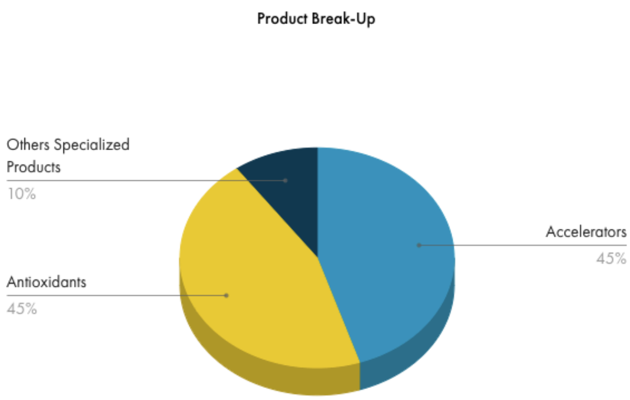
Analysis of **NOCIL LIMITED By Gurjeev Singh Anand Dated 9.10.2020**

It is advised to watch a business as a complete movie rather than a still picture. For the purpose of analysis taking the consolidated numbers for NOCIL as an whole which includes the financial numbers of its subsidiary PIL Chemicals Limited, (PIL).

About the Company

The company is a part of Mafatlal Group of Industries, is in Rubber Chemical Business and Largest Rubber Chemicals Manufacturer in India. It is a leader in domestic rubber chemicals market with ~40% share and ~5% global market share. It manufactures accelerators, antioxidants, pre-vulcanizing inhibitors and post vulcanising stabilizers. While accelerators and antioxidants each account for ~45% of revenues, other specialized products collectively account for ~10% of revenues. Till 2012 company had facility in Trans Thane Creek Industrial area at Navi Mumbai, Maharashtra. The company set up a new facility at Dahej to prepared itself for added capacity for future years to improve their ties and supply to their customers. The new project at Dahej was expected to be in running state by Aug 2012. Several input sources at Dahej and logistics advantage will add to cost savings. With the new added capacity in Dahej. NOCIL plans to capture additional market share in due course of time. They also have a wholly owned subsidiary viz. PIL Chemicals Private Limited, having dedicated ancillary manufacturing facilities in the GIDC industrial area at Vapi, Gujarat. The Company's regional sales offices are located in Mumbai, Delhi, Chennai and Kolkata. The products of the company are used by tyre industry and other segments of the rubber chemicals industry. These chemicals not only accelerate the vulcanisation of rubber, but also extend the life of rubber products in addition to improving their performance.



Technology for the manufacture of PILFLEX ® Antidegradants, PILNOX ® Antioxidants, PILCURE ® Accelerators, Post Vulcanization Stabilizer and PILGARD ® Pre Vulcanization Inhibitor

Manufacturing facilities are associated with requisite effluent treatment plants and solid waste incinerator at Navi Mumbai to ensure compliance of all stipulated environment norms. NOCIL has embarked upon research projects to move towards green chemistry strategies.

Navi Mumbai Plant
C-37,TTC Industrial Area,
Off Thane Belapur Road,
Pawne,
Navi Mumbai - 400705.

Dahej Plant
12/A/1 & 13/B/1, Dahej Indl. Estate,
Village Ambheta, Tal. Vagra,
Dist. Bharuch,
Gujarat - 392130.

Company products include

- Accelerators
- Antidegradants
- Antioxidants
- Pre-Vulcanization Inhibitor
- Post-Vulcanization Stabilizer

Financial Analysis

While analysing the financials of NOCIL Ltd, we note that in the past, the company has been able to grow its sales at a slow rate of 6-7% year on year. Sales of the company increased from ₹453 cr. in FY2011 to ₹846 cr in FY2020.

The company witnessed a decline in its sales in FY2016 and FY2020.

- In FY2016, the sales of the company declined from ₹719 Cr in to ₹715 Cr a decline of 0.5%.
- In FY2020, the sales of the company declined from ₹1043 Cr in FY2019 to ₹846 Cr in FY2020, a decline of 19%.

The operating profit trend of the business in last 10 years has seen fluctuating numbers. From 12% in 2011 down to 4% in 2013 a drastic fall of 67% again to rise to 28% in 2018 and 2019, again to fall to 21% in 2020. The margins have further contracted in the TTM numbers to 18% coming down from 21% in 2020.

PERFORMANCE OF THE COMPANY

The year under review was most challenging for the entire manufacturing sector. The business sentiment was most often negative and at best stable. The adverse news about some countries of European Union (EU) coupled with slowdown in the Automobile sector in India as well as most major markets in the world resulted in considerable fluctuations in supply of rubber chemicals to key customer accounts.

The growth in turnover, in volume terms in the domestic market was more or less flat as compared to the previous year. This was primarily due to the production cuts effected by our customers on account of the high and volatile price of natural and synthetic rubber for most part of the year. Continuing dumping and large imports of Rubber Chemicals at unrealistic prices also contributed to the lack of growth.

Source :- Annual Report Page 7 2012

The company has emphasized on EU region slow down (this effects the export requirement of rubber chemicals the key product for NOCIL) and auto sector slow down and the continued dumping from foreign players at unrealistic prices as the key reason for contraction in their margins in fy 2012 and 2013. Slowdown in auto sector brought in slower and dumping from Korea increased competition and hence reduced their operating margins. The company did a midterm review for the dumping against its main products and also filed a safe guard petition with the authorities. The authorities did impose Anti-Dumping duty on the injurious imports. How so ever due to further reduction in prices by the competitors as the competitive forces further intensified NOCIL was not able to capture the benefits from the imposition of ADD in 2012. Due to this the captivity utilization and the production was lower as compared to 2011. Another caveat was the high price of crude (and depreciating rupee) which again burdened the cost of their raw materials. The company tried to use alternative as natural gas but still the continued competitive pressure from Korea and China and European countries kept the utilizations at low levels.

