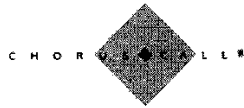




Gulf Oil India Lubricants India Limited
(Formerly known as Hinduja Infrastructure Limited)

“Gulf Oil Lubricants India Limited Q1 Financial Year 2015 Results Conference Call”

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Moderator:

Ladies and gentlemen, good day and welcome to the Gulf Oil Lubricants India Limited Q1 FY 2015 Results Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Tarwadi from Axis Capital. Thank you and over to you Sir!

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 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 first quarterly call for Gulf Oil Lubricants India Limited. As you know, we have just got listed and demerged recently. So happy to share the first quarter results with all of you. I think in terms of our results we have achieved a turnover of Rs. 265 Crores and PAT of Rs.18 Crores for Q1 and of course this has been achieved due to an impressive growth of 12% in the net income, which is up at Rs.230 Crores versus last year when it was Rs.207 Crores for the same quarter and PBT for the quarter also has grown by about 11.8% to Rs.26.5Crores compared to the Rs.23.76 Crores in the corresponding quarter last year and also happy to share with you that the EBITDA margins for the quarter have been upwards of 12%, which is close to 13%, which has been positive for us.

We have been able to get in all. There has been increase in cost, but that has been able to recover that in terms of price increases and obviously reducing a few of the schemes and what has been encouraging both in June and in July of course we are sharing July now, that the volume growths have been positive and that really emerging signals which came towards the end of the quarter that there is a pickup in overall related transport, demand factors, the motorcycle business has again been positive for us. There is also faster pace in the infrastructure segment, industrial production, and mining. The auto sector, as you know there are signs of positiveness coming into passenger vehicles. We are also happy to share with you that one of the growth factors for us has been that we have entered the tractor segments in a bigger way with major OEM tie up, which we will announce the name, but this has already started bearing fruit where we are selling the product in various channels and various dealerships and as you know at the back of good tractor sales last year that has also contributed to add to the volume growth and that is again another new focus segment for us in addition to our diesel engine oils, new generation, and the motorcycle segment.

Infrastructure customers also has started buying larger quantities given that the projects are seeing a positive trend and we hope that this is going to impact the next few months, which will in terms of expected results there would be we are able to take our top line up by 10% to 15% if



we find the signals of the economies also being positive and of course maintain our margins upwards of 12% while we increase our market share because our volume growth expected are certainly to be above the market growth rate, which have been flat to negative since last 18 months. So keeping that in mind and the costs and of course now the monsoons recovering there is a positive outlook and with our strategies working well both in terms of our brand building distribution and to share a few things with you, in April, May, June we had a major outdoor campaign and consumer promotion campaign in Tamil Nadu called Oil Change, Life Change, which was also a super king size offer with the IPL CSK team when we have had an All India rural retailer focus to brand promotion, which has helped us to distribute and boost the sales of diesel engine oils and motorcycle oils in leading agriculture markets.

So it actually kind of shapes our rural strategy, which is another segment where we are present, but we want to make it stronger with rural India responding in terms of automotive vehicles across India. In April, May, June to make sure that even though the market was a bit subdued we did excite the market with very very exciting retailer promotions, which helped us to increase secondary sales and small pack sales. So small pack sales have also helped us to record positive volume growth and improvement in margin as you know smaller packs would give a better margin than the larger barrel pack. So these initiatives are contributed to this and we are hoping that economy, infrastructure mining, and again core segments and new focus segments like tractor will give us a positive feel as we go forward. Thank you. Manish do you like to add?

Manish K. Gangwal: On the finance thing, we hope that everybody has gone through the results, but still I would like to highlight few things that our profits from operations have been Rs.28.33 Crores. Other income is Rs.2 Crores, which includes interest income on short-term deposits. The finance cost is Rs.3.88 Crores for the quarter, which is also including forex impact of Rs.1.25 Crores for the quarter including the premiums we pay for the hedging and the tax for the quarter has been Rs.8.5 Crores which is roughly 32% of PBT and with that we are at Rs.18.02 Crores of PAT, which reflects Rs.3.64 for an EPS, on Rs.2 face value share. Of course you must have noticed note #6 of the results were Rs.54 lakh impact is there on the PBT due to higher depreciation for adopting new Schedule II of the Company's Act, which means yearly impact of Rs.2 Crores on depreciation on adopting the new Schedule II and with that we are open to questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kedar Wagle from Maybank Asset Management. Please go ahead.

