. Operating EBITDA was down by 39% on a year-to-year basis. However, the operating EBITDA margins stood at 20.8% for the year under review and I guess this has been fifth year continuously exceeding 20%.

Margins for the year got impacted on the back of the lower utilization rates, price suppressions and the ADD withdrawal from August 2019 did play its part for the year.

The profit before tax front for quarter under review is Rs.31 Crores as against Rs.29 Crores for the preceding quarter grew by 6.8%.

PBT for the year is at Rs.152 Crores as against Rs.277 Crores for FY2019 down by 44.9%. PBT margin was at 18% for the year. PBT margin also has got impacted due to additional depreciation of Rs.10 Crores for the year on the account of capitalization done in January 2019 and something in February 2020.

Profit after tax for Q4 FY2020 is at Rs.22 Crores as against Rs.21 Crores in the preceding quarter up by 8.3%. For the year under review, profit after tax Rs.131 Crores as against Rs.184 Crores in FY2019 down by 29% with the margin of 15.5% sales.

On the liquidity position of the company in these challenging times the company as on date sufficient liquidity. Company continues to be debt free as of quarter ended June 2020 and we are taking care of our working capital requirements through internal accruals. We have so far managed to sail through this lockdown without much difficulties on liquidity front and hopefully we do not see much of a challenge in the coming quarter.

Before opening up for the question and answer session, a quick update on in terms of the government directive of COVID-19 lockdown the company just to reiterate we have said in the SEBI results company closed its operation during the last week of March 2020 as a result loss of revenue, profit, realizable value of assets, etc., for the year under review on account of COVID-19 are not material in nature and the financial statement prepared do not factor any of these effects.

The management is closely monitoring the lockdown effect for the year 2021 and any material or significant information will be communicated to the stakeholders at an appropriate time.

On the recent amalgamation of promoter companies Suremi Trading Private Limited and Sushripada Investments Private Limited, the board of directors has approved the proposed scheme and the respective share of those under Section 230, 232 of the appropriate provisions of the Company Act 2013 and it got communicated during the Q3FY 20 results.

In this connection, the company has received NOC from the stock exchanges, and we have already filed our application petition before the NCLT.

Pursuant to the scheme becoming effective the shareholders of Suremi and Sushripada will be allotted equal number of shares what they hold, the promoter company hold in the NOCIL portfolio. There will be no change in the shareholding of promoter. In fact, just to add, the promoters have purchased about 5 lakhs shares of Nocil from the market in April 20 and the same has been communicated to the exchange in terms of the applicable SEBI rules.

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

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah:

Sir couple of questions from my side. Sir firstly how do you see this anti-China sentiment amongst your client in terms of procuring the product and coupled with this 50% of our portfolio was getting disturbed because of Chinese dumping and now that we have expanded capacities in place and we are very nicely placed to overcome whatever problems we saw in the last one two years after deliveries got over so what is your thoughts on that?

P. Srinivasan:

Dhaval, in the introductory speech of Mr. Deo, he did answer this question that in so far as the inquiries from customers both India as well as global are concerned, yes there have been enquiries and that seems to have intensified and there is relook at their end to reconsider their supply chain distribution. In fact Mr. Deo did speak about some of the reputed international tire companies classifying or categorizing NOCIL to be a global supplier instead of a regional supplier and further they have asked our intent to supply to all their operating units spread across different continents to which, we have responded appropriately.

Dhaval Shah:

Sir I was asking mainly most of the domestic requirements there is no notification of rule from the government or any sort of anti-dumping duty with regards to imports which are happening in the country. The customer who always see a trade-off between NOCIL selling price and the rate at which we are importing on front anything they are doing after like last two to three months, have they changed their strategy asked for more volumes or any change in the procurement?

P. Srinivasan:

I would say there have been changes witnessed. In fact some of those got reflected in Q4 volume as well, but I think the finer picture will come about as we go along in the next quarter because April-June has been an aberration, the economic activity coming to a standstill in most places so that is not a reference point but I think we should wait for July, September to get a clear idea about how the tire companies are strategizing themselves on supply chain front. So maybe we will have to give some time, but the direction is to improve their market share or allocation to domestic manufacturers. This no doubt is a confirmed aspect we can give at this point of time.

Dhaval Shah:

Sir on the gross margin front we are at 50% which is lowest for the last four quarters so what will you refer this thing?