Further, unlike during the previous slowdown in 2008, crude oil price has not shown any signs of softening and even today its price is over US $100 per barrel. Consequently, this has pushed up the prices of practically all our major inputs. Moreover, on some of the inputs, anti dumping and safeguard duties have also been levied. General inflationary conditions have added to this burden. To mitigate the effect of this burden, even though only partially, the Management of your company undertook various initiatives including that of better managed utilities through a more economic source of fuel (Natural Gas). Besides, efforts were also made to recover some of these cost increases by way of price corrections; however, these were only partially successful due to the continued stiff competition from various international competitors more particularly from China and Korea at totally unrealistic price levels.

The recent news of restructuring of rubber chemicals business of some international competitors and the closing down of capacities of certain key intermediates and products by some others is expected to largely neutralise the imbalance in the global supply demand scenario of rubber chemicals in the medium term. The pricing scenario of rubber chemicals, accordingly, is likely to undergo a positive change with the reduction in the global supply position. However, in the short term, due to the pressure of liquidating inventories and quick exit from rubber chemical business by some competitors, we are likely to experience unrealistic low prices from them. The Indian Government authorities have also justifiably imposed Anti-dumping duties and Safeguard Duty on certain key products, which to some extent, protects domestic pricing from dumped imports. Besides, your Company will continue to strive

Source:- 2012 Annual Report

The management in its commentary has stated that the rubber chemical industry is so competitive that few international players had to close operations as they were not able to generate profits in the business. On the other hand, the continuing aggressive export promotion policies of China & Korea, aided by the undervalued Chinese currency and the continued dumping of unrealistically priced rubber chemicals from China, S. Korea and Europe into India, continues to remain a matter of concern as these may adversely impact our capacity utilisation and margins. Thus high natural / synthetic rubber prices and the slowing down in end-product demand, customers, both from the Tyre as well as the Non-Tyre segments, undertook production cuts at periodic intervals. This did impact the demand for rubber chemicals adversely, as the same is directly dependent on performance of the rubber processing industries. The resultant mismatch in supply and demand of certain key rubber chemicals, impacted their selling prices, resulting in pressure on margins. Cost increases on account of various inputs for rubber chemicals, aggravated the situation further.

Source:- Page 20 2012 Annual Report

Although the company saw a 6.5% volume growth in 2014 but the revenue grew 22%. This was because they got market share as some of the local coemption in rubber chemicals closed operations. Rupee deprecation and change of operating mix got them this jump in 2014. Even with this artificial boast the management was pretty candid in reporting the difficulties which they faced in their business.

Unfortunately, our main product (Px-13) continues to suffer due to the unrealistically low prices offered by international competitors. On the whole, our selling prices continue to be unfavourably influenced and impacted by the artificially low pricing adopted by competitors. Our Input costs, in sync with the high crude oil and benzene prices, continued to show rising trend. While we did manage to pass on some of these increases to our customers, they were not commensurate with the increases we had to absorb.

Source:- Annual Report 2014

They were able to pass on some portion of the input costs to their end customers improve their operating margins. Some bit of the margins were sustained as the authorities increased the ADD duty on cheap dumping of rubber chemicals from foreign companies. The management has stated several times the difficulties in conducting the business operations. Cyclical commoditized business where supply outposts demand. Due to which many players have exited the business and shut operations. Eventually some bit of this closed capacity market share NOCIL was able to get.

> Unable to withstand this aggression, some of the prominent global players have exited and some others have started announcing their restructuring/ exit plans from the field of rubber chemicals over the last 2-3 years. This was expected to happen in a scenario where, the supply exceeds demand and some players with a short term objective of monopolising the market, start offering prices totally inconsistent with the actual cost of production.

Source :- 2014 Annual Report

Another reason for the uptick in margins in 2014 as stated by the company in their reports is that 2 of their international tyre customers have started operations in INDIA. This would lead to increased demand as NOCIL has been their key suppliers internationally over the years and them to start operations in India would benefit the business prospects going ahead. Also with the enhancement of the ADD duty would aid the operating margins going ahead. Crude and benzene are key Raw Material effecting components for the business which were at elevated prices during the said time. And over the years due to dumping from foreign players NOCIL also had to cut down its selling prices (either by offering discounts or cutting per unit price) which kept operating margins under check.

2015 (The operating margins further improved during the year under review from 10% to 16%)

The business saw a topline growth of 20% and operating margins doubling from 2012 from 8% to 16%. The management stated that due to the tough competitive business environment the exports volume remained subdued during the year. This was due to the streamlining and higher capacity utilization of the new Dahej plant. The dumping supply reduced due to close down of several industries in countries like china due to polluting norms. This curtailed the supply side dumping. The input costs of material reduced due to falling crude oil prices. During the year under review, there was a significant drop in the Crude oil prices. From high levels of USD 110 per barrel in the first half, it came down sharply to USD 45 – 50 per barrel in the second half leading to a significant drop in prices of downstream Petrochemical inputs. The Government of India revised ADD duty in July 2014 which also aided to the margins for the year. Of late, with environmental concerns being taken serious note of, by China, some exits have already happened. Some more consolidation of smaller players cannot be ruled out. Also the supply side for domestic competition for NOCIL also faces some issues during the year. This improved the realizations for NOCIL specially Accelerators. NOCIL being the largest in the rubber chemicals space benefited from these environment changes which improved the operating margins of the business as the input prices of all the key raw materials softened during the second half of the year. But as always in cyclical business volatility in raw material prices as well as fluctuations in foreign exchange rates also are risks, which need close attention.