Kedar Wagle: Thank you and thanks for this call. I had a few questions. First can you give us both the gross debt and the net debt level at the end of the first quarter? Second from your comments on a positive volume growth in June and July did you actually see a decline in volumes in the first quarter and how do your volume trend compare with the industry? My third question was on the other income so from your comment earlier of the other income of Rs.2.1 Crores is that largely interest income?

Ravi Chawla: Yes.



- Manish K. Gangwal:** So maybe we will take the financial questions about debt. So basically other income as you rightly said is largely on account of interest income, which is short-term deployment of surplus fund from time-to-time over the cash outflows. So effectively we can net off that out of the finance cost as well, but it is the presentation as per the Schedule VI. Second is that there is no long-term debt on the balance sheet as of 30-June and what we have is only working capital loans and net debt on account of working capital is close to Rs.80 Crore largely in the form of buyer's credits.
- Ravi Chawla:** On the volume, I would like to share with you obviously we track the industry. There is no independent source giving industry figures, but there are various figures available, which you also check across markets. Our understanding is that the overall growth in the last 18 months to 24 months has been flat to negative for various segments it has been negative like commercial vehicles, it has been negative across I would say, but you know in some segments like motorcycle we have seen some increase, so if we take April, May, June from the Gulf side we have seen again flat in April and May. June has been positive single digit and July has in fact been better than June, so what we feel is that this is ahead of the industry and that has been whatever we have been trying to do in terms of additional market share, additional effort and I mention the tractor segment, so all these have contributed to give us probably the industries at flat-to-negative and we would estimate, ours would be again low single digit at the moment in terms of volume growth.
- Kedar Wagle:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Bhavin Shah from GeeCee Investments. Please go ahead.
- Bhavin Shah:** Thanks for taking my question. Sir what is the quantum of price increase you have taken plus product portfolio?
- Ravi Chawla:** Well normally Mr. Shah, we have increases which happened in cost obviously based on other materials and the strategy is usually to try to pass it on across, but it is quite difficult to do it in B2B immediately, so it is mainly in the automotive channel where we have looked at about a 4% kind of increase, which is basically to recover the cost and that happens with a lag time of a couple of months, but we also carry raw materials for about 60 days, so it kind of even out.
- Bhavin Shah:** Sure, but when you give a 10% to 15% growth guidance how much would you take into account the volume price split?
- Ravi Chawla:** See we do not know how price is going to pan out for the rest of the year, so that is not in our control, the situation on pricing on the costside, which gets passed on, in a delayed form in the market. So I would say the volume growth that we want to give us a guidance is that if the market is growing X, we would like to grow two to three times X as a percentage growth.



- Bhavin Shah:** Just in terms of market share both for B2B, B2C do you see that materially changing and more importantly if you could give me the percentage breakup B2C and B2B for the quarter end going for?
- Ravi Chawla:** Our breakup is actually 75% - 25%. As we look at automotive being 75% to distribute a channel and 25% being B2B and this classification is of course internal for us, it is channel-based, customer-based, we see that. While we expect both the segments to grow positively, in B2B we are definitely having strategies and action plans to grow faster and that we see going in the long-term in the next few years to take that 25% to 35%. So, as we see the market panning out, certainly B2B growth we see faster than the channel growth for our mix in terms of our percentage.
- Bhavin Shah:** In terms of profitability would not be the other way round?
- Ravi Chawla:** Yes, you are right. In profitability the channel market is more, but obviously the growth that we have to push into channels would be subjected to demand conditions which are market led also. In B2B, it would be more in terms of winning customers from competition and we are low in that respect in terms of 25%. Ideally, we should be 35% to 65%, so we are pushing more to have a broader base in B2B business.
- Bhavin Shah:** Got it, great. All the best. Thanks.
- Moderator:** Thank you. The next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.
- Aman Batra:** Two questions from my side. One if you can give the breakup of the sales to various automobile segments like motor cycles, passenger cars, and CVs and second if you can highlight what is the net working capital for you excluding cash, either as number of days or absolute rupees Crores among whichever is handy for you?
- Ravi Chawla:** Yes, in terms of our split-up basically we have motorcycle is roughly about 15% of our business, so that is one part, the passenger car is about 5% and diesel engine oils of course overlap into a bit of the industrial area, so purely automotive diesel engine oils would be about 45%. So these are the mixes in terms of the segments.
- Aman Batra:** On the working capital side.
- Manish K. Gangwal:** Basically we carry out an average 100 days of working capital around depending on the pricing trend we have in from the expert-persons and our internal assessment, we keep 50 to 60 days of inventory and then another 30 to 40 days is on an average the receivable.
- Aman Batra:** Thanks a lot.