P. Srinivasan:

I think we have been guiding the investors at 50% gross margins for a quite long time even when we were recording 55%-57% margins. All along for the last 2 – 3 yrs., our guidance was around 50% for medium-term. On EBIDTA parameters, we were at EBITDA levels of 16% with anti-dumping duty in FY1516. Today currently we do not have any antidumping duty and still we are going at 17.5%-18%. This aspect gives us the confidence that our cost positions, our action plan/strategies etc. are being executed on the right direction.

Dhaval Shah:

Provided even if the ADD does not come back but the newer portfolio the export portfolio plus the value added in expanded capacity should help us expand our margins from here is my understanding correct?

P. Srinivasan:

I think yes partly through because of certain specialty chemicals which are going to the health services especially the latex so these are meant for surgical gloves and so share will go up over a period. I am not saying it is immediate but, in the years, to come it will go up so that is a good point that is a positive thing. This part is clear that we are in the right direction that is what we want to give.

Dhaval Shah:

Got it Sir. Okay thank you and I will come back in the queue.

Moderator:

Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors. Please go ahead.

Hasmukh Gala:

I just wanted to know can you help us in the volume front how much volume if we do in FY2020?

P. Srinivasan:

We do not give the specific numbers. What Mr. Deo had given guidance is -4% degrowth for the year.

Hasmukh Gala:

I was asking this question because the EBIDA margin has got visual reason till the time when you are selling prices are falling as a raw material cost and operational these are also valid because numerator and denominator impact so I just wanted to understand what will be EBITDA per tonne which will maintain different scenarios that the raw material cost is going up or going down or remaining stable?

P. Srinivasan:

Mr. Gala, I think that is getting too specific and it is a business sensitive information. We would not like to divulge or respond on at this point of time please thank you.

Hasmukh Gala:

So, you are revealing any EBITDA per MT?

P. Srinivasan:

No, we do not wish to divulge those things.

Hasmukh Gala:

Okay and just can you tell us in FY2021 what kind of capex we will have now?

P. Srinivasan:

I think we have capital WIP Rs.150- Crores that will be capitalized by October 2020 and I do not think that there is any other spending maybe some routine capex here and there I would like to just ask Mr. Deo in case he wish to add on capex something

S R Deo:

In fact, I think because of COVID, some of the capex which we could have completed in the month of March and April 20 we could not do it and we will be completing that capex by October. If we really look at our capital investment what we have done is, we have built sufficient capacities practically in all the products. Now from here on at the beginning of Q4, we mentioned that our focus is going to be on volume growth and that focus will continue. In fact, now there is a huge opportunity for us in the domestic market there is an opportunity in an international market, and we are optimistic that over a period we will start selling more volume. Now this financial year we are not planning any capital expenditure. As we go along, we will start looking at capital expenditure depending on the feasibility of the product but right now we have no plans.

Hasmukh Gala:

Sir in FY2020 what was our capacity utilization? We have 73,000 tonnes capacity if I am not mistaken?

S R Deo:

Yes, it is about 65% to 70%.

Hasmukh Gala:

Thank you very much. Wish you all the best.

Moderator:

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

Rohit Nagraj:

Sir could you just tell us more about the expected performance and how the market is looking like in the last three months in FY2020 performance and how is looking in the first quarter?

P. Srinivasan:

Export performance for Q4, for the year under review was about 6.5% volume to 7% growth. For June 20 quarter, I think it is little premature in the sense that there was an impact of COVID and that will play a role on the volume front so it is not advisable to talk about exact volume today. Let us see the shipments that have just taken place or in last few days and we can conclude then.

Rohit Nagraj:

Thanks for that. Another question on the strategic front so that we are the generating free cash flows and this year's free cash flows will be predominantly used for ongoing capex which is under CWIP currently but from next year onwards the Company will be generating free cash flow so what would be our strategy to utilize those of free cash flows or in terms of any backward integration or forward integration or any new products or new segments?

P. Srinivasan:

I think Mr. Deo answered just about a few minutes back he did say that in this year there is not any capex planned for us but next year depending on all the business unfolds and how the business shapes up, we will be examining the feasibility studies of various other scheme of things and appropriate decision will be taken at that point of time and communicated Mr. Deo would like to add anything on this?

S R Deo:

See that is correct because this year I think what we are going to do is we are going to consolidate the business in terms of volume, we are going to aim at higher capacity utilization and we see an opportunity as was asked because of anti-China sentiments. Now this is what we need to watch during the financial year and based on the performance then we will look at in terms of maybe new products or new leads but that is something which we cannot talk as of today it depends on how do we proceed during this financial year.

Rohit Nagraj:

I think this is the last one in terms of raw material how much do we procure from domestic and if we import everything and how has been the situation?