Government proposed ADD on import of radial tyres for trucks and buses from China to provide a level-playing field to domestic manufacturers. The duties range between US$245-452/ton for a period of five years. China and Korea are the two top producers of rubber chemicals in the world (controlling ~75% of the market); however, Korea depends entirely on China for intermediates. India has ~7% share

2017 (Further improvement in the margins)

Performance of the Company

A significant improvement in the operating performance of your company was witnessed during the financial year 2016-17 inspite of the challenges of low growth in global rubber consumption and a sudden increase in input costs during the last quarter of the financial year. Demand for rubber chemicals is a derived demand and is directly a function of global rubber consumption which for the year saw a modest growth of 1.60%. Against this backdrop, your company has posted a gross revenue of ₹ 818 crores as compared to ₹ 789 crores for the previous year. The growth in sales volume for the year also was very good at 12.5%. The performance also reflects relatively stable input prices (for the first half of the year) and commensurate lower selling prices. The lower selling prices also reflect the stiff competitive pressures in the market.

Domestic Market

Your company achieved domestic sales of ₹589 crores against the previous year's figures of ₹580 crores. The value increase appears to be modest due to lower prices for major part of the year. However, growth in volumes has been creditable and we have outperformed the market growth significantly. To put this in the right perspective, domestic rubber consumption recorded an estimated growth of 5.8% whereas our local sales volumes grew by 10%.

During the year we had to trim production levels of some products in order to manage inventories in a situation of weak demand. Our major customers too had to operate at lower than optimum levels due to large imports of low-price tyres, mainly from China. With our customers improving capacity utilisation towards the last quarter of the year, we are confident of improving volumes going forward.

For most of the year, our competitors from China, Korea and EU posted low C.I.F prices to India to counter anti-dumping duties and in an attempt to place larger volumes, as they were faced with weak demand in their domestic markets. Also some of our local competitors also adopted a low price approach to gain volumes. This continued even in the second half of the year, although raw

Time and again even with the temporary cyclical improvement looks good as business performance the management has stated the difficulties in conducting the business. They have been facing issues from stiff competition from foreign counter parts. Where even after the imposition of the Anti-Dumping Duty by Indian authorities. These units from china and Korea further lowered their prices to counter the ADD duty structure.

This is an industry dynamics which shows immense excess supply than actual demand leading to weak operating dynamics and difficult for any business in this segment to continuously make money for sustain long period of time.

Also the company had to curtail production capacity as the demand for rubber chemicals was not growing which was mainly due to slow down in auto space.

On top of that the local competition also lowers the prices adding more pressure to the business dynamics. NOCIL was able to post higher margins due to its largest size and operating leverage playing in its favour. With the sharp increase in raw materials in second half of the year the international competition took a upward price revision to stay in the game which added the margins as their product coming into the country had to face anti-dumping duty.

As mentioned, the sharp increases in raw material prices (particularly in second half of the Financial Year 2016-17) had already resulted in higher rubber chemicals prices. These increases will largely be effective for the first quarter of 2017-18. Your company will judiciously adapt to this change in the market place keeping in mind our objective of long term sustainable growth. Some corrections were effected in January-March 2017 and some more could be made effective from April 2017.

As per nature of the industry all the players had to take upward price revision to stay in the game. This was also the reason for growth in topline and protection from ADD duty aided the margins. On the Input prices front, Crude oil prices witnessed a sudden surge during the second half of the year. With Benzene price going up sharply from US$ 600 to about US$ 1,000, most of our critical inputs also increased in tandem in the range of 30% to 80% compared to the price levels at the beginning of the year. NOCIL had best exports during the year as several of its Chinese competitors had to face closure due to strict pollution and emission norms prevalent during the time in China. Management worked on maintaining working inventories of both raw materials as well as finished products at appropriate levels. This helped them to maintain margins without getting adversely impacted by these sudden increases in input costs

The further did a capex of 170 Crores to expand their facilities. This capex would be completed by second quarter of 2018 -2019. With the improvement in the financials (mainly with the aid from ADD) the management was able to do the same with internal generations without taking debt loads. The 6 Products where ADD was there contribute 50% of revenues for the company.

2019 (Highest ever margins enjoyed by NOCIL)

The global tyre companies announced a capex of 8 Bln $ which would increase the demand for rubber chemicals going ahead. The lack of demand by slowdown in the auto industry and curtail production by the major auto companies. This global slow down reduced the input prices of major rubber chemical industry which further aided the margins for NOCIL, from June 2018 the raw material prices dropped by 40%. This lower input costs were eventually passed on during the second off to the customers who were facing low demand issues themselves as reported by the management.

Though China accounts for about 70% of world's rubber chemical production, it only consumes about 33-35 % of the rubber chemicals, resulting in exportable surplus, which makes it possible to dump it into neighboring markets, including India. The Company has made necessary applications before the Director General of Trade Remedies (DGTR) towards extension of anti-dumping duty in respect of six of its products. The matter is subjudice at this point of time.