- Moderator:** Thank you. The next question is from the line of Rajiv Rupani. He is an individual investor. Please go ahead.
- Rajiv Rupani:** Congratulations on a good listing and unlocking from value for your existing shareholders. So my first question is what will be the dividend policy going forward and what would be the dividend payout ratio. Could you give a rough idea please?
- Manish K. Gangwal:** Thank you Mr. Rupani. We do not have any formal dividend policy as such adapted, but as you must have noticed that combined GOCL was always paying 40% to 45% as dividend, so we see no reason why we should not be able to at least maintain it or we have currently some capex plans as we have announced and considering that, but it still be quite sure to maintain at least 40% to dividend payout as we have done in the past.
- Rajiv Rupani:** Thank you. So my next question is what efforts, are we taking into increase our market share in the car segment?
- Ravi Chawla:** Car segment we are planning to increase our distribution reach in terms of what could be the reach currently which we have. So that is there. We have also recently launched the synthetic brands, so both these initiatives along with that it would be a mixed of our normal push and we are looking at developing some special communication only for the segment, so that is actually work-in-progress, but hopefully we will update you in the next call. But the distribution reach is on that we are increasing distribution reach. Because it is important to get a good critical mass of distribution reach before we kind of promote the brand quite heavily into media that is usually the following step after we get distribution to a certain threshold.
- Rajiv Rupani:** My last question is going forward in the next two three years can we expect our Overall market share to increase by 2%?
- Ravi Chawla:** By how much?
- Rajiv Rupani:** By 2% points.
- Ravi Chawla:** Yes that is what the plan is. Because when we want to grow two to three times the market growth rate, volume share automatically rises. I think the market share and we are choosing our segments, so it is not that we are not there in any major automotive area, but we are choosing our segments based on our differentiated product. And of course what I would like to share with all of you in terms of our brand in the various segments, we have got a very positive feedback on the recent brand track and we are seeing that the brand is certainly amongst the top three brands in terms of its recall as far as the customer segments are concerned, the specific customer segments.
- Rajiv Rupani:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Devang Mehta from Canara Robeco Asset Management. Please go ahead.



- Devang Mehta:** I have two questions. One is can you give some clarity on the royalty part and also the current status of the capex land's expansion plans that we had.
- Manish K. Gangwal:** Yes royalty is basically as per the agreement is 5% of domestic net sales and 8% of net export sales, but as we know as per the old FEMA guidelines the net sales was always based on the value addition done in India, so effectively it works out to less than 2% or even 1.5% of the gross sales effectively and that from the royalty side. On the capex side, yes we are doing the capex of approximately Rs.40 Crores in our current Silvassa plant for expansion of capacity from 75,000tonnes to close to 95,000 tonnes and the new plant near Chennai will be with the capex of roughly Rs.120 Crores to Rs.125 Crores, for which the land has already been acquired from internal accruals.
- Devang Mehta:** Any timeline by which Silvassa and Chennai would come up?
- Manish K. Gangwal:** So Silvassa should be completed by December 2014, Q3 end and Chennai will start at that point in time close to Q3 or Q4 because we are in the process of taking permissions and relevant approval from government authorities and it will take nearly two years. So 2016 is when we expect to start commercial production there.
- Devang Mehta:** Okay just one clarification on the royalty part, so it is purely on the value addition done in India, so domestic?
- Manish K. Gangwal:** Right. All the import components are removed before the royalty is paid.
- Devang Mehta:** So that number currently comes to around 1.4%?
- Ravi Chawla:** Right.
- Devang Mehta:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Naresh Kumar. He is an individual investor. Please go ahead.
- Naresh Kumar:** Thank you for taking my question. It is on the interview given by Mr. Hinduja during the listing ceremony. He mentioned about PBT of Rs.140 Crores for FY 2015. I seem to not reconcile myself with the figures we have done and what we are quoting. So was that really or did I hear it right that Mr. Sanjay Hinduja said it is Rs.140 Crores PBT for FY 2015?
- Ravi Chawla:** Yes, we also noticed that actually and in one of the media channel it was wrongly picked up as FY 2015, it actually what he meant was FY 2016as an estimate.
- Manish K. Gangwal:** Yes, I think there was misquote by media.
- Ravi Chawla:** Only in the one channel, all the news reports were in line with our projections are.



