

BOROSIL®

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February 18, 2019

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Sub: Transcript of Institutional Investors and Analysts Conference Call

Dear Sirs,

We enclose transcript of conference call with Institutional Investors and Analysts which was held on February 08, 2019.

You are requested to take the same on record.

Thanking you.

Yours faithfully,

For Gujarat Borosil Limited



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Transcript

Conference Call of Gujarat Borosil Limited

Event Date / Time : **8th February 2019, 11:00 AM IST**

Event Duration : **32 min 44 sec**

Presentation Session

Moderator: Good morning ladies and gentlemen, I am Honeyla, moderator for the conference call today. Welcome to 3Q FY19 earnings conference call of Gujarat Borosil Limited hosted by B&K Securities. At this moment all participants are in the listen-only mode, later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Nirav. Thank you and over to you sir.

Nirav: Thank you Honeyla. Good morning everybody and welcome to the conference call of Gujarat Borosil. We are very thankful to the management for giving us the opportunity for hosting this conference call. From the management side we have Mr. Ashok Jain, Director of the company and Mr. Sunil Roongta, Chief Financial Officer of the company. May I please request the management team to share some opening remarks pertaining to 3Q and nine months FY19 performance, after which we can open the floor for Q&A session. Over to you sir.

Ashok Jain: Thanks, Nirav. Good morning everyone. My colleagues and I are glad to welcome you to this investor call. Thank you for joining it. The company announced its results for Q3 and YTD Q3 FY19 yesterday. We also updated the investor presentation and uploaded it on the company website and that of the stock exchange. As many of you are now familiar with our business, I will quickly touch upon the highlights of the company's performance and some developments and would then welcome your questions.

Coming to the financial performance during YTD Q3 FY19, the net revenue from operations was INR 154.6 crores, a growth of 8% over YTD figures of the corresponding nine months in the previous year. Unit selling price during YTD Q3 FY19 was higher than the previous year by about 6.7%. The performance of the furnace, which is the main equipment, is steady. Solar glass furnace pull per day in YTD Q3 FY19 is higher by 3.6% than the corresponding period in the previous year, as we are already running on 100% capacity. The utilization of the new tempering lines, which is the line for processing the glass, has improved since Q2 FY19, the previous quarter, as the company began procuring imported annealed glass for tempering it at its facility. This contributed to higher sales and profits. The profits on tempering of imported glass although were at a lower percentage margin. During the period YTD Q3 FY19, sale of 2 mm glass, an innovation from Gujarat Borosil was INR 5 crores, which is about 3% of the overall sales. We now have three foreign customers for 2 mm glass, who have purchased this thin fully tempered glass from us on a commercial scale. There are additional six to seven foreign customers and some of them are expected to start placing

orders in the next two-three months. We have increased our capacity for hole drilling on the back panel of the glass, in view of the rising requirement from the customers. Equipment with high capacity for hole drilling has been ordered and is expected to be received and operational by April.

The company recorded an EBITDA of INR 36.4 crores during the nine months, a healthy growth of about 23% over the corresponding nine months last year. The EBITDA margin during the YTD Q3 FY19 was 23.5%. But, if you were to calculate it purely by excluding the glass purchase activity, then EBITDA would be about 25% of the net revenue, as compared to 20.6% during YTD Q3 FY18. The improved margins are a function of better unit realization as well as continued focus on input cost optimization. Higher EBITDA has been achieved despite increased cost of gas and soda ash, (soda ash is mainly imported) and loss on account of sale of discarded equipment during this particular quarter, which was about 55 lakhs.

The company's PBT and PAT for YTD Q3 FY19 were INR 12.9 crores and 9.2 crores respectively. As most of you are aware, we have undertaken a Brownfield expansion to double our capacity. Civil work is in progress and the equipment have started to arrive at site. We expect to start trials by July 2019.