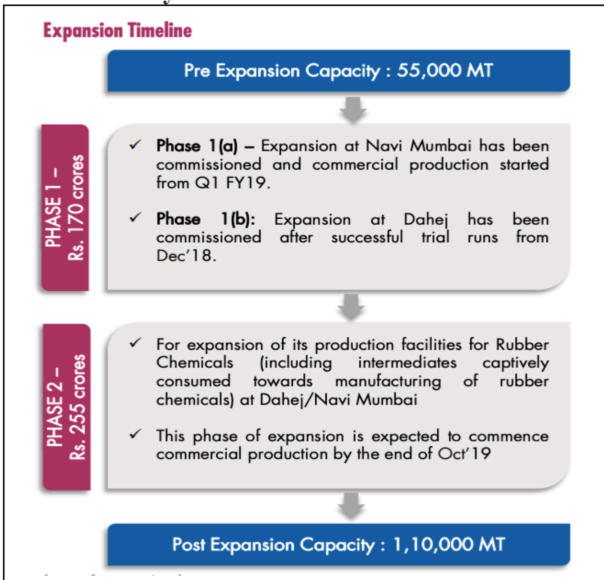
On the input fronts, the sharp reduction in crude oil and Benzene prices have resulted in sharp downward movements in prices of all major inputs, more particularly from September 2018 onwards. Crude Oil witnessed a downtrend in price from November 2018 and stabilized in the range of $62- $66/ barrel at the end of the year. Benzene prices too witnessed sharp downward movement from the levels of US $ 1200 per MT above US $ 585 per MT at the end of the year. Increased availability of Aniline due to slow down in Methylene Diphenyl Di-isocyante (MDI) demand resulted in the spreads dropping significantly lower over Benzene spot price. As a result, your company managed to enter into long term contractual arrangements with its vendors in respect of Aniline at a very attractive fixed spread over spot Benzene price.

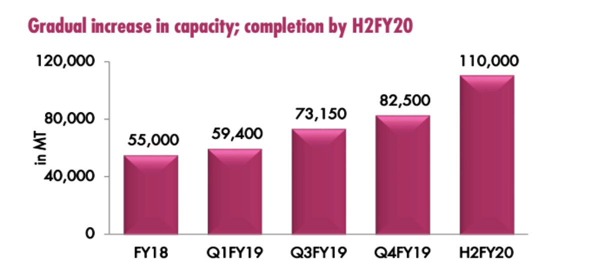
Again a case of excess supply and less demand in the business. The term for ADD was for a limited period of time and hence NOCIL again approached the DGTR for extension. With the slowing down business economics the company had to take production cuts as the lagging auto industry demand was diminishing during the year. The fall in key rm prices the company got contracts which helped the margins further. With this the company did a second stage of capex worth 255 Crores again from internal generations which was to be streamlined and operative by 3rd quarter of 2019-20.

NOCIL, at the start of FY19, announced to expand its capacity from 55,000 MT to 1,10,000 MT to capitalize on the healthy end user demand. The expansion plan is to be completed in two phases, the first already completed and commenced production; the second phase is set to be commissioned in H2FY20. This expanded capacity will enable NOCIL to cater to the increasing demand in domestic market (which it was not able to counter due to near optimum utilization) and expand its global base with an asset turn of ~2x that would aid Revenues growth over the next 2-3 years

This ADD was effective till July 2019 post it was not renewed.

Business Analysis





- To capitalize on growth prospects, NOCIL announced to double its capacity with a capex of Rs. 425 cr. This plan is expected to be completed by H2FY20 and the entire capital expenditure will be funded by Internal Accruals. Before the expansion, NOCIL was working at 90-95% utilization
- **With asset turn of ~2x, capex upon completion shall enable NOCIL to potentially double revenues over the next 2-3 years**
- This expansion will help the company to expand its product portfolio and given the growth prospects, will assist it to reach out to new customers and geographies
- NOCIL would be able to increase its global market share and the management asserts that there is further scope for multiple capacity expansions.

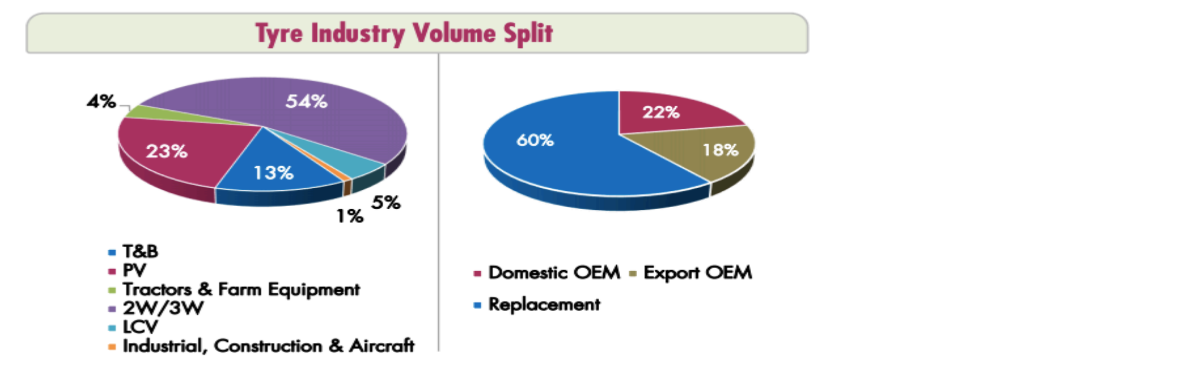
Capacity (MT)	Navi Mumbai	Dahej
Pre-expansion	43,000	12,000
Post-expansion	55,000	55,000

