“Gulf Oil Lubricants India Limited Q2FY15 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Gulf Oil Lubricants India Limited's Q2FY15 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Tarwadi from Axis Capital Limited. Thank you.And over to you.

Prashant Tarwadi: On behalf of Axis Capital I welcome all participants on the conference call of Gulf Oil Lubricants India Limited. Today we have with us Mr. Ravi Chawla -- Managing Director; Mr. Manish Kumar Gangwal – CFO; and Mr. Vinayak Joshi -- Company Secretary. They will start with the overview of the company performance and then we can switch to question-and-answer session. Thank you.And over to you Chawla sir.

Ravi Chawla: Thanks Prashant, Good Evening, Ladies and Gentlemen.Welcome to the Second Quarterly Results Call for Gulf Oil Lubricants India Limited. The second quarter for us has been a positive quarter, where we have seen the increase in our Q2 revenues, if you take last year, they were at Rs.237 crores, this has gone up to Rs.284 crores, which is an increase of 19%. We have also seen the net revenues that have gone up from Rs.204 crores of last year to Rs.243 crores again by 19%, and that is a significant increase in the Q2 which is normally a slightly lesser quarter in terms of July-August-September being the lowest season for the Lubricants. This has also resulted in a good profit growth for us where the profit before tax has grown by 30.7% at Rs.28.44 crores VsRs.21.76 crores in the corresponding quarter of the previous year. So, as a result of this, we have seen that the H1 profit before tax has also grown by 23% at Rs.55 crores compared to Rs.44.69 crores of last year. This improved performance is on account of two scores -- one is that we have seen volume growth of a good double-digit growth in this quarter which shows a positive trend as you will recall in my last quarter call, where we were seeing signals of good growth coming in, and I would say 2/3rd of it has come from the volume growth, and 1/3rd has come from the revenue growth, which has come due to the price increases taken. Volume growths are mainly accounted due to we had announced a tie-up with Mahindra & Mahindra that has resulted in growth for us, then there has been the OEM factory fill businesses that we have positively moved up compared to quarter of last year corresponding quarters and we have also seen some of the B2B segments positively picking up.So there has been all round growth across our channel our B2B segments. We still see some challenge happening in the diesel engine oil in terms of consumption, but even diesel engine oils have grown because we have had orders from the various segments which are growing like Infrastructure with B2B, the state transport undertakings have been a positive trend for us.So I would say overall in terms of the quarter, growth has been encouraging.And if you would recall in terms of our EBITDA and other percentages also we are looking at its now about a 13.25% of EBITDA to total which has again positively moved up compared to last year, its nearly 1.25% up and 0.25% over the last quarter, so improvement in margins also coming in. The Tractor segment is which the Mahindra co-brand came in has also given us nearly 1% more market share in this segment from we would say an estimated earlier 4% market share has moved up to 5% now.Overall we have some of our own brands in this segment.So overall the quarter is showing signs both in terms of the volume consumption that has been a positive for us.

We will just do a quick financial overview. Manish we will just point out a few other highlights and then we can probably take questions.

Manish Kumar Gangwal: Good Evening Ladies and Gentlemen.So as Mr. Ravi has mentioned we had a very steady quarter, very good second quarter for us and with a healthy top line growth and that also reflected in the good improvement in the profitability quarter-on-quarter basis as well as a year-on-year basis. Operational profit also has moved up if you will notice from the results that for the Q1 it was Rs.28.33 crore and this second quarter it is Rs.30.87 crores, which is a 9% increase Q-o-Q basis. The other income has been similar and finance cost has marginally gone up largely due to the fact that rupee slightly depreciated towards the end of September and with the effect of that we have been able to still achieve PBT of Rs.28.44 crores for the quarter and the tax has been nearly at 32% of PBT, which gives us PAT of Rs.19.4 crores and EPS of Rs.3.91 for the quarter which is again an improvement over Q1.

I am sure you have gone through the results, we have for the first time published the balance sheet of the standalone company and the parameters which we have been discussing in the past con-call are largely in line as we have an ROCE of nearly 46% and an ROE of nearly 45%, and a net debt if you will notice from the balance sheet at nearly Rs.90 crores.

Company has also declared a first interim dividend in the month of September which has since been paid in the month of October.

And with that we would like to take the questions now. Thank you

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We have the first question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: I just had a couple of questions.First was on the volume growth.Since we have been seeing volume growth in terms of double-digit in the second quarter and since we are also in the start of the recovery cycle for both Auto and industry, would you say that going forward both on the industry for ours we will see a much more higher volume growth, you did highlighted that the peak volume growth for the industry itself was in the range of 2-2.5% and us growing at 2 to 3x of that, but just want to get a sense, would it be a higher considering that we are still at this early part of the recovery?