To summarize, a few developments in the solar industry, in calendar H2 2018, China cut its program on new solar installations by 30%. This has increased global supply and is putting pressure on sales and prices. While we expect that the Chinese demand will return in this calendar, that is 2019, we will have to wait and watch. Another development is, the company had applied for levy of anti-dumping duty on Malaysian solar glass. Though the authority has ascertained the case of injury, they were not convinced of dumping by the major player. In the final recommendations, the designated authority has not proposed to levy anti-dumping duty on the main supplier, main exporter, whereas on the other smaller exporters, they have recommended levy of anti-dumping duty. Final notification from the Ministry of Finance will be issued in due course. In the meantime, we are exploring possibilities to challenge the findings or approaching the authority on anti-subsidy matter. In the meantime, we will have to continue to face competition from cheap imports from Malaysia, though we expect the prices to recover in Q1 FY20, in view of greater demand expectations from around the world, including China.

These two developments have led to short term pressure on pricing, though our YTD Q3 FY19 realizations are higher than that of previous year, we had to take a small reduction in pricing on Q-on-Q basis. During Q3 our realization per mm was 3% lower than in Q2. However, owing to steeper drops in prices of Chinese and Malaysian imports on one hand and much lower solar installations in domestic market in the second half of 2018 on other hand, mostly due to taxation related issues, which were around applicability of GST and Safeguard duty on the imports, our sales came under some pressure. Sales during Q3 quarter alone, were at 48.9 crores, which was 7% lower than Q3 of FY18. The price realization is likely to be slightly lower in Q4 in order to liquidate stocks by accepting orders from a few large customers on onetime basis at competitive prices.

Another development is that higher gas prices on supply from GAIL increased our cost and increased the pressure on margins. EBITDA during Q3 FY19 was 19.9% as against 21.8% in Q3 FY18 and 23.5% during YTD FY19. So, there is a certain amount of drop in the EBITDA margins.

The Government is extending policy support to solar power sector by way of CPSU scheme that is Central Public Sector Undertakings scheme, solar water pumps for agriculture farming and Rooftop which will all result in sustained high level of activity over the next few years. The Government has yesterday announced policy for 12 Gigawatts to be installed under the CPSU scheme, which will be run over four years. So, you can say 3 Gigawatts per annum. This scheme mandates use of domestically made cells and modules and will be supported by viability gap funding of about 18% to 20%. So, this is in order to promote Make in India and the manufacturing of solar modules and cells. This augurs well for the demand for solar glass as the modules will be Made in India for this purpose.

The GST related issues have been mostly taken care of by making suitable changes in the way the taxation was handled. The developers as well as all the producers have built in extra cost due to Safeguard duties, which has not been very significant. Now it is order of the day and everybody knows that Safeguard duty is there. So, about 25 to 30 bps increase which is about 10% of power cost which was going on. The level of bidding activity, which has been going on suggests robust business ahead. Accordingly we expect a much better level of demand from Q2 of the next financial year.

The company's Board on 18th June, 2018 approved the composite scheme of amalgamation and arrangement. The process of restructuring is in progress. We have received approvals from BSE and NSE and the matter is coming up for hearing before the NCLT on 12th February. We expect the process to be completed by the first quarter of the next financial year.

To conclude, notwithstanding the competition from cheap imports in the immediate term, I would say that we are on the growth path and with the implementation of the expanded capacity, we would have the potential to more than double the sales after July 2019. We expect the Chinese program on implementation of solar installation to pick up during this calendar year, removing some of the artificial downward pressure on prices in the following quarters. With increasing acceptance of Gujarat Borosil's 2-millimeter glass, our expected average realization will be much higher in the coming quarters.

That is a summary of our performance and developments during this quarter. With that background I would now welcome questions from you. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Mr. Sunil Jain, an Individual Investor. Please go ahead.

Sunil Jain: Good morning sir. I just wanted to understand as per the scheme of arrangement, if I right now hold hundred shares of Gujarat Borosil, what will I get once the scheme is implemented?

Ashok Jain: If you are holding hundred shares today in Gujarat Borosil, you will hold fifty shares in Borosil Renewables and fifty shares in Borosil Limited.

Sunil Jain: And both of them will be listed?

Ashok Jain: Yes, of course. Currently, the Borosil Limited which is the subsidiary of the Borosil Glass is not listed. But, in due course after this scheme is approved, we will get it listed. So, you will hold shares in two listed companies.

Sunil Jain: Okay sir. Thank you very much.

Moderator: Thank you sir. Sir, we have a question from Mr. Naitik Mody from OHM Portfolio. Please go ahead.