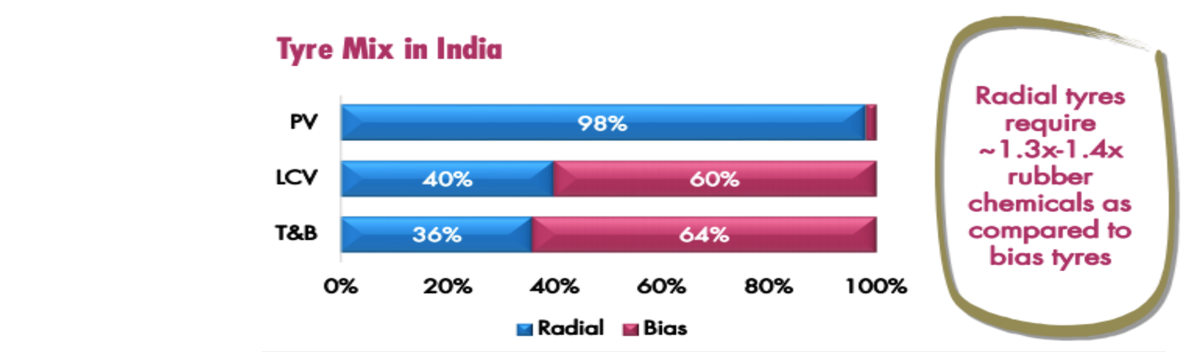
Capex in Phased manner (to avoid taking debt and do the same from internal generations)

Complete Value Chain

Source: China Sunshine Annual Report.

Tyre usage / dynamics in Indian Context.





Demand Scenario

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

Source :- 13th May 2019 Concall

2020

We believe in living in the present while gearing up for the future. This year was quite eventful and plagued by issues ranging from continued slowdown in the auto and auto components industry, to the cessation of the anti-dumping duty, to the unprecedented Covid-19 pandemic-related slowdown.

The fall in the operating margins for the business is due to cessation of anti-bumping duty , COVID – 19, Slowdown in auto sector as there is lack of demand. Company sees the recovery of sentiment and demand coming back and hence the management has planned a capex in 3 phases to the tune of 450 crores. The 1st phase capex has been done and the 2nd phase is undergoing in staggered manner as to keep the company with debt free status and save on interest outgo as in cyclical business down turn with interest loads can really hurt the profitability. NOCIL makes total of 22 rubber chemicals. Company recorded a turnover of ` 846 Crores for the year as against ` 1,043 Crores, a de-growth of 19%. This was on the back of de-growth in sales volume by 4% as against the domestic automobile sector de-growth of 15%. the cessation of anti- dumping duty post end July, 2019 added pressure on margins of six (6) of our products. The slowdown led to a drop in capacity utilisation at the major tire companies. In view of the BS VI auto emission introduction, auto sales were expected to witness a growth due to pre-buying which did not materialise on account of COVID-19. rubber chemicals prices which started softening from October, 2018 in view of the slow down, better availability and drop in corresponding CIF levels marked a drop of 15% for the year under review.

Though China accounts for about 75% of world's rubber chemical production, it only consumes about 35% of the rubber chemicals, resulting in exportable surplus, which makes it possible to dump it into neighbouring markets, including India.

The growth opportunity ahead

The normalisation of the Indian economy will enable the replacement tire market to operate at a higher rate and your company being a supplier to tires will benefit out of the same. The recent import restriction on various classes of tires into India will help the domestic tires operating rates. Since tire industry constitutes about 65% of the rubber chemicals consumption, any improvement at their end will benefit player like NOCIL. The recent DGTR initiation notice on anti-dumping duty on one of our major products, where we have expanded, will help the Company in case the duty is levied on conclusion of findings. By virtue of its long association with most international tire majors, your company also enjoys a preferred-supplier status with their Indian operations. With increasing presence of these players in the Indian market, NOCIL stands to gain significant leverage as a domestic supplier to these plants as well There are opportunities for expanding business in certain specialty chemicals and high value chemicals, where some customers are conducting advanced pre-commercial studies.

Source :- Page 54 2020 Annual Report

For this the company is doing a capex of 450 crores in stagger manner to increase capacity of production.

The Company had to sacrifice operating margins in the quest for maintaining volumes consistently quarter over quarter. The EBIDTA margins dropped on account of international price reductions, cessation of anti-dumping duty and operating at sub optimal capacities.

Source :- Page 55 2020 Annual Report

Largely the drop in revenues is due to the dips in sales volumes on account of auto slow down and production cuts undertaken by tyre industry.

Source :- 13th May 2019 Concall

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

Source :- 31st July 2019 Concall

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

R. M. Gadgil: Yes, we have.

Phalguni Dutta: Both in September and October?

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

Source :- Sept 2019 Concall

This shows the difficulties in the business

Since 70-75% of the rubber chemicals production is from countries like China and Korea and India only has 7% of the world market share for rubber chemicals. Moreover the domestic demand is also catered by imports. These trends show why the operating margins of NOCIL are fluctuating over last several years. With the imposition of ADD the fortunes of the company went high as their margins ticked upwards. And as the ADD duty structure period was over the same again came down showing stress from dumping from foreign players. NOCIL operates in a cyclical commodity business where there are many moving parts to the equation. Dumping from foreign players, slowdown in auto sector, prices of crude, benzene are to be monitored for long term investors in the business which is a tedious task as things can change quickly during the course of the business.

The net profit trend has shown similar structure as the operating profits as the company does not have high debt and interest cost. More over the business is working capital intensive and not fixed asset intensive in nature.

Tax Structure

NOCIL has been paying taxes as per standard tax rates as relevant in the country from time to time. With a caveat in 2012, 2013 and 2020. The reason for tax rate 4% in 2013 was due to excess provisioning in previous year, for unabsorbed depreciation carried forward. Similarly in 2020 it was due to differed tax which reduced the tax rate in profit and loss. The company has adopted for subsidized tax rate as per GOI changes which is 22% + applicable surcharge from 2019 - 2020 onwards.