P. Srinivasan:

50% is imports and 50% is domestic.

Rohit Nagraj:

We can procure that without any hindrances as we are sufficiently planning the inventory at hand.

P. Srinivasan:

We did answer that we have sufficient inventory and we do not see any supply chain problems at this stage, as we go along, we will see.

Rohit Nagraj:

Thank you so much and best of luck Sir.

Moderator:

Thank you. The next question is from the line of Sunil Kothari from Unique Asset Management. Please go ahead.

Sunil Kothari:

Thank you for the opportunity. Sir as rightly mentioned in your speech that you are guiding always about reasonable 50% gross margin and in the year starting you mentioned that you will be increasing higher capacity and want to capture market share and utilize more but unfortunately because of this slowdown in auto we are not able to utilize or maybe increase our products and so 3% to 4% volume down so ultimately what I am trying to understand is your medium term target of gross profit and EBITDA margins if you can guide or anything on that because we are continuously talking about increasing products and increasing market yet we have so much capacity to fill so what type of EBITDA margins newly comfortable where you would not be ready to increase our production and supply?

P. Srinivasan:

Mr. Kothari, I would like to answer differently in the sense that every manufacturer or every businessman would like to have a target of the nice margins or a dream come true wish list but the issue is we are in a competitive world.

Obviously, we must face the competition and how to survive in this competition. These numbers are after considering competitors who has a 75% market share or supply chain share in the global space and who are beneficiaries of a huge element of government subsidies and other direct and indirect benefits, these numbers are quite substantial. It could be as high as 20% - 30% in fact I would request all of you to just go through China Sunsine's balance sheet to get an idea of how much is the export incentive which they are getting on record on their financial statements and other things at the operating level which they get and despite that we are able to compete well and we are able to survive well, it gives us the confidence that we are on the right scheme of things. Yes, the slowdown which unfortunately has been a prolonged one, but if you look at our overall performance in comparison with other players in the business, I think we have performed reasonably better than other players.

This is not to claim credit for what we have achieved or performed but looking from an industry, auto sector perspective, the Company has performed better. Even now we have challenges and we will try to overcome as we go along.

Sunil Kothari:

Sir I am not debating about your ability and what you are doing. What I am asking is looking at the current situation which are the medium-term margin we are trying to, or you will be able to comfortable or you are open to any margin?

P. Srinivasan:

If it is remunerative, we should be open any business ventures or any of the other rubber chemicals. We intend to supply a portfolio of 22 rubber chemicals, and we would like to continue the doing business on that.

Sunil Kothari:

This second half margin sustainable you say, or it is not sustainable?

P. Srinivasan:

Mr. Kothari, I would not like to speculate on margin straightaway. Our belief is we are on the lower end of margins and if we can successfully place better volumes or utilize our capacities better, our margin performance will obviously be better than this. That is what I can tell you.

Sunil Kothari:

Wish you a good luck but previously if you check your every statement and call you were ready to explain the margin, I understand these are different situation so that I am asking. Thanks a lot.

Moderator:

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

Nav Bhardwaj:

Good evening Sir. Congratulations on being able to show growth at least quarterly even on such situation. Sir one point was on the anti-dumping front on June, 2020 there was an anti-dumping duty that was announced on Aniline so how will that affect us and what quantum does the bracket amongst the various categories that is given do we fall under?

P. Srinivasan:

Firstly, to clarify I do not know whether the customs jurisdiction has come so far, and this stage is recommendation by DGTR that is what we saw the notification.

This is a preliminary finding. It is not a final finding. There will be some investigations, public hearings, response from interested parties, disclosures and a final finding will come little later.

Secondly Aniline is universally available product. It is available in India. It is available from China, it is available from Europe, it is available from other parts of the world also and we are in discussions with other sources. In fact, we have already procured few volumes from other sources which will help us to mitigate to some extent.

Obviously, we will have some cost escalations on our revenue account, but I do not think so that significant amount to talk about it in the current context.

Nav Bhardwaj:

Fair enough Sir not a material impact?

P. Srinivasan:

At this point it is not significant amount, as we go along, we will have to see the impact.

Nav Bhardwaj:

Sir about the product the single product which Deo Sir also mentioned that we filed a petition for what would be the contribution to our revenue from that product?

P. Srinivasan:

It is a sensitive issue please. The investigations are going on and I do not wish to disclose.