Naitik Mody: Thanks for the opportunity. Sir, what is our order book as of today and how do you see the traction going forward?

Ashok Jain: It is a running sales and production process. The order book is not very long at any point in time in this kind of industry. So, we have orders for about one month's sales as of now.

Naitik Mody: Okay. But, how do you see the traction from new players?

Ashok Jain: Yeah, the order book is improving as we are going along, because generally this last quarter of the financial year is quite busy in this kind of industry. That is the domestic situation. In case of export, there are a lot of our customers who are evaluating the use of 2-millimeter glass. They are now through with the process and we expect orders from them as well. We are expecting the orders from those export customers to come in next few months. But, on an average we have about one month's sales orders.

Naitik Mody: Okay. And what is the status of the new CAPEX that you want to undertake?

Ashok Jain: Yeah, so as I had mentioned in my remarks, CAPEX is progressing as per the schedule and our civil construction work will be completed by the end of April. We will start installing the equipment thereafter. And the trial runs will commence in the month of July.

Naitik Mody: Okay. So, probably from third quarter we will see sales coming in?

Ashok Jain: We would like to commission the production by the 1st of September at the latest. However,, one has to see, because during trials you could face some issues. These are typical to glass industry. So, with our experience we are expecting about one and a half to two months' time to get satisfactory production output.

Naitik Mody: Two questions, what will be the peak utilization of this plant? And at peak utilization what is the kind of revenues we can generate?

Ashok Jain: The current furnace which is at peak utilization is able to give us about INR 210 crores to 220 crores of sales. The new plant, which is being set up is about 1.2 times the current production. So, we expect about INR 475 crores or thereabouts in terms of combined sales from these two plants.

Naitik Mody: How much is the capacity you said on these new plants?

Ashok Jain: It is 1.2 Gigawatts. Current production capacity is for 1 Gigawatt of the stipulated modules and the expansion will be for 1.2 GW. So, we will have 2.2 Gigawatts capacity.

Naitik Mody: So, then it should be about 220 plus 275 put together? Roughly 475-500 crore is what you can do?

Ashok Jain: Yes.

Naitik Mody: So, when do you expect the peak utilization in the new plant?

Ashok Jain: Just to update you we are also going to rebuild the current furnace, which has already over run its life. So, we would like to upgrade it and rebuild it once we have commissioned the new plant successfully and the production at the new plant has stabilized. So, when we do the rebuild of the current furnace, it will be at a higher capacity. Its current capacity is for 1 Gigawatt. So, when we do the rebuild, it will be for 1.2 Gigawatts. So, the combined capacity after the CAPEX and this rebuild will be about 2.4 Gigawatts. So, we can potentially go up to INR 500 crores in terms of turnover.

Naitik Mody: So, by when do you expect to reach that kind of a number?

Ashok Jain: That should be possible in the next financial year ending March 2021.

Naitik Mody: Right. And how do you foresee the sector and solar power picking up? Currently the renewables sector is going through a tough time. So, how do you see the demand for your product?

Ashok Jain: Yeah, that is a very good question and actually the last six months we have seen very dull activity in solar power, because of the reasons I mentioned in my opening remarks, like Safeguard duty related issues and GST related issues. I would like to elaborate this further. There was a Safeguard duty of 70% announced in January 2018 and after that many developers challenged this particular levy. It went to Courts and finally on 30th July 2018, the Supreme Court finally said that duty is there to stay at 25%. So, until that time there was a lot of uncertainty about the applicability of duty and how much. This led to uncertainty on how to price the bids. So, the bidders or the developers were not willing to take those calls. After that the Government has clarified that this Safeguard duty will be a pass through, so you can increase your bidding to the extent of that impact. However, for the tenders or for the auctions which they had bid earlier, there was uncertainty whether the Government would allow a pass through or not. So, this was really a big dilemma in the minds of

the developers and the activity was almost 25% to 30% compared to what it should be in those two quarters.

The second question was regarding the GST. Now, what was happening is that on the components there were various rates of GST, like on glass it is 18%, on modules it is 5%, then on installation it was 18% or 5% varying from state to state. So, various States were taking different views on whether it is an EPC contract or a supply contract. Litigations were going on that question. So, finally the Government, in the last meeting of the council has clarified about the GST - that it will be considered as 70% supply and 30% as EPC for the combined contracts of EPC. So, now there is certain amount of clarity. Though developers are still not very happy as they expected the rate of 5% for the supply portion be assumed at 90%. There is some clarity now. With this the activity has started to increase.