- Naresh Kumar:** Sure FY 2015. One more question I had is that it is almost a concern to us that India's growth trajectory will go up in the coming year and possibly we hit 8% after two or three or four years, so in that context what is generally volume growth for lubricants such I would like?
- Ravi Chawla:** See Mr. Naresh Kumar it is basically the industry if you go back to any big study on client and of course we track it in our own ways. The industry about 18 months back people talked of 2% to 3% growth as volume the whole industry, of course it includes all the process oils, white oils. But really if you see lubricants are lasting longer and last 18 months we have seen flat to negative growth. So I would say that even if the economy does pick up to the levels you are saying, we could at the most see the industry go back to 2% to 3%, because there is a lag time as you will appreciate if new vehicles come in the market they take the cycle to come into the lubricant market in terms of their consumption, the reuse. So I would guesstimate that if economy does pick up the way you are indicating the volume would go back to the 2% to 3%, but in our case to be really want to look at market share that is why we are entering new segments. So you see the whole strategy to enter tractor segment, where we all not present is also to gain in a market, which is I would say lukewarm at the moment also. It has not taken off, which we will all agree to right, it is not really even if you see the figures which have come in today the production figures and all still have to take off. Though we hope that in mining opens if infrastructure is projects come in more, we will see the industry get back to the 2% to 3% growth.
- Naresh Kumar:** Thank you Mr. Chawla that certainly helps. I have one more question on Gulf Oil, I do not know whether I should ask, this Gulf Oil Corporation or the Real Estate Company will they also hold analyst meet or could we ask questions related to Gulf Oil Corporation here?
- Manish K. Gangwal:** Tomorrow 12 o'clock is the investor call from Gulf Oil Corporation. Invites are just in the process of being sent.
- Naresh Kumar:** Absolutely. That helps. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.
- Hiren Dasani:** First question is data points. One you said there is Rs.80Crore debt on the working capital side and there is no term debt. Is that correct?
- Manish K. Gangwal:** Yes.
- Hiren Dasani:** This is as of June end right.
- Manish K. Gangwal:** Yes.
- Hiren Dasani:** Is there any cash or liquid investment in the balance sheet?
- Manish K. Gangwal:** That is net of cash I am talking in terms of net debt.



- Hiren Dasani:** So can you give the gross and cash and cash equivalent both?
- Manish K. Gangwal:** Nearly Rs.60 Crores of cash and cash equivalent on the balance sheet and Rs.140 Crores of gross debt.
- Hiren Dasani:** And all of that is into the liquid investments?
- Manish K. Gangwal:** Yes, all are in liquid investments.
- Hiren Dasani:** Rest is all working capital debt right?
- Manish K. Gangwal:** Yes.
- Hiren Dasani:** Just when you said in earlier question you said about 50 to 60 days of inventory and 30 to 40 days of receivable so on an average 100 days of working capital do you enjoy any credit as well or this is the net working capital?
- Manish K. Gangwal:** This is the net working capital I am talking because most of the domestic base oil purchases are from PSUs which are advanced payments.
- Hiren Dasani:** So effectively the net working capital days are of 100 days all.
- Manish K. Gangwal:** Yes.
- Hiren Dasani:** Okay, on the capex of this Rs.125 Crore in the Chennai plant you said the land is already acquired so Rs.125 Crores includes the land-related cost as well?
- Manish K. Gangwal:** Yes, including the land, Rs.125 Crores.
- Hiren Dasani:** How much would have paid so far for land let us say?
- Manish K. Gangwal:** Approximately Rs.35 Crores.
- Hiren Dasani:** Okay, so incrementally you will have to make about Rs.90 Crore capex on that?
- Manish K. Gangwal:** That is right.
- Hiren Dasani:** Now in terms of volume growth if you were to look at out the last three four years what could be the CAGR, what would have been the CAGR of the volume growth for us over the last three four years?
- Ravi Chawla:** It will be upwards of 10%. You have last seen three years. If I take last six to seven years it will be about 10% plus, but last two years have been actually difficult years as you know in terms of the economy and drop in commercial vehicles by 25% in terms of automotive sales, so last two



years would be single digit and before that it would be high double digit and we could say an average of 10% to 12% volume growth in the last few years.

Hiren Dasani: 10% to 12% average over the last few years. Last two years would be like what mid single digit?

Ravi Chawla: Yes, mid single digit.

Hiren Dasani: As you get into more segments of tractors and as you increase the market share in two wheelers and the CV and all what could it likely to do your margin?