Nav Bhardwaj:

No worries. Last question Sir if you could share that we have been talking a lot about exports and orders and we have been recognized and so do we are not in the immediate future but in the foreseeable future do we see our export mix changing for the better from the current levels or we wish to maintain out a similar levels currently?

S.R. Deo

Basically, we are looking in future the export growth, but we are also confident that the domestic will increase to the ratios will remain same but the overall volume sales will go up.

Nav Bhardwaj:

That is helpful. All right thank you gentlemen. Wish you the very best going ahead.

Moderator:

Thank you. the next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani:

Sir thank you for the opportunity. I have two questions. Sir first tire versus non-tire how was the split in this year FY20? Sir proportion of revenue from tire versus non-tire because rubber applications would be non-tire as well so just wanted to understand if you have any.

P. Srinivasan: It is a typical 65% :35% ratio.

Anand Bhavnani:

Sir with this new capacity you were planning to also make certain newer products which are import substitutes can you update us on whether we have target making them or the new you consider making them any color on that would be very helpful?

S.R. Deo:

I think in our previous concall we have said that we are going to make certain accelerators which are not being made in this country. Now I am very glad to inform you that we have already started manufacturing. The tire industries they have already sampled the product and the product is approved and very soon we expect that the commercial quantities will start flowing and it will also be an advantageous to tire industry because it is going to be an import substitution so we see a pretty positive business in that segment.

Anand Bhavnani:

That is very, very nice to hear. Sir broadly what kind of you know input levels were earlier there for this product? Was it significantly large products or a medium-sized products and if you can give a ballpark estimate of the market size of the product?

S.R. Deo:

I would say it is a medium-sized product.

Anand Bhavnani:

Maybe Rs.50 Crores, Rs.75 Crores kind of number would that be a good estimate?

S.R. Deo:

Much more than that.

Anand Bhavnani:

Sir you said this is approved by certain vendors then maybe from this product even if it starts flowing in FY2021 itself like you can be?

S.R. Deo:

It will start flowing in FY2021

Anand Bhavnani:

Do you have more such products in the import substitutes whereby it can give you growth even in a weak economic environment because these are newer products and everybody want their own some supply from domestic manufacturers so are there any more such products in the offing?

S.R. Deo:

Basically, in our expansion plan which we are going to complete by October it is more of expansion of the existing capacities or existing products.

Anand Bhavnani:

Okay, we had this one single new product which we have launched it is at the moment likely to commercial in FY2021 and we have no other product kind of in the offering maybe next year or year after might but currently one product can give us growth in addition to the existing market, did I understand correctly?

S. R. Deo:

That is correct because even the existing product where we are expanding, they are also getting imported, so it becomes again an import substitution for domestic manufacturer.

Anand Bhavnani:

Sir in case of our other products we are hearing that government might consider a broad import duty on Chinese products in addition to the anti-dumping duties, you have any upticks or any picking of cash if you have heard and you can share with us that kind of thing is likely and unlikely?

S.R. Deo:

I think we have also heard like you but there are no updates on this.

Moderator:

Thank you. The next question is from the line of Pravin Kumar from Acuitas Capital advisors. Please go ahead.

Pravin Kumar:

Thanks for the opportunity I had a couple of questions. The first one was on this demand from latex glove manufacturers I just wanted to understand this have you seen any significant demand from these kind of operators or are those is such demands too small to mention separately?

P. Srinivasan:

It is not a significant in the overall scheme of things but in its own class it is a significant one.

Pravin Kumar:

Thanks. It is good to know. My second question was in the medium term once you have finished entire capacity expansion. Let us say in the next three to four years what kind of capacity utilization would you be comfortable with?

P. Srinivasan:

Frankly, we would like to utilize 100% capacity as early as possible that would be our endeavor but of course there are challenges and if it remains to be seen how the economy unfolds or opens out and how the operating rates improves but the opportunity is there.

Mr. Deo mentioned just few minutes ago that we are in the place where a non-Chinese player in the rubber chemicals with significant capacity additions and approvals in place, market is there so we need to encash the opportunity and hopefully we will be able to achieve much faster than what we expected.

Pravin Kumar:

So would you say I mean to elaborate the point but would you say that in the next four years maybe at least 50% to 60% might be manageable if not more than that or you like to reserve your comments on this?

P. Srinivasan:

I just said it just few minutes back then we would like to finish of the entire 100% utilization in the next three, four years let us see how the market unfolds that is where the whole thing is.

Pravin Kumar:

Thanks Sir.

Moderator:

Thank you. The next question is from the line of Bharat Sheth from Quest Investments Advisors. Please go ahead.