Ravi Chawla: We are seeing the Personal Mobility area of Car and Two Wheelers seeing some increase in the trend there overall, B2B also there is some pickup in certain segments like Infrastructure customers.So this in the industry you could say these two-three segments are positive.For us the additional segment that has got added is the Tractor segment where the industry growth is not growing but since we have come up with a new product range, Mahindra is a co-brand, the “Long Drain Oil” we have launched with them that has given us an additional input for our growth and that is how we have been able to maintain.So industry growth which was flat to negative last year, certainly, the negative of

Commercial Vehicles is continuing, we see that in terms of workshop volumes but OEM factory fill has gone up, as you know, the numbers reported by Commercial Vehicles manufacturers has gone up, so positive there. Industry growth I would still say is still flat, it has not really picked up except in the Two Wheeler and Car segments which are growing.So maybe there is a slight positive; 1 to 2% but we are happy to share that with some of the initiatives that we have taken with the tractor segment and overall what we have been with the Tractor segment and overall what we have been trying to push through in the market our distribution increases, we have certainly done a good single-digit growth overall, well above the industry growth 2 to 3x.

Viraj Kacharia: Just a follow up on that, as recovery picks up, and as you pointed out that they are seeing some recovery in CV both from volumes and from you as well, would it not be possible for the industry to grow in the range of 4% to 5% in volume term say over next couple of years?

Ravi Chawla: The Bazaar has tended to grow at that 4% to 5% what you say about 2-years back, but overall industry growth will still be around the 2% to 3%, so that is say you take all the segments together.So I think to get back to the 4% to 5% at the Bazaar will still take at least a year.So we have to wait and watch, but, of course, our strategy has always been to grow 2 to 3xin segments that we go in.So that has really been our endeavor.

Viraj Kacharia: When you say 2 to 3% is purely, the overall volume it would include the Industrial as well?

Ravi Chawla: That is right.So in the identified segments, for example, we haveInfrastructure customers we are in the Bazaar markets, so if the bazaar is growing by 2%, our endeavor would be to at least grow 4% to 6% in the segment.

Viraj Kacharia: Just a couple of questions more.Could you give us your overall volume for FY14 and half yearly FY15 and the volume mix?

Ravi Chawla: I think we have shared it; we are in the region of around 70,000 KL, which is what the estimated volume around that. Half yearly we are close to 34,500 KL.

Viraj Kacharia: Just one more clarification, post de-merger the earlier entity had a 10% direct stake in Houghton International.So post the de-merger, does that live with us or it stays with Gulf Oil Corporation?

Management: That stays with Gulf Oil Corporation and not with this lubricant company.

Viraj Kacharia: Sometime back in one of the press releases newspapers we indicated our plans to be net debt-free?

Manish Kumar Gangwal: No, currently, as I mentioned in my opening remarks we have a net debt of Rs.90 crores, which is largely towards working capital, and as we are expanding further in terms of our new Chennai plant which will go on stream and we are putting CAPEX there it will take close to 2 to 3-years to be debt-free because we will be taking some further debt for new Chennai plant going forward.

Moderator: Thank you. We have the next question from the line of Raj Gandhi from Principal Mutual Fund. Please go ahead.

Raj Gandhi: Sir if I see on the other expenditure part, we are at about 27% to sales.So is it possible to give a bifurcation how much is advertising promotions, and how much is purely other expenditure?

Manish Kumar Gangwal: For Q2 if you see we are at close to 22-22.5% of net sales which is largely as I mentioned in my last call is for Q1. Distribution expenses form nearly 11% of that, advertisement is 6-7% which is what we have been maintaining also over the last 3-4-years,admin cost is another 3-3.5% and the royalty is 1.5%, that is the broad mix of our breakup of this 22.5%.

Raj Gandhi: Just if I see your peers, they are quite low on this count.So as in any plans as and when we pickup volumes and all how will this move going forward? Can this come down as a percentage of sales any operating leverage that you see here?

Manish Kumar Gangwal: As we increase our revenue base, obviously, as a percentage these all will come down going forward.So that is why our endeavor is to gain volumes and market share and revenue growth.

Raj Gandhi: Just any particular geography or a segment where you feel that your presence is still not as much and you plan to ramp up, so first, geographically is it that there is some skew and you have not covered any major geography or something?

Ravi Chawla: So overall pan India we are present, but there are certain segments in which we are lagging behind, I would say compared to the national averages we ourselves have set for ourselves. Come to then in the South we are extremely strong in the Diesel Engine Oils.So as a result of which the other consumer segments which are Two Wheeler and Car, there is a lot of work to be done in South.So there would be certain geographical imbalances within the segments we focus on. Similarly, in Diesel Engine Oils we will be slightly less prominent in the North and Central.So there are a few of these skews which we need to correct and obviously strategy is to kind of work on the weaknesses and obviously capitalize on strength.So that is the way we are approaching it.

