Workspace for 'NOCIL_Q3FY21_Earnings_Call_Transcript'

Page 1 (row 1, column 1)

Industry outlook

global consumption of both natural and synthetic rubber has shown signs of uptrend.

annualized consumption for the first six months of calendar year 2020 showed a degrowth of approximately 15%

whereas the annualized consumptions for nine months of calendar year 2020 degrew by 11% indicating an improved demand in Q3 of calendar year 2020.

increase in demand for OEMs leading to revival in demand for tire majors in both OEM as well as replacement market.

OEM demand is returning after muted performance in last couple of years

growth for calendar year 2021 in Indian market is expected to be around 7%

This is significant that overall growth in rubber consumption normal is about 3%.

Key Highlights ↓ Q3 FY21

revenue has grown by approximately 25% on quarter-on-quarter basis

pricing scenario has started showing an increasing trend

Given the recent performance and on the basis of contracts entered with major customers both domestic as well as export, we are revising our guidance upward from a flattish growth for FY2021 to a growth between 8% and 10% for FY2021

Given that our capacities are in place, the unutilized capacities will enable the company to continue the growth trajectory going into next year as we work towards being valued as a reliable partner to all the major tire customers apart from servicing the non-tire customers as well.

international customers are requesting us to participate on a global scale rather than continuing at the regional scale and some of those initiatives are translating into additional business volumes in this quarter as well.

China+1

a global sourcing teams of customers is increasingly working towards China plus strategy the non-Chinese supplier for rubber chemicals stands to benefit from the shift greatly

customers are also looking at a China plus one strategy very closely

The question is when someone is going to de risk this supply chain whether you are being a non-Chinese player, are you having additional capacity or spare capacity to offer in the market. We believe we were in the right place to offer capacities

We believe we are in the right place because we are having a portfolio of 22-23 products that also augers well for the business in the sense that a customer comes to you as a one stop shop, we cannot ask the customer to go to different shops, so if you are able to provide all products under one roof, it has its own merits and advantages and it has its own risk management strategy, so a culmination of several factors, we are getting in the right zone.

Long Term Strategy

Exports typically before the start of this expansion plan was of 30% of revenues.

we intend to take it 40% on the expanded capacity.

our long guidance of 25% remains, also EBITDA will come around 25% that time.

So, basically, we are seeing 500 basis point improvement in gross margin next six quarter to eight quarters and 400 basis points to 500 basis points improvement in conversion cost next six quarter to eight quarters

Rerating possible??

we have given an annual guidance of 8% to 10% in revenue growth as well as sales volume growth

indicated at the time of investment the turnover will be 2-times the capital investment, it had come down to 1.85 because of the price decreased but the way price correction has happened I think I am still maintaining 1.95 to 2.

(on Asset turns to be close to 2 as were not achieved during prev. capex. (To track)

So, basically on 100 we were at 30% on 200 we will be at 40% that means indirectly we are indicating that on incremental growth we will have dominance in export share.

say 30cr of 100cr is export today
↓ post ramp up
80cr of 200cr
∴ total export growth > domestic.

Point number two, exports in its basket have certain products specifically meant for exports which are specialty chemicals or specialized applications where the competitive parameters and the marketing parameters are far different than a commoditized product. So, that also helps us achieve our long-term objectives

if you really look at the single segment of rubber chemicals manufacturer in China, they could be 40% to 45%, okay. So, I cannot put a number, but I can say that there is a huge potential to grow

America started at 500 tons to start with, America today we are going at a run rate of 2000 tons per annum

it is a very long–term relationship it goes step by step

It is a very reflection that these markets are opening

We have a basket of 22-23 products in the portfolio, in which about 50% or 45% or in that regular or commoditize products where the margins will be the lower end,

domestic market will be far more remunerative because of the duty protection.

But in case of exports, you have a composition of specialized applications which will help you weighted average exports.

specialized applications are 25% of the business in the company.

I think there will be some small change in the specialty mix going up, but I do not think so it would be appropriate to mention the percent it will not be 25% it will be higher than 25%.

On Disruption in Auto Sector.

if you really see the disruptive trend in auto industry whether it is an electrical vehicle, whether it is the vehicles which are existing today or may be the future vehicles which will run on hydrogen all the vehicles will require tyres because no vehicle can run without tyre in fact we see that there will be more modernization terms of tyre, there will be more specialty chemicals which will be required in tyres. So, we do not see that as a threat in fact we speak as an opportunity to use our skills in terms of our R&D, product development and we see a very positive outlook in terms of this change rather than looking it as negative also.

On Capex

we had capitalized phase 2A of Rs. 140 Crores last year

we have achieved mechanical completion of phase 2B amounting to Rs. 140 Crores in Q3 FY2021.

have started trial productions from January 2021, apart from small work in progress, all the pending capital work in progress will be capitalized in the books of accounts during Q4 FY2021.

Our aim is faster ramping up of capacities and if these indicators are sustained, we are reasonably confident to achieve 100% utilization by September 2023 instead of March 2024 stated during the previous earnings call.

→ What plans for these 28-30 months to achieve target margins of 50% & achieve vol. ramp up of phase-II

with this investment of Rs. 450 Crores we will be very close to 2x, that 2x also probably would be 8% to 9% share in the world market,

When we started in June 2019 may be 100, we are now looking at 200 over a period of September 2023.

exports this quarter, we have moved from something at a level of 100 to about 160 thereabout, so the long-term objective of being export at 40% of revenue I think we are in that direction

Based on the capacity commissioned, we are operating probably at 80%-85%

90,000 tons and now that we are utilizing 85% at the end of the quarter

March-2021

we would be reaching 1,10,000 tons

During these 30 months if the specialized products or these niche products gets higher market share or higher upliftment, we are going to benefit.

Another assumption is that the raw material price gets corrected over a period as price mismatches do not last long in the historical trend and are of temporary nature

ADD

The ADD was filed by us for a single product, the interim duty was recommended at three different stages, $1.2 per kg for China, something like 53 cents per kg for Korea and about 8 cents for USA in view of the CIF price differential but the interim duty recommendation has not been accepted by the government because the government do not enough justification for an interim protection, now the final findings are yet to come,

he final findings comes out somewhere around April-May 21,

On R.M prices

the prices has been constant for the first nine months

what we are seeing in Q3 some increase in raw material cost and we are expecting in Q4 also some increase in raw material cost as well but the important point is in Q4 we expect the price corrections to happen and neutralize all the cost increases and desperate all those cost increases, we are likely to see an increase in profitability margins.

Improving pricing power??

historically what we have seen whenever the crude and benzene prices rise the input cost for rubber chemicals goes up and the prices of rubbers chemicals goes up. Similarly, whenever there is a downward trend the price gets correction.