Bharat Sheth:

Thanks for the opportunity. Sir first question is how much are our dependencies on the China for input of our raw material?

P. Srinivasan:

Not significant. Only for couple of products we are dependent on them. So, to that extent the availabilities only from China hence we will see how that goes along

Bharat Sheth:

Is there any alternate supply available or any that we have identified?

P. Srinivasan:

No. Maybe we are working on it let us see. It is too premature at this stage to give any concrete answer, but we are working on that, but it is not significant to the overall business perspective, that is what we comment at this point of time.

Bharat Sheth:

Sir now even with anti-dumping duty comes there is a strategy to grow over volume so what will be our strategy I mean it increase the price or just to go for additional market share and grow the volume so what will be idea?

P. Srinivasan:

Let the duty get notified then we will talk about it at that time.

Bharat Sheth:

Okay but having what is current I mean domestic and export mix revenue?

P. Srinivasan:

65% is domestic, 35% is exports.

Bharat Sheth:

Thank you very much. That is all from me.

Moderator:

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

Dhaval Shah:

Thanks for the opportunity. So I have two questions firstly about that you mentioned Q4 was very good in terms of the volume growth if we compare it for the last seven to eight quarters so just wanted to understand plant utilization in the Q4 and Q3 and what is the plant utilization right now?

P. Srinivasan:

I think the plant utilization Q3 versus Q4 is a growth of about maybe 15% extra point as compared to Q3

Dhaval Shah:

And what is the plant utilization right now.

P. Srinivasan:

Right now, as of today or which period you are talking about?

Dhaval Shah:

I mean as of first quarter or may be today?

P. Srinivasan:

I think that is too early for us to comment on it. I would not like to comment at this stage please.

Dhaval Shah:

So Q4 utilization was around 70%, 80% percent of our 60000 odd-tonne capacity?

P. Srinivasan:

I think we answered to someone's question just about few minutes back. We said for the utilization for the year is about 65% to 70%.

Dhaval Shah:

Secondly about the PX-13 so we filed anti-dumping on that so how much does that constitute in our revenue that product?

P. Srinivasan:

I think I answered just about 10 minutes back that it is little sensitive we will not talk about it.

Dhaval Shah:

The export we were earlier highlighting that there is a good demand from the US market so how is that shaping up and how much US market is currently constitutes in our export business?

P. Srinivasan:

I think in export business overall US will be maybe around 10%.

Dhaval Shah:

Any outlook on that I mean how is the export demand from US region?

P. Srinivasan:

I think it is more to do with how the relationship blossoms out in the sense there are certain tire companies, international tire companies, asking requesting NOCIL to supply pan global rather than region so once those schedules or those understanding comes to a sort of contract or something then we will be in a better position to give you what is the US market.

But obviously you would like to grow in US market over there definitely.

Dhaval Shah:

Okay Sir. That is all from me. Thank you.

Moderator:

Thank you. The next question is from the line of Rohit from Marshmallow Capital. Please go ahead.

Rohit:

Thank you for the opportunity. From my understanding NOCIL has more than Rs.200 Cores in cash on the balance sheet right now and average we can comfortably generate more than Rs.100 Crores, Rs.150 Crores on an yearly basis given we have a lot of capacity which is coming on stream just now and there is no capex plan at least for the next couple of years to three years what would be the usage of this, how is the management planning to deploy this cash is there a plan of buyback or something?

P. Srinivasan:

I think you have mistaken the Cash, Bank balances including short term investments as reported in the balance sheet as of March 31, 2020 is about Rs.35 Crores, it is not Rs.200 Crores.

Secondly, we are in the recovery stage of the economy and one needs to conserve cash for meeting its working capital requirements.

If the market conditions improve and a new evaluation of feasibility project gets finalized, we will consider deploying that in future business expansion as Mr. Deo pointed that sometimes back, not this year maybe sometime during next year.

Rohit:

Apologies for my error. My next question I mean you have mentioned very clearly that we are seeing increased interest from customers on current products but historically you have work with customers on creating new products is what I understand so is this the interest or collaboration with the customers to any new products that you do not have in the market right now that is happening?

P. Srinivasan:

There have been having discussions with tire companies, tire customers and other customers on development of new molecules or new products discussions are going on, preliminary studies are going on. As and when a suitable opportunity does come in or when we come to a concrete plan, we will announce it.

Rohit:

Understood Sir and this capex work in progress that we have on our balance sheet right now, this is in relation to the last phase of our expansion I believe right?