Raj Gandhi: Product offering like you just entered Tractor segment, so any segment where you are not present as much from where we have some scope to grow?

Ravi Chawla: The segment which have taken on is the next sort of pillar for us is the PCMO segment that means the Passenger Car.We have the products in our product range, as you know, Gulf is a global brand we have all the formulations.So that is a segment in which we have started by putting in a very-very large scale retailer tie-up program called “Winners Circle” first is to get the distribution right.So I think in the next 6-months we are focusing on increasing distribution with the “Winners Circle” program then we will actually come in with specific promotional plans for both consumer and trials and tertiary sales.So that is the one segment Passenger Car which we are looking at. Product range wise we have all the products which are required for the Automotive area.We are also working on B2B where our B2B makes up 25% of our business so we are looking at new OEM tie-ups we are looking at more industrial distributors.So where you have smaller medium scale kind of customers so there more distributors help.So we are parallelly looking at even the B2B segment, it is not just that we are completely focused on the Automotive. As you know there are separate teams focusing on all these areas of identified growth.

Raj Gandhi: Some segments like STUs and all that you mentioned they would typically be lower margin compared to what we generally make?

Ravi Chawla: Absolutely, but since we have Long Drain products and as you will appreciate bus operators see a lot of value and there is a product which lasts longer the segments in which there is a tender process, so we are actually supplying our products not only across various OEMs, so there is obviously a focus, but again we would like to obviously take business, we usually would take business only if the pricing is effective, but STUs, yes, there is a lot of competition.So we also pick and choose the STUs we want to take part in.

Raj Gandhi: Just out of your overall sales one is B2B you mentioned is 25%,just I can further breaking of as in how much of it would be just tender-based or it is a recommended oil where per se product is not selling so much on Gulf Oil name in that sense?

Ravi Chawla: No, even the tenders we do a lot of technical seminars before we put in the tender, because then the authorities realize that there is a product plus in it, but that would be nearly about 2% to 3% of our business.

Raj Gandhi: This recommended oil and all wherein it is like a Maruti-recommended oil or Hyundai-recommended oil whatever sold by Gulf Oil, so typically even that has low margin profile right?

Ravi Chawla: That is again depending on where you are positioning the product, products that are positioned in the Bazaar market and there are products which you sell to authorized dealerships of OEM, so the pricing structure quite varies, but as you are aware if you have any sort of OEM tie-up there would be a sharing of margin in terms of not only the retailer and the dealer, but also then the OEM and in between channels.So definitely that affects the margin.

Raj Gandhi: So how much would be that as a percentage of sales?

Ravi Chawla: It varies completely from OEM to OEM.In each segment there is a different sort of equation which varies from OEM, as you know authorized dealerships tend to make a good margin because they are servicing the car and the bike and the trucks, where there is a large part of the margin goes there, then otherwise there would be the typically the OEM. In the Bazaar market there would be a retailer margin, there would be distributor margin and the company margin.So that is the way it works.And if it is an OEM product selling in the Bazaar then the OEM gets the margin.

Raj Gandhi: I was not asking on how much margin or OEM make and all, what I was asking was how much percentage of sales is that kind of product when it is recommended oil and all that?

Ravi Chawla: Close to about 20% of our volume sales are in these kind of tie-ups, that is growing because we are also seeing that the OEMs are now coming into the Bazaar market that is adding, may be it will become 25% as we go forward.

Raj Gandhi: Which you are saying is not necessarily low margin in that sense?

Ravi Chawla: It would be medium, the margins are lesser, but in our case you are looking at both top line and maintaining our margin percentage.For us the strategy is not to really only focus on margin but also look at good margin and good volume growth.

Raj Gandhi: Just a few more questions.What is the inventory cycle for us in terms of RM and finished goods?So let us say price cuts happen on base oil side, how much time does it take to translate into P&L?

Manish Kumar Gangwal: Usually, we carry 45 to 60 days of raw material inventory depending on the pricing trend in the market because nearly 65% to 70% of our raw material is imported to maintain it around that much of cycle in terms of lead period or transit time and even…

Raj Gandhi: So this is including material in transit of 45 to 60 days?

Manish Kumar Gangwal: Yes including. So that is the way the inventory cycle works for us.And usually we are operating through 33 mother warehouses across India, and with that 30 to 35 days of finished goods also remains in the system.

Raj Gandhi: So as in any base oil price advantage that you started seeing off on back of this crude price coming down or it is yet to start effecting at least on the spot purchases?

Manish Kumar Gangwal: Yes, so there is some impact coming, but as you know it is nearly a lag effect of usually 2 to 3-months and crude oil has to stabilize at a particular level.So base oil does not really reflect the short-term movements of crude as well as there is a demand cycle and demand/supply equation now and depending on the various grades which we are buying by equation as well.