Interest

The company fallows the procedure of capitalizing the interest cost while they are in capex phase. In 2012 the capitalized portion of the interest was 4.67 crores and in 2013 it was 10.13 crores. (Source AR 2013.). It is a good practice to remove the effects of capitalization and see the interest service capabilities of the business as a whole.

Operating Efficiency Analysis

Net Fixes asset

The next fixed asset turn for the company has not seen a smooth ride over the years. From 5 times in 2012 down to 1.75 times in 2017 and again to go down to 1.16 times in 2020. The reason for the same as discussed above that the company at several times had to curtail its production due to lack of demand in the market. Also the management has been doing capacity addition at regular addition. The new capacity so been built as can be seen in CWIP (Capital work in progress in the balance sheet) takes time to come to production. And as we know that the management of the company has been doing capex in staggered phased manner to keep the company debt free as the interest cost in cyclical commodity business really hurt the profitability when there is a slowdown in the economy. As usually such business have over supply and less of recurring demand. More over the ADD duty structure was there for limited 5 years only after which the excess supply again started to come into the country. More over the dumping countries mainly China and Korea even reduced the prices further to curtail the effects while ADD was in force (ADD was in force for 6 key products for NOCL. NOCIL makes a total of 22 products).

Receivable Days

The same have been always in the range of 2.5 to 3 months for the company. In last 2 years (which also has the effect of COVID in last 6 days reporting period March 2020) the receivable days have even further deteriorated from 78 down to 94 days. From time to time the management had to offer lucrative payment terms and discounts to sell their inventory to their customer due to availability of similar products from un organized competition and cheaper imports into the country. Around 22-24% of the revenue is always there in receivables thought last 5-7 years which shows low power of the business with its customers.

Inventory Turnover

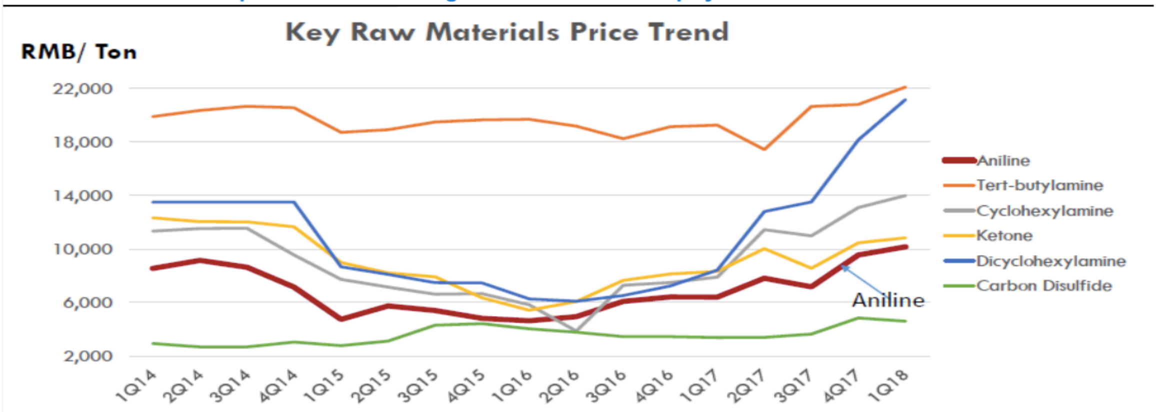
As the nature of commoditized business, NOCIL has not had a smooth run with its inventory turns. The ratio from 4.37 has dropped to 4.13 in 2015 only to rise to 7.14 in 2018 (when ADD was in force) again to fall to 5.51 in 2020 (where only 6 days lock down effected in this reporting period). Again this tells that the nature of predicting the inventory turns is very unpredictable and it all depends upon the prevalent demand and supply at the said point of time. Similarly like receivables around 18-20% of revenue is always stuck in inventory. This could be of 2 reasons, (1) The inventory is slow moving as the nature of the industry (2) The management does pre assumptive buying to keep them safe from supply side disruptions and also the highly fluctuating raw material costs.

So there has been dip in the selling prices on certain products where the commensurate fall in raw material price is not sufficient. Having said that I would like to add further, in a falling market what happens is in a business where we have to cover two to three months in advance because of import and the lead time and the storage time. The slowdown in the auto industry if you recall started with the festive season, which is like October-November or thereabouts, it was felt because the traditional kind of boost in auto sales did not come in the last festival season. Now the way the industry operates is you have build-up stocks for the higher sales that you expect for the festival season, if those sales do not happen then people do not start cutting down production immediately, but it happens slowly step by step. This is the aspect why company keeps sufficient inventory in hand and the 16-20% of their revenue is in inventory on an average.

Source :- 13th May 2019 Concall

Raw Material Price Trend for Rubber Chemical Companies

Exhibit 14: Raw material prices have been benign for rubber chemicals players



Source: China Sunsine, PL

Metric's

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR
Metric Tons	38264	37169	33341	37333	46266	44415	44415	49967	54964	68705	7%
Growth		(3%)	(11%)	12%	24%	(4%)	0%	12%	10%	25%	
Nos Employee					440	448	456	489	593	645	8%
Mgmt Salary	1.74	1.8	1.34	2.18	3.32	4.10	7.57	9.53	8.06	6.92	17%
Net Profits	33.51	34.55	42.13	23.85	57.10	78.26	97.11	169.93	184.85	130.67	16%
R&D	3.42	3.37	2.79	3.13	4.18	6.16	4.82	5.74	5.0	5.51	5%

The management has been able to increase the production capacity at a CAGR of 7% which is equivalent to the long term sales growth CAGR for the business. NOCL is a business where one has to invest more to earn more. The domestic rubber chemical market size is around 65000 to 70000 tonnes annuity and NOCIL has 40% domestic market share.