Ravi Chawla: We internally are working on the 12% kind of figure, which we want to maintain because while we grow market share there is always going to be a challenge on margins and we have to balance both, so really there are lots of businesses we are looking at with OEMs, with channels, so obviously we have to be competing with the market leader and the others. So it has to be a balanced approach what we feel now, but of course if there is an opportunity to take margins up we are always going to look at that. It also depends on the competitive scenario as you will appreciate in the market, if we find that there is scope for price increase. As our brand is developing and getting strength, there could be good opportunities there also to look at it. To be very honest we want to maintain a balanced approach and try to keep those goalposts and obviously look at market opportunities rather than they are evolving.

Hiren Dasani: Let us say once you are done with your Chennai capex, I mean that should take care of about next three to four years.

Ravi Chawla: Absolutely, I think it is a long-term investment, we have a lot of OEMs coming up in Chennai, as you know it has become auto hub not only for India, but for the region and we also have a freight savings which will happen in Chennai because large part of our sale is in South, close to about 30% of our sale is used, so that also helps in terms of freight savings. Also Silvassa will be to an extend debottlenecked because Silvassa is now running nearly close to the full capacity, so of course we are adding in Silvassa, so that is have to decongest and Chennai will then become clear supply point for various markets in India and may be in future with Gulf Oil International we will speak of some exports also, but that is slightly premature at this stage but that is also being evolved.

Hiren Dasani: Let us say what would be your capacity at both Silvasa and Chennai when it is fully?

Ravi Chawla: We are planning to get Silvassa up to 95,000 tonnes as you mentioned 90- 95,000 tonnes. And Silvassa we would start in two phases, the first phase would be around 40-50,000 tonnes, because as you know in lubes the blending capacity is always available, it is usually the packaging and once you get into small package if we have more small packs, you have to obviously invest to the lot of filling lines, which is usually take a six-month cycle to get new filling lines.

Hiren Dasani: That is it from my side. Thank you for all.



- Moderator:** Thank you. The next question is from the line of Karan Malhotra from Xander Group. Please go ahead.
- Karan Malhotra:** What is the number of retail distribution touch points that you have today to estimate and what was this number a couple of years ago and how this has been growing?
- Ravi Chawla:** Yes we are in line. As we mentioned our volume growth, which is 10% plus it will take last six to seven years, our distribution also needs to keep up otherwise the growth does not come, so roughly similar slightly more growth in terms of touch points, if you take just purely volume growth, so we would anticipate that our touch points we do have a listing, but we do have some sub level distributors, so it would take everything, it would be close to 55,000 outlets and that has grown from a base of around 30,000 outlets if you take six years back.
- Karan Malhotra:** In terms of geographic distribution do you have a little mind about North, South, east, West or something like that?
- Ravi Chawla:** We operate as five regions. We have split up north and west into two regions. We have central region which is basically MP and UP, we operate in six regions and we have distribution across each region, but our strengths mainly we look at all regions are growing, so really South has predominantly been in certain segments stronger like the diesel engine oil. So that is where we are quite well spread across in terms of the consumption. So, if you take the overall consumption region wise we are in line with the overall distribution required at the level we are, but south would have slight predominance on the diesel engine oil for us.
- Karan Malhotra:** Just going back to the number of touch points you said you have about 55,000 touch points today, how big can this grow in the next three years or four years, when will you start reaching saturation in some extent?
- Ravi Chawla:** The total universe is close to 1,50,000 to 1,60,000. We have AC Nielsen, which tracks this and of course we are not subscribing to AC Nielsen at the moment and other moment, but we have got enough industry knowledge on that. So, I would say saturation would be to get to at least 75,000 to 80,000 outlets would be then look at that kind of saturation. So we still have some way to go to achieve that 75,000 to 80,000.
- Karan Malhotra:** One more question my end, which is around Silvassa capacity expansion, how much capex is required for that and how much has already been incurred?
- Manish K. Gangwal:** It is the total capex will be closed to Rs.40 Crores and we have already incurred around Rs.25 Crores out of that, so balance to be still incurred is roughly Rs.15 Crores over the next up to December 2014.
- Karan Malhotra:** Thank you so much.