Raj Gandhi: Do you have any purchases which are based on some formula-linked thing which will take time to reprice or most of your purchases are plain spot purchases?

Manish Kumar Gangwal: Close to 30-35% of the base oil purchases are linked to formula.

Raj Gandhi: So with oil price, how does that reprice then?

Manish Kumar Gangwal: As I mentioned it usually takes 2 to 3-months to get translated into our inventory cost.So the first impact of this may be visible from January onwards.

Raj Gandhi: But I just wanted to understand the difference in pricing for this RM linked to formula and spot purchases, just presuming let us say Bright Stock falls from $1200 to $1000, so let us say the spot purchases, the remainder 70 will obviously directly go from 1200 to 1000, but how does this formula linked thing work -- does it link to some percentage of crude or how does it work?

Manish Kumar Gangwal: So usually entire all lubricant players the prices are linked to the base oil index IPIS what we call it, they keep on revising downwards their benchmarks depending on the market feedback and the prevailing base oil prices, the formula linked purchases are completely fixed, benchmark gates revised every week.

Raj Gandhi: Then how is the base oil demand/supply situation right now, in the sense, do you see that all the crude price correction should be translated in base oil price or it is a bit tight there in terms of demand/supply for base oil?

Manish Kumar Gangwal: As we feel it is not going to be fully reflected in the base oil price because crude has corrected 20% nearly from a peak, but we are not seeing 20% reduction in base oil.So you can understand there is a demand/supply which is playing majorly.

Raj Gandhi: How is it on the end product side as in you mentioned that you in fact taken hikes so if you could just give your last 2-3 pricing actions that will be great?

Manish Kumar Gangwal: We have taken two price increases in this H1 so far -- one is starting April and another in the middle of August.

Raj Gandhi: Just any passback through promotions and all that given that the raw mat has started coming off?

Manish Kumar Gangwal: So we have to wait and watch for that how the industry overall behaves.

Raj Gandhi: But as of now there has been no response to falling oil price in terms of promotions or price cuts?

Ravi Chawla: No, we have not seen anything major happening, but as we are looking at volumes in various segments, obviously, we have to take a monthly call on certain product segments.So there is no major shift happened as of this month.

Raj Gandhi: Any firm dividend policy to be put in place?

Manish Kumar Gangwal: As we have been indicating that we have been paying close to 40% dividend payout before demerger, that is what we would endeavor to continue as you know from policy adopted as of till now.

Moderator: Thank you. We have the next question from the line of Gaurav Sud from Kanav Capital. Please go ahead.

GauravSud: My first question was again what kind of sales contribution has happened to the M&M tie-up for this quarter?

Ravi Chawla: As I mentioned to you that the market share gain has been close to 1% in this segment,so, we would say from total sales, if you take the quarter, roughly about 3% has come in from this tie-up.

GauravSud: 3% of the overall sale is through this?

Ravi Chawla: Yes, through the tie-up for the quarter.

GauravSud: Like last quarter, you did quite a bit of brand spend.Is that momentum being continued or on a Q-o-Q basis, the brand spend has been reduced?

Ravi Chawla: Our indexation is based on a 6% to 7% of our A&P. We have been consistently doing that and so…

GauravSud: Depending on how your sales are increasing accordingly you will budget for it?

Ravi Chawla: No, now in fact, it has come down to 6%,it is earlier 7%,but it would all depend on some of the activities planned in terms of you will appreciate media, etc.

GauravSud: One-time has not reduced because of sales growth, the percentage has reduced?

Ravi Chawla: But some of these investments are also above-the-line campaign as you will appreciate campaigns. So we did something in October which was the wide festival of India, we have got various other initiatives on in terms of our segments. So, we will actually continue to be around this 6%, 7%. So, there is nothing like we are reducing anything for.It is a planned activity in terms of segments, launches, etc.

GauravSud: Again coming back to the volume growth, this question was asked earlier also that you were aiming to grow like 2.5 to 3x industrial volume growth, but given that you had negligible market share in the Tractor segment and where it is contributing 3%. So, can we anticipate that if not this year, next year onwards, you will start hitting those double digit volume growth given that you are getting traction in the new segment also?

Ravi Chawla: You see Tractor segment is only 120,000 KL as we estimate of the total volume, which is nearly 12x that in the Bazaar segment. So, it is in the identified segments we are present. For example, Tractor, we had a 3.5%-4% share with our own products, but with the tie up we had taken that up by 1%-1.5% more. So, we are gaining share in the Tractor segment, and whichever segment we are present in and we would like to grow 2 to 3x, that is segment's growth,so, I do not know the figures that you were mentioning is in the segments that we are growing; we want to grow 2 to 3x,obviously, based on various strategies which could be our own strategies, would be new products, would be tie-ups. So, double-digit growth in fact if you take the Q2, we are seeing close to a double-digit growth overall in volume in Q2 itself.