Free Cash Flow

Inspite of the stiff business conditions NOCIL has been able to maintain its working capital over the years. Its Cash generated from operations in last 10 years is more or less equal the cumulative pat which is 850 odd crores. And as discussed above in the report the management has been aggressive in expanding the business in phased stagger manner. In last 2 years the management has done capex of 250 crores and another 200 odd crores in 2020 for expanding facilities to cater demand which they see in future. The management states in their concall to the shareholders that the volumes have bottomed out and hence the capex for expanding the facilities. Total capacity will go to 110000 MT where Mumbai 50% and Dahej 50%.

The dividend's the company has paid over the last several years are coming from its cash balances which are slowly getting depleted due to dividends. The company has sold off its investments to stay in the business and also give dividend's to its shareholders.

Focus of Capex and Capacity addition of :-

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

SSGR

NOCIL has been able to increase its sales from 450 crores in 2011 to 850 crores (sales dipped from 1043 crores in 2019 to 846 crores in 2020). With internal generations the SSGR which the company has maintained is in the range of 12-15%. NOCIL has been growing its sales in the range of 7-8% over the years and has been able to keep the debt levels under check.

Management Family Settlements

Arvind Mafatlal Group have undergone a business restructuring in which Mr. Hrishikesh A. Mafatlal and Mr. Vishad P. Mafatlal have split their businesses in 2017. In this family settlement the business has gone to Hrishikesh A. Mafatlal and as a result, Mr. H. A. Mafatlal has brought in his son, Mr. Priyavrata H. Mafatlal as a director on the board of the company

Promoter Pledge is a risk

	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Sep-17
Promoters' Shareholding (%)	32.82	32.83	32.83	36.66	36.66	36.66	37.00	37.61	36.97	36.85
Pledge %	50%	32%	59%	28%	28%	0%	14%	14%	25%	19%

Risks identified by the auditor

Property, Plant And Equipment Capitalisation

Refer to Note 2 (Accounting policies) for Property, Plant and Equipment measurement as required by the applicable Ind AS. During the year ending March 31, 2020, the Company has capitalised ₹ 17,257 Lakh.

Risk identified:

Capitalisation of costs and the useful lives assigned to assets are areas of judgement by Management.

These manifest themselves in the following two audit risks:

– the risk that amounts being capitalised do not meet capitalisation criteria; and

– the risk that the useful economic lives assigned to assets are inappropriate.

Sr. no.	Key audit matter description
1	**Revenue recognition and measurement** Refer to Note 2 (Accounting policies) for revenue recognition and measurement, Note 26 of the Standalone Financial Statements for aggregate revenue from sale of goods recognised as required by the applicable Ind AS. For the year ended March 31, 2020, the Company recognised revenues from sale of goods aggregating to ₹ 83,775 Lakhs (previous year ₹ 103,036 Lakhs). The Company recognises revenue from sale of goods when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and the products have been delivered to the customer. Amounts disclosed as revenue are net of customer returns, trade allowance, rebates, goods and services tax and amount collected on behalf of third parties. **Risk identified:** Revenue is recognised when control of the underlying goods is transferred to the customer. There may be a risk of revenue being overstated due to pressure from Management to achieve performance targets at the reporting period end.

Low promoter holding is a risk

Shareholding Pattern

Numbers in percentages

	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020
Promoters +	36.85	36.79	35.80	35.06	34.08	33.78	33.78	33.76	33.73	33.73	33.73	34.03

Management mentions about 2 new capacities coming up in China. Once they commission and start production which is 12-18 months more price pressure and over supply will come into the system.

Amalgamation of promoter owned entities

NOCIL LTD.

Scrip Code : 500730 | Quarter Ending : June 2020

Statement showing shareholding pattern of the Promoter and Promoter Group

Category of shareholder	Nos. of shareholders	No. of fully paid up equity shares held	Total nos. shares held	Shareholding as a % of total no. of shares (calculated as per SCRR, 1957)As a % of (A+B+C2)	Number of Shares pledged or otherwise encumbered		Number of equity shares held in dematerialized form
					No.(a)	As a % of total Shares held(b)	
A1) Indian				0.00		0.00	
Individuals/Hindu undivided Family	8	8,60,160	8,60,160	0.52		0.00	8,60,160
REKHA HRISHIKESH MAFATLAL	1	1,64,760	1,64,760	0.10		0.00	1,64,760
HRISHIKESH ARVIND MAFATLAL (as a trustee of the Gurukripa trust)	1	100	100	0.00		0.00	100
HRISHIKESH ARVIND MAFATLAL (as a Trustee of Karuna Trust)	1	100	100	0.00		0.00	100
HRISHIKESH ARVIND MAFATLAL (as a Trustee of Narsingha Trust)	1	100	100	0.00		0.00	100
REKHA HRISHIKESH MAFATLAL (as a Trustee of Radha Raman Trust)	1	100	100	0.00		0.00	100
HRISHIKESH ARVIND MAFATLAL (as a Trustee of Shrija Trust)	1	100	100	0.00		0.00	100
HRISHIKESH A MAFATLAL	1	1,77,900	1,77,900	0.11		0.00	1,77,900
PRIYAVRATA MAFATLAL	1	5,17,000	5,17,000	0.31		0.00	5,17,000
Any Other (specify)	4	5,54,92,324	5,54,92,324	33.51	66,71,062	12.02	5,54,92,324
MAFATLAL INDUSTRIES LIMITED	1	2,52,59,059	2,52,59,059	15.25	66,71,062	26.41	2,52,59,059
SUREMI TRADING PVT LTD	1	2,12,72,165	2,12,72,165	12.85		0.00	2,12,72,165
SUMIL HOLDINGS PVT LTD	1	220	220	0.00		0.00	220
SUSHRIPADA INVESTMENTS PVT LTD	1	89,60,880	89,60,880	5.41		0.00	89,60,880
Sub Total A1	12	5,63,52,484	5,63,52,484	34.03	66,71,062	11.84	5,63,52,484
A2) Foreign				0.00		0.00	
A=A1+A2	12	5,63,52,484	5,63,52,484	34.03	66,71,062	11.84	5,63,52,484

