"Gulf Oil Lubricants India Limited Q1FY16 Earnings Conference Call"

August 03, 2015

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MODERATOR: **MR. PRASHANTTARWADI – AXIS CAPITAL**

Moderator Ladies and Gentlemen, Good Day and Welcome to the Gulf Oil Lubricants India Limited Q1 FY16 Earnings Conference Call hosted by Axis Capital. 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. PrashantTarwadi from Axis Capital. Thank you and over to you, sir.

PrashantTarwadi: Hi, Good Afternoon to you all. 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's performance in the current quarter and then we can later switch to question-and-answer session. Thank you and over to you Chawla sir.

Ravi Chawla: Good evening to all and welcome to the call for this quarter. Well, the quarter ended June we saw the net revenues at Rs230 crores as compared to Rs226crores last year which is a 2% growth in net revenues. The PBT as shared earlier has gone up quite well by 17% over last year's quarter and EBITDA has grown also by 16% compared to the quarter last year. We also want to share that the EBITDA margins have reached a record 15%, also showing a sequential improvement of nearly 180 basis points over previous year same quarter previous year. Well, basically just to explain the quarter ended June for us, for Gulf Oil is slightly different from what you would see in some of the players in the industry because we are a balance between primary and secondary sales, so normally our peak quarters are the quarter four which is Jan-Feb-March and the second quarter for us would be October-November-December, so this quarter would technically be the third in terms of volumes because of our primary, secondary sales equation and we have also seen some drop in the revenue because of the discounting that has prevailed in the last few months and we announce our schemes quarterly, so April is when the schemes come into play and the discounting, so you have seen a slightly subdued revenue but happy to share with you that the volume growth has been positive at 4% overall in this quarter and the channel sales which account for nearly 70% of our sales has accounted for a 5% growth where it was flat last year, so that is a positive movement and this has been led by a good movement in the motorcycle segments for us which has grown 15% plus in this quarter, also backed by the investments we have made

As a growing company we believe that investments need to continue so we have invested in our brand, in fact our advertising has gone up to 7% in this quarter compared to the usual 6% and last year maybe lower at some points and our recruitment drive for people where we have added 10% in terms of manpower at all levels. So we have continued our investments, at the same time we have seen positive volume growth coming in. Commercial vehicles still need to pick up but we are happy to share that motor cycles has gone up. we are revamping our range in terms of the

PCMO segment, hopefully the tractor season will also come in positively , so year ahead is looking positive.

On the investment side I can share that we launched a major advertising campaign for our motorcycle and scooter products which has received an excellent response both in the normal media and digital, we are doing a track of that, we will be able to share that in the next call. We launched a new product for scooter which is now growing well., and we continued our other promotions around the IPL.

So all in all we have seen a positive growth in terms of volumes and we have also retained in spite of the heavy competition the margin has been retained to give an increase in EBITDA percentage, at the same time continuing our strategic investments in the brand and people.

So I would now request Manish to share a few other pointers in terms of the financial results. Manish, over to you.

Manish K Gangwal: So basically, as Ravi mentioned we have achieved a highest ever EBITDA of 15.1% in the lubricant business and as we have mentioned in the previous con-call the gross margins have improved, you can notice from the results published that gross margins have gone up by nearly 4.5% in this quarter over March quarter, quarter-on-quarter basis and yearly 7.3% over last year June quarter, so there has been healthy improvement in the gross margin and nearly 180 basis points improvement in EBITDA. As the volumes mix has been better the quarter has been good for us from overall cost as well as revenue perspective.

We can now take the questions from the investors.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. Sir the first question is from the line of Mr. Sujit Lodha. Please go ahead.

Sujit Lodha: Just wanted to know sir what would be the sequential de-growth or rather flattish growth in volumes and what would be the breakup between industrial and automotive currently?

Manish K Gangwal: So we have grown our volumes by 4% year-on-year basis..

Sujit Lodha: On sequential sir.

Manish K Gangwal: As Ravi mentioned March is the highest quarter for us so from that perspective it is not comparable because a lot of distributor annual discounts etc are linked to March quarter, so not comparable.

SujitLodha: Sir can you give us the volume number if possible, broad number?

Manish K Gangwal: We have achieved roughly 17,000 kl volume in this quarter.

SujitLodha: Okay. And this is generally significantly lower than the last quarter that is the fourth quarter?

Manish K Gangwal: No, it is usually 22%, 23% this quarter one is of the yearly volumes.

Ravi Chawla: As I mentioned that in terms of quarter ranking highest volume for us is quarter four of the financial year which is January to March followed by October, November, December and then obviously the quarter of April, May, and June comes in. As we have a primary, secondary model which is slightly different from some of our competitors because we have emphasis on primary and secondary.