Naitik Mody: Has there been any reduction in GST for the solar equipment sector per se or that continues to remain?

Ashok Jain: Currently it is 18% for the EPC contracts and 5% for the supply. But now Government has said that if you are doing EPC contracts, suppose 100 is the EPC contract value, 70% of that will be considered as supply and 30% will be considered as a service contract. So, on 70% you have to pay 5% duty and on 30% you have to pay 18% duty, so the average rate of duty will be about 8%. From this uncertainty of 5% versus 18%, now the average rate of duty is say, 8%.

Naitik Mody: Okay. So, now you expect activity to pick up and orders from the players?

Ashok Jain: Yes, of course. We are already seeing that and many of our customers who have not placed orders because they did not have orders have started placing large orders. From large customers, orders in the range of INR 1 – 2 crores have started coming in.

Naitik Mody: Then what are the top five-seven customers if you could throw some light on that?

Ashok Jain: We have a long list of customers. Almost all the module manufacturers in the country, which is more than 150, source glass from us in some proportion. So, there is no concentration in the hands of the top five or top ten. So, the largest players like Vikram Solar, Adani, Tata, Emmvee, Waaree, are all buying from us in a very small measure. Since they are getting lower pricing through imports on account of large volumes and because imports are coming without duty from Malaysia, they buy only small quantities from us.

Naitik Mody: So, what will be the number of clients that we sold to, for our entire sales, how many customers would we have?

Ashok Jain: I think we have more than 125 customers.

Naitik Mody: Okay. So, it is a very scattered.

Ashok Jain: Yes. Each of the top five would not comprise more than 4% to 5% of our sales.

Naitik Mody: Right. So, then where do you expect the incremental production to be sold to, to the same 125 clients or you expect far more new additions as well?

Ashok Jain: It will be three-pronged strategy. One is that the installed capacity in the country for module making is about 10 Gigawatts today and currently the country has not gone even up to 2½ to 3 Gigawatts. Now, with this CPSU scheme which is mandating 12 Gigawatts to be done over the four years, we expect that the activity of module manufacturing in the country to ramp up. That will be applicable to one and all. All the module manufacturers will start utilizing higher capacity. Secondly, we are increasing our presence in the export market by expanding to newer markets as well as through creating a market for 2-millimeter glass in existing geographies.

The third strategy will be to start servicing large customers who are currently depending on higher volume from abroad. We have started making certain amount of sales to these customers as well. So, put together, all these three strategies will enable us to sell our glass. As we speak, our glass manufacturing capacity post expansion and rebuild is only going to be 2.4 Gigawatts. And we have almost 25% to 30% as exports. What we are left with for the domestic market is only 1.7-1.8 Gigawatts to be supplied in a year. Suppose the manufacturing in the country is to the tune of 4-5 Gigawatts, as the only manufacturer of solar glass, we will have enough customers to sell our glass to.

Naitik Mody: Okay. But, when you sell it to large customers like the likes of Tata and Waaree etc., then you might have to compromise on both the things on margins and your payment cycle as well, right?

Ashok Jain: The prices to these customers are certainly going to be slightly lower. It could be to the tune of about 10% to 15% depending on the circumstances. But this will not be a very large percentage of our volume.

Naitik Mody: And generally, these large players payment cycle is how much typically, ninety days or more than that?

Ashok Jain: It is about sixty days on average.

Naitik Mody: And your current payment cycle is how much sir?

Ashok Jain: Current payment cycle is forty-five to fifty days.

Naitik Mody: Okay. So, large players incrementally about fifteen odd days is....?

Ashok Jain: Yes, yes.

Naitik Mody: Okay, alright sir. Thank you very much sir.

Ashok Jain: Thanks, Naitik.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

We have a question from Mr. Naveen Bothra, an Individual Investor. Please go ahead.

Naveen Bothra: Good morning sir. I am Naveen Bothra.

Ashok Jain: Good morning Naveen-ji.

Naveen Bothra: If you can tell us about the manufactured and processed percentage, how much was there in this quarter? How much was our own manufacturing and how much is it processed in the total revenue?