GauravSud: So, sir going forward then you anticipate or do you expect this trend to continue that at least at a low teens level this growths will come?

Ravi Chawla: Yes, we are anticipating that with the Truck segment and the Mining and all opening up, that is the major segment as you know for all lub companies that is the diesel engine oil truck,if that comes in well with the Infrastructure, Mining, etc., opening up, we see that we should be able to, as the market growth picks up on the current flat level to say 2%, 3% or 3%,4% on the Bazaar, then we should aim at a double-digit figure which is what we have been achieving consistently. If you discount the last year and take the 6 years before, we have actually clocked in 12% kind of volume growth.

GauravSud: So, given these kinds of volume growth anticipated given that rebound in the market and some operating leverage coming in and the base oil prices falling, then that would result in a decent expansion of the operating margins also over time?

Ravi Chawla: Yes, we have to watch the market because if competition and also there are PSUs involved in this you will appreciate.So, depending on the pricing strategy and the schemes in the market, we will have to wait and obviously would like to conserve some margin, but we will have to wait and see what the market also challenges us with.

GauravSud: Sir, based on the number that you had shared earlier, on one of the con calls like in terms of the absolute sales, like the ranking came after Castrol, Tide and Shell. So, is that the similar packing order or has it changed?

Ravi Chawla: In Bazaar, we would be amongst the top 3 in the private sector that is our estimate. But, if you take the overall market with B2B, we would at the 5th or 6th slot because basically private sector you have Castrol, you have Shell, these are all estimates we have. Then you have Tide Water, Total, Valvoline and us in the pack. So, we are still in the 5th, 6th position overall. In the Bazaar, we think we are #3 right now in terms of the private sector players.

GauravSud: You also talked about at the time of the demerger about potential opportunities in the export sector. So, any development on that front?

Ravi Chawla: We are positively now exporting to Bangladesh and certain grades in some other Asian countries and we expect to add a few more countries, but currently, our exports are again very low single-digit. So, we are…

GauravSud: At some point would exports sit double-digits for you?

Ravi Chawla: But not at the current horizon what we look at.

GauravSud: Not in the immediate next couple of years? That will be lower single digit for sometime to come?.

Ravi Chawla: Certainly, very low,in fact, now it is only about 1%.

Moderator: Thank you. We have the next question from the line of Vishal Gajwani from Birla Sun Life. Please go ahead.

Vishal Gajwani: Sir, I had a question regarding the base oil price fall. So, if the base oil price falls, you may retain certain additional margins. But on a per kilolitre basis, your absolute margins remain the same or will they expand?

Manish K. Gangwal: As Mr. Ravi was mentioning, it will depend on the case and overall competition scenario is, but as we have seen in the past whenever there is a decreasing base oil price trend, the industry always tend to retain some of the margins and that should happen for us as well going forward. But how much fairly depend on how the market behaves.

Vishal Gajwani: I would assume sir if the base oil price go up and increase of sales, you still endeavor maintaining operating margins. So, increasing base oil prices scenario might be better for your industry versus decreasing base oil prices scenario, wherein you may expand the margins, absolute EBITDA per ton, for example, may not be maintained?

Manish Kumar Gangwal: On a percentage basis, you are right because in an increasing base oil price trend, the top line goes up but percentage margins actually come down whereas in a decreasing price scenario, basically, the percentage margins go up because of sales from discounting happens in the market. So, on the absolute number side, you are right. Percentage wise is very worse.

Vishal Gajwani: So we are more interested in absolute numbers where you are saying that increase in absolute EBITDA per ton is the right you think?

Manish Kumar Gangwal: Yes.

Moderator: Thank you. We have the next question from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Sir, a couple of book-keeping questions. Out of this fixed assets, what could be the capital work-in progress?

Manish Kumar Gangwal: The capital work-in progress is nearly Rs.35 crores.

Maulik Patel: And that is related to the Tamilnadu expansion, right?

Manish Kumar Gangwal: It is a mix of both, becausein the current plant also, we are expanding the capacity as we have mentioned in our previous con calls,all that work is still in progress. So it is a mix of Silvassa expansion as well as Chennai plant; Chennai plant is largely land.

Maulik Patel: Sir that you mentioned the last around Rs.30 crores as the land cost in Chennai?

Manish Kumar Gangwal: Rs.34 crores.

Maulik Patel: So, this Silvassa expansion is coming by end of this financial year?

Manish Kumar Gangwal: Yes.

Maulik Patel: Whatever the working capital we have, does that remain the same in the end of the financial year also or are there any significant changes in the working capital?