SujitLodha: So in terms of 4Q then how much of the total volume would 4Q be contributing too roughly?

Ravi Chawla: Quarter can go up to 27%, 28%.

SujitLodha: Sir and can you give us the breakup between industrial and automotive volumes?

Manish K Gangwal: So this quarter we have gone to 68.5% again of automotive, last quarter March we have mentioned it was 66.5%, so this quarter has been good from that perspective.

Moderator: Sir, the next question is from the line of Mr. MehernoshPantaki. Please go ahead sir.

MehernoshPantaki: Sir I wanted to know the status on your capacity expansion plans at Silvassa, it was going to commence in March so has it really commenced? And if yes then actually has that been reflected in the revenue growth during the quarter because the volume growth was only 4% as you said, so can you just brief us on the same?

Ravi Chawla: So Silvassa is now the capacity has gone up. We had created additional new machines for automotive filling, that has started and as planned and of course there are some infrastructure projects like warehousing etc partly completed. So in terms of production capacity we have brought in the capacity we had planned for.

MehernoshPantaki: So how much now is your total capacity post the expansion at Silvassa?

Ravi Chawla: 75,000 to 90,000 (kl) in Silvassa.

MehernoshPantaki: 90,000 tons (kl), okay. And sir what is the status on your capacity expansion at Chennai?

Ravi Chawla: Chennai, we are right now taking permissions from the authorities there, we have started that process and as explained I think we have communicated that by 2017 beginning we would be ready with that capacity.

MehernoshPantaki: Okay. And how much, capacity is around 50,000 tons?

Ravi Chawla: That is right.

MehernoshPantaki: And the overall CAPEX is close to aroundRs 125 crores?

Manish K Gangwal: Yes, overall CAPEX including land will be roughly Rs150 crores.

MehernoshPantaki: Okay sir.

Parag: Sir Parag here, sir what is the status of our net debt as of today, net debt and debtor days?

Manish K Gangwal: 30th June?

Parag: Yes.

Manish K Gangwal: As of 30th Junenet debt will be zero, March we were at Rs35 crores of net debt, which is now close to zero.

Parag: Okay. And debtor days will stand at what, I mean receivables?

Manish K Gangwal: We have been able to control the receivables as well as working capital from inventory point of view partly due to the prices also have come into play, we have been able to improve their frequency by another close to four days that has given us release from working capital and we have been able to reach near to close to net debt zero.

Parag: And sir base oil prices now as we speak have now corrected by how much from top, the particular products which we use?

Manish K Gangwal: In fact base oil prices were correcting during Jan, Feb, March; as I mentioned in the previous call as well from April onwards base oil prices have started moving up and last three months the prices have been up only, even in the month of July the prices have been slightly going up only and effect of rupee-dollar as well.

Parag: But sir right now what is the price of oil which we use compared to what, for example when the oil was $110, so from top it has corrected that is what I am asking sir?

Manish K Gangwal: Peak of last year?

Parag: Yes, sir I am saying the raw material prices for you how much it has corrected from the peak levels, so I am saying the crude has corrected 50%, so base oil has corrected what, 20%, 25%?

Manish KGangwal: It would have corrected nearly 35% if we calculate from the peak, but there are various factors which are there, the additives which are now close to 35% or 30% of the cost composition they have not corrected or have stayed in line with base oil, so additives are going up only.

Parag: Okay. But the remaining 65% must have corrected 35%, that is what you are trying to say?

Ravi Chawla: Partly the Foreign Exchange rate also comes into play.

Manish K Gangwal: There are various grades and demand supply also plays part. Because some grades become suddenly unavailable for some time if, some big refineries take a shut down.

Parag: Okay. But given the thing that after this Iran deal, oil has further corrected now, it is $51/bl, Brent is actually at $51/bl

Manish K Gangwal: Second leg of base oil correction post this new downward trend of Brent has not come into play.

Parag: It has not yet come into play, right.

Manish K Gangwal: There is a lag of one to two month always.

Parag: Correct, so I think it will get reflected in the next quarter?

Ravi Chawla: Yes, if the Brent continues at this level or further corrects that should be visible in next one to two months.

Parag: Correct. And sir how is the competitive scenario playing out on the ground, for example who is reducing prices and how much it is getting, so can you just throw some light on the discounting scenario at the ground level?