Ashok Jain: Our sales for the quarter was INR 48.8 crores. The amount of sale coming from the imported goods is about INR 6.6 crores, which is about 14%.

Naveen Bohra: The rest is from our own manufacturing, 86%?

Ashok Jain: Yes sir.

Naveen Bohra: Okay. So, the price reduction in the solar glass space I think is around 15% to 20% or more than that?

Ashok Jain: In the case of imports, it is about 15% as you rightly pointed out. But our sales realization is down by about 2% to 3%, because of our service to smaller customers so to say. Also, we have increased our export presence during the quarter. We had almost 30% exports as against 17% in the previous quarters. So, we are increasing our exports and maintaining our realization, because in exports we are getting better in terms of net realization.

Naveen Bohra: Okay. So, if you can tell us about this quarter's performance, the prices are more or less in the line of quarter three or there is more reduction in the prices?

Ashok Jain: Compared to quarter two, which is the previous quarter, the prices are down by about 3% on an average.

Naveen Bohra: It is the running quarter, if you can....

Ashok Jain: You are asking about the current quarter?

Naveen Bothra: Yes, yes.

Ashok Jain: Yeah, the current quarter prices are likely to be slightly lower than Q3, because as I had mentioned we have to clear certain stocks, which have got accumulated in the last two quarters. And we have decided to go to large customers also. They have also started approaching us, because the Government is pushing for domestic content. However, these are at slightly lower prices as I mentioned. Prices could be lower by 10% to 15% for such customers. So, on an average I would estimate that the further decline possible in the prices could be 1½% to 2%.

Naveen Bothra: Okay. And one last question regarding the expansion....

Ashok Jain: Bothra-ji, just to add here, we would like to control the decline by increasing our exports, so it will reduce the decline.

Naveen Bothra: Okay. The final question is regarding the expansion project cost, you have mentioned it around INR 275 crores. So, is there any escalation or something new has been added in this project cost?

Ashok Jain: Originally, we envisaged the project cost at INR 235 crores. Our current estimate is about INR 275 crores, which is due to certain more equipment and building having been added to process the glass. So, that will enable us to have the capacity to process the entire glass.

Naveen Bothra: Okay. So, the remaining 40 crores will be from the internal accruals or debt?

Ashok Jain: Yeah, we will fund most part of it through debt. As we have internal requirement for funds for rebuild of the furnace, which will come up after this furnace has got commissioned. So, we will use our accruals to finance that part. We will not be borrowing money from banks for the rebuild of the furnace. That itself will be about INR 38 crores to 40 crores. So, we will use our internal accruals for rebuild of the furnace and for this additional INR 40 crores on the expansion project, most part of it will be financed by debt.

Naveen Bothra: Okay. And regarding the composite scheme of merger and demerger, in the Borosil concall, it was said that it is likely to be completed in a few months. So, if you can share something more about it or this same thing continues?

Ashok Jain: Yes sir, I think it is the same for both Gujarat Borosil and Borosil, because for whatever steps are required to be taken, there is a schedule and there is a time taken for each of the activities. So, in the first quarter of the next financial year we are hopeful to get it completed. And it will be clearer after the hearing on Feb 12th, in the next week.

Naveen Bothra: Okay sir. Thank you very much.

Ashok Jain: Thank you Naveen-ji.

Moderator: Thank you sir. There are no further questions. I would now like to hand over the floor to the management for closing comments. Over to you sir.

Ashok Jain: I would like to thank the participants for your valuable inputs and questions, which were very insightful and which will keep us on our toes in terms of coming out with better performance each time we come back to you. And I look forward on behalf of management, to interact with you in the next quarter. While we have discussed the current performance in the current quarter, our perspective and view on the industry, solar glass and solar installation remains positive for the medium and long term. And with the Government support, which is coming very swiftly now, I think the installation activities are going to increase in the coming quarters. As regards the expansion project, we are confident to commission it in time and our sales after the

commissioning of the projects will more than double. So, we will see better sales turnover from the coming financial year and thereafter. That is all from my side. Thanks a lot.

Moderator: Thank you sir. Ladies and gentlemen this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a wonderful day everyone.

Note:

1. This document has been edited to improve readability.