P. Srinivasan:

It is part of the Rs.450 Crores expansion plan and this should be as Mr. Deo said this should be commissioned by October 2020.

Rohit:

Understood Sir. Okay that is it from me. Thank you.

Moderator:

Thank you. The next question is from the line of Manan Patel from Aquarius PMS. Please go ahead.

Manan Patel:

Thank you for the opportunity. Sir from what I understand you had sent some samples to your export customers from the new capacity so just wanted to hear some updates on that if any?

P. Srinivasan:

We have been receiving approvals from every customers to whom we have send samples.

Basically in a typical manufacturing setup you take the material in case it is a product recall you can send it back to the vendor but in case of rubber chemicals the situation is slightly different because as rubber chemicals forms less than 5% of the overall tire weight, the product recall strategies are generally not practiced or followed.

So that being the case the pre-commercial approvals or studies or taking a long time and even though approvals there are sometimes in one customer only, one approval /two approvals /three approvals are there. See as each customer at this own set of parameters so we have started getting approvals and we have started supplying the initial commercial lots or something like that. I think the business should stabilize from this year or from the quarter July or September onwards or slightly later for additional volumes.

Manan Patel:

Understood and Sir on the international customers that you have mentioned have upgraded you from the other regional and to global so what kind of like scalability we can see from that part of business?

P. Srinivasan

I think again it is little premature to comment on the scalability or the volume or impact let us see how it unfolds and as we go on we will start communicating as and when some significant development comes out.

The intent is very important that means they are looking at you as a non-Chinese dependable global player that is very important, that is a huge status they are giving.

Manan Patel:

Sir and on similar lines the intent you mentioned has there been a like much stronger intent after especially what has happened in terms of COVID and all like do you see the share from China from 75 to going down to 68 or whatever in much faster way than what you expect?

P. Srinivasan:

I think this is not a right time to talk about it because what happens is before the COVID slow down people were operating at a much higher operating rate and suddenly the lockdown came and everything came to a standstill so I think any data which you are referring for the period April to June or for that matter April to September is not a representative data because it includes some element of old coverage which will be negated out so I personally feel like wait for some time as we get more clarity, we will communicate to you.

Manan Patel:

Thanks a lot.

Moderator:

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

Nirav Jimudia:

Good evening Sir. Thanks for the opportunity. I have two set of questions Sir, one is if I look over P&L for last two years apart from the gross margins, fixed and the variable cost combined together for last two years has been in the region of Rs.280 to Rs.285 Crores so probably FY2019 was Rs.285 Crores and FY2020 is Rs.282 Crores precisely and Sir if we see I think we have done volume degrowth of 4% as you mentioned in your opening remarks. So some portion of the margin compromise would have been because of this reason as some part of our this Rs.285 Crores would be fixed cost, which continues to be incurred by irrespective of the volumes being done by us so could you just share with us in terms of the broad break up in terms of this Rs.285 Crores like how much is fixed and how much is variable that would be helpful Sir and in the absolute rupees Crores that would be very helpful Sir?

P. Srinivasan:

I will give you the broad split, maybe I would say about 50:50. you can take it for the variable nature and fixed nature though some part of it would say utilities also has a fixed component in that and on broad basis it is 50:50.

Nirav Jimudia:

Sir related question to this let us hypothetically assume this to be Rs.140 Crores for this financial year with capacity utilization gradually getting improved let us say whenever we will reach towards Rs.70,000 tons of volume or probably utilizing 100% how much this fixed cost can go up from here like right now it is Rs.140 Crores but what is your assessment?

P. Srinivasan:

It will not be going up proportionately to volume increases. It will taper down. I do not want to quantify the numbers at this point of time.

Nirav Jimudia:

Thanks Sir and second question is like if you see before two, three years when there was a strict environmental regulations being imposed in China and because of which some of the capacities got closed we got an opportunity in terms of increasing the realizations and which probably helped us also in terms of getting the extra margins so if you can just share some light in terms of how been the situation currently because I think some of those capacities which got closed down probably have been coming back and some of them also have expanded the capacity so if you can just tell us what has been the utilization at the global level in terms of production and pace that would be helpful Sir?

P. Srinivasan:

I think China sunshine are still going at 100% capacity utilization that is what we know from their financial statements which is getting uploaded in the Singapore stock exchange but I am not sure about Yanggu Huatai or for that matter other Chinese companies, Kumho is operating at around 50% if I am not mistaken and what is happening is in view of the auto slowdown suddenly it appears that there is a surplus in availability of capacities or supplies.