Manish K. Gangwal: It is generally in the similar range only except that March is a very good month in terms of sales. Usually, close to 10% of the sales happens in the March because of yearly discounts with distributors and all.

Maulik Patel: In your opening remarks, you mentioned that 19% of the top line growth is divided between the two-third of volume growth and one-third is value growth. So, my understanding is that approximately 12% volume growth we have reported in this quarter?

Ravi Chawla: As we mentioned it is a double-digit growth, so, Yes, overall would be in that region.

Maulik Patel: Was it a growth in the probably Q1, was it like flat or was lower?

Ravi Chawla: It was much lower.

Maulik Patel: This pick up we have witnessed only in Q2 and one of the reasons is that tie up with M&M?

Ravi Chawla: Yes, Mahindra and Mahindra is partly but I also mentioned there were others positive growth in all segments. So, in that segment B2B, OEM factory fill, Channel business overall, the Q2 has come in and we also need to remember that Q2 is over Q2 of last year, so…

Maulik Patel: Correct, that was a much weaker.

Ravi Chawla: That was a weaker base,but a positive growth is always positive; I guess that is the way that we continue to put initiatives which can help us even more.

Maulik Patel: You have also approximately 1.2% of an EBITDA margin expansion compared to the previous year and that is what you have mentioned in the opening remarks?

Ravi Chawla: That is right.

Maulik Patel: Just if you help me, even if the rupee was stable since the beginning of this financial year, you have taken in the two price hikes. So, may I know what led to this two price hikes and what percentage you have taken blended wise?

Manish K. Gangwal: From April onwards till the middle of August, the base oil prices have been firming up with that because of the demand/supply situation as I mentioned and we had been able to mark on the price increases in the market by way of price increase.

Ravi Chawla: Also, there is increases not only base oil, there are additives which are getting far more expensive whether in an industry, there is other costs. Of course, the overall costs also which do have to go up and as any company would be, there would be inflationary cost which come in. So a combination of these plus even today rentals are going up, costs like rentals for depots, etc. So, a combination of cost increases were there and also the challenge has been that Automotive segment which is Bazaar related, the price increase is there also, will get easier to implement,but the B2B segment, it has been very difficult the last 1.5% years to take the prices up,because they are obviously under a lot of pressure but hopefully those things are going to be little less resistance for the quarters ahead.

Moderator: Thank you. We have the next question from the line of Mr. Raj Gandhi from Principal Mutual Fund. Please go ahead.

Raj Gandhi: Let us say if you want to expand outside India, any thought process on that and which geographies are still open for us given that the brand would be having presence in those countries and there would be restriction?

Ravi Chawla: Yes, that would fall entirely in the policy of the international operations. As of now, we are focused on India and as we said a few exports to neighboring countries.

Raj Gandhi: So, these exports to neighboring countries is just a transfer to other, let us say, whatever, the license distributors of Gulf or do we sell on our own brand?

Ravi Chawla: We have different arrangements in different countries,so in some countries, we have our own JV or we have our own company, some would be a distributor. So, it depends on the overall setup which is obviously managed by Gulf Oil International.

Raj Gandhi: Any chance of this piece moving up significantly in near future?

Ravi Chawla: As of now we are focused on the India market. We have a number of production manufacturing hubs across Gulf over the world. So, some of these entities honestly buy on the best price basis also, whatever the price is offered. This would all depend on that particular effectiveness. Obviously, India is not that conducive to giving the prices which are really cost-effective also. So, as of now, the strategy is completely focused on India with a very small percentage of exports. But, we do send to even countries like Philippines, Indonesia certain products.

Raj Gandhi: All these neighboring countries wherever there is some synergy for you to operate, they have some players or as in let us say sometime later on if you want to enter, what is the scope there?

Ravi Chawla: As we told you, the Gulf Oil International already has presence in these countries. Would be buying part of the volume from India and part from some of the other manufacturing hubs.

Raj Gandhi: This royalty of 1.5% is what is fixed right now for you, right?

Ravi Chawla: Yes.

Raj Gandhi: What is the revision period or what is the trend of this royalty if you could give us?

Manish Kumar Gangwal: So, our current agreement continues till 2017, then it will be up for renewal. So, as of now it is in the similar range.

Raj Gandhi: Just past over some time, what was the last revision done?

Manish Kumar Gangwal: It is a 7-year contract. So, last was 2010 and…

Raj Gandhi: So, then prior to this 2010 agreement of 1.5%, what was the royalty then?

Manish Kumar Gangwal: 1.5% is a calculation based on value additions and based on the old FEMA formula. It effectively worked out at 1.5% of the off-sell.