Ravi Chawla: As we shared earlier, November we saw the discounting go up and towards the end of financial year also it continues. Now April onwards as I mentioned to you we announced our discounts quarterly since we have to compete both with the market leader and with the middle range brands and even the PSUs in some segments. We have not seen any rollback in terms of discounts, there are certain price changes that we are seeing across competition, they are making in the general list, but in terms of rebates to the retail trade we have not seen a major drop, in fact it has remained consistent if you take from March onwards. We hope of course that scenario that will change and will be good.

Moderator: Sir the next question is from the line of Mr. Dhiral Shah. Please go ahead.

Dhiral Shah: I just wanted to know what is the current market share in bazaar segment?

Ravi Chawla: Our estimate is that we are close to 7% in the bazaar.

Dhiral Shah: Okay. And one more question sir, can you see further margin expansion going ahead or this will be a big one?

Ravi Chawla: Well, see margin expansion can happen two ways, one is of course we see that competitive pricing levels come into advantage both in terms of the overall and also specific to certain segments, so if that plays out based on our strengths and our strategy then we do see that there is always a scope for that, but we will have to wait and watch because certain segments for example motorcycle we mentioned we are growing in that segment now, very aggressively we have started growing but we do have to look at various other schemes etc. So per say it would depend on those two factors.

Dhiral Shah: Okay. And sir last one, sir looking at recovery in industrial segment as well as recovery in automobile industry going ahead, where do you see yourself in next three years in terms of volume growth as well as revenue front?

Ravi Chawla: For the industrial segment?

Dhiral Shah: Yes, looking at recovery in industrial maybe going ahead.

Ravi Chawla: Yes, we have seen that both in when we say industry we describe ourselves what we supply directly to various companies, OEM, etc. We have as we mentioned about 30% of our sale is through the B2B segment, we are seeing good demand in that, hopefully with mining and other infrastructure picking up we would see good growth but we are already seeing positive signs in that, in fact that business for us is growing quite well, what we are losing out slightly is on a few of the tender businesses which we had last year but if you take away the tender businesses our growth is 5%, (+6%).

Dhiral Shah: Okay. So sir do you see double-digit volume growth in next three to four years?

Ravi Chawla: Well, the industry growth as I mentioned last quarter call is about 2%, 3% overall what it will be in best scenario, our objective is to obviously grow at least two times that volumes.

Moderator: Thank you very much. The next question is from the line of Mr. RishabNahar. Please go ahead.

RishabNahar: Just a question, I am sorry I joined late, I just missed the net debt numbers and the working capital numbers.

Manish K Gangwal: So working capital is close to 90 days now and net debt as I mentioned is we have touched nearly net debt zero level as we speak.

RishabNahar: Okay. And sir will be taking any more debt for the expansions?

Manish K Gangwal: Yes, there will be some combination from medium-term loan because we are in the growing phase so we have to need fund for working capital expansion as well in line with the revenue growth. So there will be some debt for CAPEX, there will be some medium-term loan which will be there for maybe three years.

RishabNahar: Sir to what extent will it be?

Manish K Gangwal: See the project of Chennai is of Rs150 crores, we have already funded internally the land cost nearly Rs40 crores, so incremental cash outflow is roughly Rs110 crores over a period of next two years and we believe maybe 50% of that can come from debt and 50% can be internally financed.

Moderator: Thank you very much. The next question is from the line of Priyank Chandra. Please go ahead.

Priyank Chandra: Sir you just mentioned that the volume growth that you are targeting is basically the 2x minimum of the industry growth, so just want to understand that this is a function of, like you can see you are just launching new products or it is a mix of expansion of the distribution channel also?

Ravi Chawla: So the answer is both, we are looking at expansion of the distribution channel because our market share in the bazaar market is still not, we feel it can go up and also our distribution reach still has to go some way. New products as I mentioned, we will look at various segments, look at the various gaps that we have in our portfolio, so it will be a combination of both.

Priyank Chandra: Okay. So do you have any number or something like you must have done some internal study on that that where is your distribution channel in terms of penetration on a pan India basis as compared to some dealers like IOC and Castrol?

Ravi Chawla: As we have been mentioning we have AC Nielsen so we have our estimated universe of outlets would be about 1.5 lakhs to 2 lakhs in the urban and we would be at about 55,000-60,000 outlets now, probably the market leader is at about 100,000. So we see the scope to still increase our distribution, I would say if you are planning double-digit volume growth we should definitely look at more than that for the distribution growth.

Priyank Chandra: Okay. Sir you mentioned about the product that you have recently launched in the scooter segment, so how is that product being fairing out?

Ravi Chawla: Yes, it has done very well, since it is the launch phase the numbers will not make sense at this stage for about six months, but we had planned a target, whatever target we had planned for this segment we have achieved those numbers, it is about 20,000-25,000 liters a month, so that is what we have been doing.