Now as the auto market or the consumption demand market stabilizes or improves post economic recovery I think the small players in China will have difficulty and I do not think so they are going to be in business on a longer term or a medium-term, some of them might may have wind up some of them may be find it difficult to survive because government do not seem to be keen to be lenient on pollution parameters henceforth or anymore in fact chemical plants are not encouraged to expand in certain provinces and if these are true, then you need to manage your operations well within the norm. Fortunately, in our case, our technology has been quite good, rather excellent under the guidance of professionals like Mr. Deo and team. So therefore I feel it is a great opportunity for NOCIL to encash this and as we go along China Sunshine is gradually reduce A) because of the sentiments, B) because of their own internal restrictions now it remains to be seen how government is serious about, how long this take an incremental size or sustain this spike policy.

Nirav Jimudia:

Thank you Sir so just added question to the first one what you mentioned like in terms of the fixed cost on an average breakup so if we see like would there be any cost rationalization being implemented this financial year because probably this is a year of consolidation in which we probably, what I am trying to say is that let us say we have a fixed cost of Rs.140 Crores in terms of broad breakup so would there be any more cost rationalization measures will be initiated by the management in this financial year given this year is a year of consolidation in terms of volumes and averaging?

P. Srinivasan:

I think we are adopting a policy need based fixed cost incurrence than standard cost-plus inflation factor. I do not think so we in NOCIL ever allow that, seeing people across the thing we are very conscious of the costs which is being incurred for the business and we take a zero-based budgeting or the need to incur only if it is justified we incur it otherwise we do not incur it.

Nirav Jimudia:

Thanks a lot, helpful. All the best.

Moderator:

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

Avishek Datta:

Very good set of numbers in this tough environment. Sir I just wanted to understand now that your capacity is fully commissioned in this 11% volume growth has there been a change in the domestic market share post the commissioning, if you can quantify before and after the capacity commission?

P. Srinivasan:

I think I can give a guidance on the volume parameters for the quarter under review. On domestic front it was more than double digit growth so that is the point we can share, exports will almost be a double digit, it was not fully in double digit growth.

The point is that we have increased our domestic capabilities and we hope that now the normalcy is more or less resumed on the operational front, we believe we will try to encash consolidate on our strengths subject to appropriate response from tire companies.

Avishek Datta:

Sir FY2020 and what was our market share in the domestic market?

P. Srinivasan:

Maybe in the domestic market I think we may be around 38% or there about 40% is what we normally target but maybe 38% because of the additional imports came in.

Avishek Datta:

Sir secondly if I see your H2 numbers, your margins have averaged around 18% and during ADD it will average around 24% odd or 25% odd and you used to mention that 3% to 4% is because of ADD so have we seen like pricing pressure or have we deliberately?

P. Srinivasan:

I think Mr. Deo at the start of the meeting did mention that we have gone in for an aggressive retention of volume share, market share, capture additional volumes wherever possible at the cost of some price, important thing is the price aggression.

Then again we explained few minutes back to an earlier question if the supply is temporarily surplus in the market situation then the price pressures come in and you can also witness the same thing from the analysis of a competitor like China Sunsine so given that factor when the price pressure is there in a competitive market you have to respond aggressively to capture retain market share or capture volume share so maybe we were forced to do it and we did it as we go along hopefully things should change as the economy picks up.

Avishek Datta:

Sir secondly I know it is a very tough question like April was a complete washout so we were already down around 8% for this financial year so if I have to just ask you like for FY2021 what will be your like in this tough environment what kind of volumes you are envisaging this year?

P. Srinivasan:

Avishek, it is too premature to talk about it on this front because there are so many contingent events which is likely to happen so we are only seeing the positive news coming out slow and steadily one by one I think let it settle down let there be a consistency and then we can talk about numbers much more confidently.

Today I think this is too premature to jump the number and say that this is what we may end up the year or something like that. This COVID pandemic was an unprecedented one so therefore how each one of the business units aligns itself to the new challenging environment that is a question and if you are able to fortunate align itself we are too well definitely as compare to others so I think let us not jump, the one the good news is I can share one other piece of information I think to the rest of the people on the call that in the IRSG there is a recent report from consultant on IRSG expert who often says that in a situation like what happened in 2008 of the Lehmann Brother crisis and even today when the economy is degrowing post the impact of it the next year is where if the re-bouncing will be much significant and they have shown some similarity if some of you who have access to IRSG report please go through that.

Moderator:

Thank you. The next question is from the line of Krunal Shah from ENAM Holdings. Please go ahead.