Raj Gandhi: Now given that there is some revision in royalty norms, is it likely to go up or what is the royalty in other geographies, because 1.5% would have been restricted because of the FEMA formula,so, in neighboring countries, what is the kind of royalty structure?

Manish Kumar Gangwal: We do not have information on other geographies per se,but we believe that it is in the similar or higher range than in India.

Moderator: Thank you. We have the next question from the line of Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: I wanted to understand more in terms of the lag between in the previous cycle, there has been very little instance of crude oil price falling for a continuous period, but if at all there is a fall, after what lag do you see price cuts in the market?

Manish K. Gangwal: Usually, 2 to 3 months for the base oil to have the effect of price level.

Riken Gopani: That is at the end product price you are saying or even the base oil price reduction happens after about 2 to 3 months of sustained fall in crude oil?

Manish K. Gangwal: So, 2 to 3 months is there, usually the time taken by base oil for the purpose of having impact of crude. But as I mentioned sometime ago that it is again demand/supply conditions also in the base oil for various grades of base oil which we buy or which the industry buys as a whole. And the pricing impact in the market will be another maybe in the same range after 2 to 3 months when the effect of base oil comes in. Depends on the market, the competitiveness, how the competition behaves overall. Usually, we see some margin retention happening whenever there is a fall.

Riken Gopani: But, you would definitely envisage that there would be some cuts as well, though there will be some retention, there could be some pass on as well, that would happen?

Manish K. Gangwal: We do not anticipate that happening certainly in the Q3 and again it will all depend on the base oil price, how much more it is going to fall, it will depend on the exchange rate and it will certainly depend on the strategy which other players are going to use in the market. So, a combination of these three will determine whether the Q4 you see any price cuts.

Riken Gopani: For the industry, this 2% to 3% volume growth, what are the factors that could change this volume trajectory in the next 2 to 3 years?

Ravi Chawla: The personal mobility segment which is car and two wheelers, we see as a positive. From the last 2 years we have seen flat to negative growth,in fact, the bazaar market has grown negatively. This year, if you take from the Q1, we have seen very little, again flat I would say, the total industry level has been flat growth, that means 0% volume growth. Q2, yes, there must have been some signs of some kick in start for these 2 segments and maybe some other segments like OEM factory fill going up. We anticipate that Commercial Vehicles which is the largest chunk of the growth would start going up in Q3 and you would actually see a positive growth in Q4 in terms of overall volumes in the industry. Our current estimate is that even industry growth is flat to maybe 1% kind of positive. So, Q4, if you look at 2% to 3% growth, then that will be a healthy growth.

Moderator: Thank you. We have the next question from the line of Priyank Chandra from Dolat Capital. Please go ahead.

Priyank Chandra: My question is on like there has been some increased threats Japanese player, for example, JX Nippon has tied up like with Tide Water, though they had the tie up earlier, but now they are focusing more towards the ENEOS brand, especially maybe for the Japanese car manufacturers which are in India.Sir, would you be able to comment on that this can result into some increase in the competitive intensity for you?

Ravi Chawla: Yes, you see this tie-up of course has been existing with Tide Water,they are focusing it as a separate part of the company overall and it would be the same thing. In the market, it is just an arrangement,we are not seeing it as any renewed kind of focus, as of now,but obviously, we are looking at how it is panning out. The Japanese OEMs are growing in terms of their market share. So, again that would depend on what products come into the Bazaar market, what is the pricing. As of now we are not seeing any significant change with this particular tie-up.

Moderator: Thank you. We have the nextquestion from the line of Anand, Individual Investor. Please go ahead.

Anand: My question is more tangential. I am more interested in knowing, would our company be able to participate or intend to participate in any disinvestments that might happen in one of the PSUs which is into similar business,Tide Water or a similar kind of company. So, have you given that aspect a thought?

Management: We have not had as of now any such plans, but if there is an opportunity, we are open to it provided it fits in our growth strategy.

Ravi Chawla: The strategy is both organic and inorganic based on opportunities available and we would definitely look at the fit of whatever investment is required, the fit in terms of our current brand and structure.

Anand: But as of moment, do you see any company which could be a good fit if and when an opportunity arise because with NDA government coming in and their past take on disinvestment, it is likely that if not this year, in a couple of years, we might see some companies in the Lubricant business on the block. So, have you sort of identified some companies which could be a good match for us?

Manish Kumar Gangwal: No, nothing really which we have.

Moderator: Thank you. We have the next question from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Sir, again on the commercial volume we have seen some positive volume. Is it possible for you to break down probably growth in a volume in this first half, if you can prioritize which segment grew fastest and followed by which segment?

Ravi Chawla: As we mentioned to you, we have grown in the Tractor segment.

Maulik Patel: That you have mentioned because we increased your volume by 1% market share.