- Moderator:** Thank you. The next question is from the line of GauravSood from Kanav Capital. Please go ahead.
- Gaurav Sood:** Thanks for taking my question. One I wanted to understand was what is the breakup of your sales in the industrial and auto lubricant currently?
- Ravi Chawla:** As we mentioned to you our breakup of automotive and industrial is 75:25.
- Gaurav Sood:** Your entire B2B would be what do you classify B2B is industrial?
- Ravi Chawla:** That is right.
- Gaurav Sood:** Lately, I observed that your advertisement spent on the TV have gone up, so could you give us an idea what was your ad spent in this particular quarter June quarter on an annual basis, what is the goal?
- Ravi Chawla:** So, annually we have increased our investments over the last five, six years with segments in mind, because basically whichever segments we have taken as a growth segment we have normally followed it in terms of the customer profile and advertised. So our expenditure in the advertisement used to be earlier about 3% if you take six year back which has gone up has doubled. So roughly 6% to 7% is the norm which we have currently and similar investments have happened of course it changes from quarter-to-quarter because depending on the activity base and the launches and also various as you will appreciate we are with IPL, so even IPL is obviously we invest. We are at a similar level this quarter in terms of our investment in and AMJ (April-May-June) is against split up into above the line, below the line, so we have roughly half-half splits, so there is a lot of activities, which you probably do not see on media, but you arrived we have been in the media and quite recently also we have been investing, also to build our brand in the B2B segment we have done shows like leader talk on CNN-IBN. We also invest in other programs which reach out to major decision makers in B2B who would then get obviously know about the brand and the differentiation.
- Gaurav Sood:** Another question was that the industry like Castrol has EBITDA margins of the 18% to 19% and we all broadly hit the 12% mark. So the difference in this margin is largely because of the price premium that they are able to command and is there any aspiration to narrow this gap overtime?
- Ravi Chawla:** As you notice the gap is getting narrowed, if you were to check this margin for the last 15 quarters maybe more after seeing the figures, but if you analyze that yourself I think the answer is clear, but you are right, the Castrol as a brand, definitely we see the investments they have made in the brand has been significant over the last many decades. So there is a differential on pricing, so end pricing obviously most all the other players operate at a lower level compared to the market leader which is Castrol.
- Gaurav Sood:** What would be the differential in pricing like your product would broadly..?



- Ravi Chawla:** It could vary some products where we have certain differentiators it could be even 5%, but generally the rule of thumb is close to 10% to 15%, not close to 10% to 15% would be the range. 10% to 15% would be the price differential.
- Gaurav Sood:** You are positioning yourself as leaders in the long drain. So that way in that market, there is a diesel segment market, are you positioning to be a leader or still Castrol commands the premium over you?
- Ravi Chawla:** In certain parts of the country, we have achieved position at par Castrol, but overall year their volumes are still higher in the segment.
- Gaurav Sood:** What is the breakup between any significant exports that you do currently or margin on that?
- Ravi Chawla:** It is a little less than 1% at the moment, but we are going to look at that option as we develop plan to be neighboring countries.
- GauravSood:** So, long term plan is to export to neighboring companies and collaboration in the Gulf Oil?
- Ravi Chawla:** That is right.
- Gaurav Sood:** When will that would be starting next year or that still in the process?
- Ravi Chawla:** Hopeful it should happen by 2015.
- Gaurav Sood:** Next calendar year right. Thank you.
- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Thank you for the opportunity. I have couple of question. When you said that 75% of volume come through the automobile segment, how much have within that comes from the on the Bazaar segment and from the OEM, you can give me the breakup?
- Ravi Chawla:** So, if you talk automotive segment, we would say that about the 20% will be OEM related and 55% will be Gulf Oil branded products which are fully Gulf branded.
- Maulik Patel:** Second in terms you purchased base oil from the PSUs, why not we purchase from the overseas where we can probably get much credit also?
- Ravi Chawla:** We have two-thirds of our purchases is normally overseas, you are absolutely right.
- Maulik Patel:** There you do not get on the credit?