Krunal Shah:

Sir my question is regarding the volume growth of double-digit that you mentioned for what period is that double-digit domestic volume growth?

P. Srinivasan:

This is for January to March 20

Krunal Shah:

Okay Sir Q-o-Q and can you share the Y-o-Y numbers for the same?

P. Srinivasan:

Y-o-Y number we just said it is -4 for the year Mr. Deo said at the start of the conference

Krunal Shah:

It is domestic and export Y-o-Y?

P. Srinivasan:

Domestic - 8.5 and exports +6.5.

Krunal Shah:

How has been the raw material price I mean during Q4 versus Q3?

P. Srinivasan:

Raw material has been steady for Q4 versusQ3.

Krunal Shah:

Okay got it Sir and so if we have a premium say versus export realizations are at a higher value versus domestic that continues?

P. Srinivasan:

I think it is basically composition of the product mix. if you are talking about a likewise same commodity obviously export pricing will be lower than the domestic pricing because in India, we have the basic custom duty at 7.5% and clearing & handling charges. Say 10% factoring will be there.

Krunal Shah:

Thank you so much.

Moderator:

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

Aditya Khetan:

Sir my question is for are we witnessing any decline in imports from China post the India-China tussle?

P. Srinivasan:

I think it is too early to comment on it let the report data come then we will probably analyze and get back to you.

Aditya Khetan:

My second question is, are you witnessing any capacity addition in the globe?

P. Srinivasan:

We have heard reports on two players from China who are in the mode to expand but not certain given the current circumstances whether they are serious enough to do it or not.

Aditya Khetan:

Can we share the name of the competitors?

P. Srinivasan:

In fact, two or three if I am not mistaken.

China Sunshine, Kemai and Welling had some expansion plans. Not sure about the exact status.

Aditya Khetan:

So, can we share the quantum of the jump in the capacity addition post this? Sir can you share the quantum of the capacity addition post these three players if they add the capacity so how much the capacity addition would come then?

P. Srinivasan:

I do not have the details because they included in their scheme of things insoluble Sulphur, rubber chemicals, some speciality chemicals as well so I do not have this split up right now so maybe as and when I get I will share it with SGA.

Aditya Khetan:

Okay and my last question is what is the final dividend that has been declared by the company?

P. Srinivasan:

We have already declared an interim dividend of 2.5 in March and that is the final that is gratified and approved by the members in the AGM.

Aditya Khetan:

Thankyou Sir. That is all from my side.

Moderator:

Thank you. The next question is from the line of Deep Master from One-up Financial. Please go ahead.

Deep Master:

Thanks for the question. My first question was on the capex that we have undertaken the Rs.450 Crores and in your presentation you mentioned an asset turn of about two times at FY2018 prices so I just wanted to understand what is the kind of payback period that we had looked at when we started off on this capex just sort of single ballpark if you can share?

P. Srinivasan:

I think we have answered this question few minutes back. We were talking about three years from the data approvals from the customers that was always the original but given this current slowdown which happened we gave guidance about few months back for about 4 – 4.50 years or thereabouts.

What is more important is that through this capex is about how you want to place yourself in the global market, in the global space and that was one of the objectives and we want to give a message to the customers that or rather confidence to the customer that we are serious non-Chinese player in the rubber chemical space.

Deep Master:

Great. My second question actually is on your export story so in your presentation you mentioned that the global market is growing at 3% a year and adding about 35,000 tons of you demand every year so I just wanted to now is wondering if we could get like a ballpark range of what kind of volume growth it could be targeting over three to four year period just for us to kind of put it in perspective and understand a gross income from that market?

P. Srinivasan:

I would answer little differently, we have given the answers in the past that today in our scheme of things the revenue split up was 70% local and 30% exports. In the larger scheme of space or in the medium term we were looking at 60% domestic and 40% exports

Deep Master:

This would be over a three-year kind of period?

P. Srinivasan:

Yes, that is it three, four years time.

Deep Master:

Okay, all right, thank you.

Moderator:

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

S.R. Deo:

Thank you very much to all of you for attending this concall. We had very interesting discussions and questions were very interesting. I must thank each one of you that you attended this concall in the evening and could spend one-and-a-half hours discussing about NOCIL.

Let me tell reiterate that we are pretty optimistic in terms of the business the way in which the things are going on, it may not be immediate but in long-term we see that NOCIL has good prospects in the rubber chemicals business. With this remark, I once again thank all of you and my colleagues, Mr. Srinivasan, and the SGA team. Thank you very much.

Moderator:

Thank you. On behalf of NOCIL Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.