Ravi Chawla: We have seen all round growth. Of course, it all depends on the base of the business. We have seen our growth spread amongst so far total growth we have got, the Tractor business, OEM factory fill has gone up for us, double digit and we also do business with Infrastructure customers, that is also positively grown for us,we have had some other new tie ups with the Industrial segment, so tie-up with a company called Schwing Stetter. So, some of those businesses have grown up. So, I would say fairly good growth across the segments. So, some of the basis are low. So those figures you may not be able to relate to those figures, but basically mix of OEM, OEM factory fill, OEM tie-ups, Infrastructure customers, and channel sales.

Maulik Patel: You also mentioned that our next target segment is in a Four Wheeler plus the Mobility where we still do not have enough significant presence. What will be our strategy to penetrate in an OEM market which is a very large market and our presence has been very limited compared with the competitors?And by what time you can see that our volume from the Four-Wheeler segments moving up significantly?

Ravi Chawla: The Four Wheeler we categorized the car, we already have our products.We already in fact have a tie up with Mahindra & Mahindra for the Bolero and below. For the OEM, tie ups are going to be difficult in this area because most of the global players have already got brands fixed, who they are tying up with. Larger Indian players are already tied up. So, tie-ups are something which maybe difficult at this stage, but we are still trying. We are looking at expanding the distribution in this segment. So, as I mentioned earlier, we have announced a very attractive retailer tie-up called Winners'Circle.So we are in the next 6 months planning to increase our distribution and then we will back it up with promotions, and, of course, OEM tie-ups would always help to kind of, because, when you have an OEM tie-up, then the car user is also then slightly predisposed to look at your brand after it comes out of the workshop, the dealership. So, there would be a mix of strategies, but certainly, our overall market share, the Bazaar we are placed at about close to 7% but in the Passenger Car Four Wheeler segment, we are well below 5%. So, we want to look at that segment as an area which like our Motorcycle has now become nearly 8% to 9% market share in the Bazaar. So, we want to take the Car segment as the next important pillar for us like Tractor.

Maulik Patel: It is reasonable to within 3 to 4 years we can reach to 7% to 8% kind of a…?

Ravi Chawla: Yes, I think that is…

Moderator: Thank you. We have the next question from the line of Gaurav Sud from Kanav Capital. Please go ahead.

GauravSud: There was this article in Business Standard about Gulf Oil looking at entering into Two-Wheeler Batteries. So, could you explain a bit more about that venture and what are the plans around that?

Ravi Chawla: Yes, we have been actually piloting our channels, especially, the Motorcycle segment, we found that about 30% of our retailers buy and sell Batteries and currently there is demand/supply in terms of quality organized play of batteries in the Retail segment. So, we have started test marketing the Two Wheeler Batteries. We are outsourcing this globally and also have outsourced from some of the Indian manufacturers private label. So, this pilot is going on and we are basically trying to understand the trade how it works for the business. So, based on that we will have to do a little more of study and then see if this is the segment which we can look at in terms of growth.

GauravSud: But, what is the reason for importing --would not sourcing it out of India be cheaper or…?

Ravi Chawla: We have also gone in for a new technology which is the hassle free-led Batteries which do not require to be refilled. So, this VRLA technology is right now the capacity in India is not available. So, we are importing it from people who supply global OEM. So, we have taken that. Though it is available in India, but in India the cost tends to be slightly more because the other players do not want to sell it to us at a competitive price because obviously they have their own market shares.

GauravSud: So, by what time will you have a better picture on this in terms whether you …?

Ravi Chawla: End of this financial year we should be able to do internal study and then discuss it internally and then see how it goes.

GauravSud: So, would Batteries be the only new segment you are looking at or there are potential other things you are also looking?

Ravi Chawla: At the moment we are just doing the pilot of the Battery.

Moderator: Thank you. As there are no further questions, I now hand the floor back to Mr. Prashant Tarwadi.

Prashant Tarwadi: Thanks a lot for Gulf Oil Lubricants management for devoting time for this call. Thanks a lot to all the participants for participating in the call. Now let me request Mr. Chawla for his final comments. Over to you, Chawla sir.

Ravi Chawla: First of all, thanks to all the participants of today's call and it has also given us an opportunity to share with you the results, and of course, with your questions try to understand the way that you have been looking at the business. I think as mentioned earlier in my call last time, it is one of the reasons to have Gulf Oil Lubricants separately listed in that. We are actually looked as a pure play Lubricants player.And of course, the Q2 has reaffirmed the positive results. We are looking at the demand conditions positively improving as we go forward, and of course, with the strategy that we have in place, and of course, we will always try to be more innovative and more initiatives to look at segments growth and we again thank you for all your patience and understanding and look forward to talking to you again at the end of the third quarter. Thank you so much for all.

Moderator: Thank you.On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining and you may now disconnect your lines.