Source:- BSE INDIA

Both these companies are promoter owned companies collectively owning 18.26% in NOCIL. Both these companies are engaged textile fabric trading. Gurukirpa Trust and Hrishikesh Mafatlal holds the shares in both these private limited companies. Hrishikesh Mafatlal family are the sole beneficiaries of Gurukirpa Trust. The management has decided to merge these with NOCIL for them to reduce their compliance load which is kind of sceptical for the shareholders of NOCIL. They might / might not add any economic value to the shareholders of NOCIL. Suremi Trading has had 95 Crores of Debt in the past out of which 80 crores has been paid and 14-15 crores is still pending. Now when amalgamation is done all the assets and liabilities would be merged with NOCIL>. While going through the public information there is another company Mafatlal services private limited which has been strike off by MCA due to non-filling of their relevant returns on time.

Mafatlal Group is a big business house having several private companies. Though looking at the size of the operations the related party transactions so entered by the company in last 1-2 years are not that significant. But in 2011 and 20122 the related party Mafatlal Industries had given loans of 16.71 crores and 21.85 crores which NOCIL payed back by the end of 2012. Maximum amount of loans during the year were outstanding to the tune of 38.56 crores.

Note for Amalgamation

How US customers calculate the materials they procure and how NOCIL stands an advantage.

R. M. Gadgil: Let me address this question, for this you have to put yourself into the shoes of a buyer, of a customer. Now if I am a US customer, if I am running a plant in the US, let us say I get Chinese goods at $2.5, let us say for easier calculations at $2 per kg CIF, and let us say typically the Indian price might be say for calculations purpose 2.20, say about 10% higher. Now what the American customer does is calculates at what price those goods land to him

at his factory, so in the Chinese case you would know in today context 25% sanctions duty plus normal duty of 6% on $2 from China and you would load 6% duty on the Indian prices and he works out, which is the best option. Now that is how the 25% duty in the US helps us to become more competitive vis-à-vis the Chinese player and this equation of people working out delivered prices to their factory is the ultimate equation used in buying decisions.

Import Substitutes (Approvals)

wheels of trade to move, so it has to come back, it is difficult to predict when, but if it has been through a weak phase I think it is about time of the replacement demand should come back. That is one part, this is about the tyre business. The second part is about our volume growth, even if the tyre business is not growing you see a situation where let us say quarter beginning October, we are ready with approvals for an accelerator for which our customers have no option expect to import earlier simply because there was no manufacturer in the country. Now obviously they would divide their sourcing, no one likes to depend 100% on

Benefits from New Products

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

Problems with commoditized business.

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.

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

Source :- Dec 2019 Concall

Conclusion

NOCIL is a company operating in difficult business economics. Where the dumping form foreign players mainly China and Korea dump the excess in Indian markets. Which increases the supply and the bargaining power of the business here. China and Korea hold 75% of the rubber chemical industry market share. Indian on the other hand has only 7% global market share. NOCIL manufactures a total of 22 products across its value chain. In 2013 the authorities levied Anti-Dumping Duty which benefited 6 of NOCIL's products. To counter the same the companies from China and Korea further reduced their prices to curtail the effects of Anti-Dumping Duty. Inspite of holding 75% market share globally these countries account for consumption of 30-35% only which leads them to dump the excess supply in countries like India. Till the time the effect of Antidumping duty was levied NOCIL enjoyed good margins and saw their business grow with time. As the revision of ADD was not taken the margins of the company again came under pressure. The management has been keen to growth the business. They have added capacity at 7% CAGR rate. For the same the management has not taken excessive leverage and destroyed their economics of the business by interest loads. Rather they have done the capex expansion in slow and stagger manner which does not put the existence of the company to risk. Capacity now is 1.1 lac MT per annuum. Management expects the business dynamics to improve and clamp down on Chinese competition would reduce the supply as many Chinese firms were forced for closure due to pollution norms. More over benzene and crude also effect the fortunes of the business as they directly affect the RM costs and hence the selling prices. NOCIL has been entering into long term contracts to protect itself from supply side risk. The high level of management share pledge and low promoter holdings are added risks for investors. Many a times the management has mentioned difficult situations in the business where they faced immense pressure from dumping, where they had to curtail their production inspite of having the capacity due to low demand. Fortunes of the business are also dependent upon the slow down / pick up of the auto sector, as major buyers for rubber chemicals (NOCIL products) are auto tyre manufacturing companies. NOCIL's expansions are in light of catering the demands for the heavy capex done by the tyre manufacturing companies in last 1-2 years. Revision of anti-dumping duty would again get temporary blip in margins (but that would again last till the ADD is in force) which would again fizzle out in due course of time.

In such typical cyclical commodity business where the fortunes of the company go on high esteem when the supply side is disrupted and when again the supply side dynamics resumes to normal course the margins again come under pressure until or unless one can actively track the different moving parts in the equation.