- Manish K. Gangwal:** The overseas supplies are all on the LC basis, of course we do take buyers credit against that. But, largely all are against LC basis, LC at site.
- Maulik Patel:** We do not hedge any of our import liability right in terms of credit?
- Manish K. Gangwal:** We have hedging policy in place approved by the board and we follow that policy of hedging. So we do cover a part of our exposure as this management framework.
- Maulik Patel:** What could be that number approximately?
- Manish K. Gangwal:** Well-defined policy as per the export advice, and there are various combination of factors including our stock and there are many parameters which are looked out, but it is usually closed to 50% of net exposure.
- Maulik Patel:** Coming back to the margin side, when you said that if you have gone up the margin over the last 15 quarters or so, what could be the number probably in four, five years back, right now you are at 12%, so what would that number?
- Ravi Chawla:** If you will see the year 2009-2010, we were close to 8%, 7%, we started with 7%, 8% and today it is close to above 12%.
- Maulik Patel:** How you have seen the industry behaving when the raw material price come down in terms of rupee, do you think the industry is capturing that incremental benefit in the gross margin or pass the entire benefit to the customers?
- Ravi Chawla:** It depends really on how competition behaves, but of course always when there is a downward trend, there is a margin retention which happens during the process apart of it is always retained as a margin.
- Maulik Patel:** So that is the phenomenon across industry level? As you mentioned that coming back to the B2B segment and where you said that you want to grow from 25% to 35% over the next few years. Will it that lead to significant margin dilution or what is your thought on that Sir?
- Ravi Chawla:** As I mentioned, we will have to take this question because otherwise keep going on the conversation, it just request to that Mr. Patel. We are going to balance on strategy to try to keep the margin level at 12%, because we would then take opportunities accordingly otherwise you can increase volumes if you want by dropping the price, but given the brand and what we want to build our strategy we would like to maintain it, so that we can gain market share and keep the returns at that level.
- Maulik Patel:** Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Pukish Chadda from Ocean Dials. Please go ahead.



- Pukish Chadda:** Thanks for the opportunity, but my questions have got answered fine.
- Moderator:** Thank you. The next question is from the line of Anuj Jain from Value Quest Capital. Please go ahead.
- Anuj Jain:** I want to understand what is the composition of other expenses in the P&L?
- Manish K. Gangwal:** Basically you will notice that close to 6% to 7% is advertisement out of that and approximately 1.5% is royalty and then close to 3% is other administrative expenses and 10% is the distribution expenses.
- Anuj Jain:** Another thing like what is the capex plan which you have mentioned like Rs.15 Crores for Silvassa plant and the Chennai plant incremental Rs.90 Crores, what will be the source of funds?
- Manish K. Gangwal:** Current Silvassa expansion is largely out of internal accruals except some Rs.15 Crores of borrowing in the form of long-term buyers credits. For the new project, we are anticipating that we may have to take borrowing of close to Rs.60 Crores to Rs.70 Crores, but of course we have to decide that there is always prepayment option, the cash flows are in line with our projection. We may prepay it also.
- Anuj Jain:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Good evening Sir. My first question is that you have mentioned that in last three years we have seen volume CAGR of 10% to 12% and plus if the industry improves, we might see industry growth of 2% to 3% and where we would strive to grow by 2x to 3x of the industry growth. So what should be the volume growth that one should expect over the next two to three years if you assume that the industry improves?
- Ravi Chawla:** Let me, we will re-clarify. Our CAGR growth in volume has been 10% plus if you take the last 6 to 7 years. Last three years, we have had a mid single digit kind of growth, but the industry has been as you know demand conditions in volume term have been not as good as they were earlier. So if you look at the base in the last two years industry growth has been flat to negative that quite negative I would say overall if you take the figure from all the competition, so as you know some of them also have got negative market shares. So, we anticipate that if the industry grows by 2%, 3%, we should be able to go 2x to 3x of that in volume terms.
- Deepak Poddar:** If the industry grows by 2% to 3% may be 8% to 9% kind?
- Ravi Chawla:** That is the math which we work on and that is our strategy, but it can vary upwards or downwards because as you know market share plans are always aggressive, but we would like to obviously plan well and then deliver whatever we can best.



- Deepak Poddar:** Where will this growth comes from will it be more from the B2B segment that you are planning to increase?
- Ravi Chawla:** It is both they would be a new segment we are looking at tractors where market share is not very high, so it will be new segments. Segments where we have strong, we obviously want to carry on and doing well in that and it will also be from B2B.
- Deepak Poddar:** But overall our EBITDA margin is in the range of 12% to 13%, but what would be breakup in terms of automotive and industrial what would be our EBITDA margin in automotive segment and industrial segment separately.
- Ravi Chawla:** That is difficult, because you have a lot of OEM businesses which go across both segments, it is difficult to quantify, so I think obviously the automotive margins are better than the B2B.
- Deepak Poddar:** But industrial in terms of industrial any sense like it is below 10% or would be in that range value?
- Ravi Chawla:** It is not certainly 10%. It is much below that, because as you know that is a very competitive area where the cost of ownership and others, so it would be I would say 7% to 8% in terms of B2B segment.
- Deepak Poddar:** You mentioned that PBT that Rs.140 Crores for FY2016 right?
- Ravi Chawla:** As somebody said, mentioned as a figure, keeping in mind that the growth etc., will be in line with what we expect to be and hope to be.
- Deepak Poddar:** What would be our kind of target for FY2015?
- Ravi Chawla:** As we said the turnover, we would expect it to cross Rs.1,100 Crores and we would like to maintain 12% on margin.
- Deepak Poddar:** But in terms of EBITDA margin, do not you see if there is some higher operating leverage we can see higher EBITDA margin in 12%. I appreciate that we are looking for market shares, so there might be some pressure on margin front?
- Ravi Chawla:** If we will notice our quarter one EBITDA has been already higher in 12%, it is closed to 13% and if things go well we have to see every quarter how it goes, but certainly if there is an opportunity, we would like to maximize the EBITDA as well.
- Deepak Poddar:** Thank you very much for your answer.
- Moderator:** Thank you. The next question is from the line of Krunal Shah from Amideep Investments. Please go ahead.



- Krunal Shah:** More of a question with more of clarification. In last five, six years we have seen automobile industry probably the CAGR level, the two wheelers, the passenger vehicles grow at double digit level and after that also it is resulted in a 2% to 3% volume growth for the industry of lubricants. What is the exactly the reason for it. Is it only that the lubricant is lasting longer or something else was contributed into that?
- Ravi Chawla:** Absolutely, I think the part of it is exactly what do you said as trade intervals (ph) get extended that is one and also in terms of engine performance and lubricant specifications both these also play a role. Therefore lesser lubricant is required in various applications.
- Krunal Shah:** These are the two major reasons?
- Ravi Chawla:** That is right.
- Krunal Shah:** Any changes in the base oil prices that you have seen last quarter?
- Ravi Chawla:** From March quarter, the prices have been stable on March and June quarter, but of course if we see last year June quarter, there has been an increase.
- Ravi Chawla:** There is a minor change upward change in the AMJ(April-May-June)quarter if you look at it, but it is also how we are sourcing in efficient we are, so that depends on that.
- Krunal Shah:** With respect to synthetic oils, we are manufacturing synthetic oils or what is the position with respect to that?
- Ravi Chawla:** We have got a range of synthetic oils which are available in both the motorcycle segment and the car segment.
- Krunal Shah:** As in what chemicals as apart from basal we are using that can you specify that?
- Ravi Chawla:** These are all mineral based fully synthetic oil. As you know the global range we have all the products. So fully synthetic which we call POastral base, those we will be introducing shortly. But when we say mineral base, these are all called fully synthetic.
- Krunal Shah:** Who are the major OEM partners in terms of automotives?
- Ravi Chawla:** We are having a number of OEM tie ups. So currently we have tie-ups with Volvo Penta vis-à-vis engines with Mahindra for automotive segment. We have with Ashok Leyland group, we have with MAN. MAN is again into commercial vehicles. We have tie-up with Greaves into construction equipment and these would be the major tie-ups and we also have tie-up with L&T Komatsu we have approved products then we are happy to share of course we have tie-up with Bharat Benz, it is also one of the commercial vehicle as you know, these are the major tie-ups we have approvals from Scania, so that is again into construction equipment.



- Krunal Shah:** Any exclusive tie-ups?
- Ravi Chawla:** All of these are with other players. Normally OEM would tie-up with couple of players.
- Krunal Shah:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the floor over to Mr. Prashant Tarwadi for closing comments.
- Prashant Tarwadi:** Thanks a lot for Gulf Oil Lubricants Management for devoting time. Thanks a lot for all the participants for participating in the call. Now, let me request Mr. Chawla for his final comments. Over to you Mr. Chawla!
- Ravi Chawla:** Thank you Prashant. First of all I would like to thank all the people who joined us in today's call. It is also an opportunity for us to share with you what the results all about and of course take your questions, which also help us to understand the way you will be in. The one of the reason to unlock value was to have pure play for lubricants with Gulf Oil Lubricants India Limited. I think this is a step in that direction, so we really appreciate the patience and of course your understanding. The results have been encouraging I would say as a good start for us and I hope we can also see the economy supporting, but we are on machine to kind of look at our market share growth well circumstances being positive, last year been a tough year, so this year we hope that correction will help both in terms of volume growth, market share growth and July also is one of the encouraging signs, so we hope that it continues in the next quarter and the quarters to follow. Thank you so much for all your patience.
- Moderator:** Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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