Priyank Chandra: Okay. Sir I did not get that point, sir you mentioned about the competitive intensity regarding the discounts that you witness during the period of January to March, so those discount levels are still being maintained and those levels there has been some actually a withdrawal out of that?

Ravi Chawla: No we are not seeing any withdrawal, we are seeing the trade discounts have remained consistent and not only for we have to look at both the market leaders and the second tier and even the mid tier companies, so we are not seeing any reduction in discounts. So it is remaining the same level.

Priyank Chandra: And is it too early to ask, like the price have been again following down for the last 15-20 days or so, so do you expect or do you have got some study that there have been increase accretion from the competition?

Ravi Chawla: That has been similar, what has been going on since April it's continued.

Moderator: Thank you very much. The next question is from the line of Mr. KashyapJhaveri. Please go ahead, sir.

KashyapJhaveri: In the earlier question you mentioned your growth being twice the industry number, I probably missed out the industry number, did you mention industry volume growth in that question?

Ravi Chawla: see last year the industry growth was due to the commercial vehicle slowdown overall industry growth, we estimate that it would be flat to maybe 1% odd inside the bazaar market where we have a major and most of the companies have the independent channel of distribution, that usually grows 1% or 2% more than the overall market growth. So we do have AC Nielsen figures which show the positive growth in the volumes this year, last year it was negative. So at best I think the estimate would be about 2% or 3% in terms of volume growth this year.

KashyapJhaveri: Second question is in terms of, your total capacity would be going up to about 1.40 lakh tons over a period of let's say by FY17, what is the utilization that you expect in the new capacities going forward?

Ravi Chawla: See the industry growth is again going to determine how much we are going to use, because as they have mentioned our strategy is to grow well ahead of industry and we would also look at some opportunities for some exports and utilization currently with Silvassa was a bottleneck because we were at about (+90%) and Silvassa also is in terms of the location we have it was getting congested, so we would offset some of the Silvassa capacity to the south plant, also because nearly 30% of our sale is in the south so capacity utilization in Silvassa would come down slightly and obviously Chennai coming up with a new plant we will try to operate it at least 60%, 70% capacity.

Manish K Gangwal: Because there is a freight saving also in south because as Ravi mentioned 30% of our volume is in south, so we will be able to leverage that as well.

KashyapJhaveri: So could one assume that Silvassa in that case would be let's say about 80 to 85 and Chennai would be roughly about 70?

Manish K Gangwal: Sorry?

KashyapJhaveri: I am saying in which case Silvassa utilization which is (+90%) would come upto let's say about 80%, 85% and Chennai as you mentioned would be about 70% utilization number?

Manish K Gangwal: Yes, because of the growth we are also expecting in the current volume.

KashyapJhaveri: Right. And one last question, could you help me with your volume number for FY14? I have FY15 number about 68,500, if you could help with FY14 number.

Manish K Gangwal: FY15 was around 65,000 kl.

KashyapJhaveri: Okay, so FY14 was 65,000?

Manish K Gangwal: Yes, was around 65,000 kl.

KashyapJhaveri: Okay. And just one last question, our revenue growth is about 2% and EBITDA growth has been about roughly double-digit, fairly high double-digit number which means let's say EBITDA per ton would have sort of improved quite dramatically, would that be right assumption?

Manish K Gangwal: Again if you can make the question slightly bit clear please.

Kashyap Jhaveri: EBITDA per ton?

Manish K Gangwal: EBITDA per ton?

Kashyap Jhaveri: Yes.

Manish K Gangwal: If I have understood your question correctly, I mean the operating leverage has to come into play at certain point in time so we are currently investing back as a growth company, once we reach a level our incremental revenues should add directly to EBITDA per ton.

Moderator: Thank you very much. Sir, the next question is from PrashantTarwadi. Please go ahead.

Prashant Tarwadi: Just sir two points, first is you mentioned that your distribution has two legs to it one is primary and secondary, if you can elaborate on that, that is one. And secondly, you also hinted that tractor volumes may have some seasonal factors which may come into the play, so if you can also elaborate on that point. That's it, thank you.

Ravi Chawla: Yes, so primary sales is what we term as sales from us to our distributors, secondary is what distributor sells off to the retail, so we I would say a pull-push brand, so we do have programs which are designed for primary sales achievement and secondary is when our distributor sellout to the retail, so there are certain incentives. So I would say we are balanced primary, secondary player in terms of our own current sales and marketing strategies, so that is what I meant by primary, secondary. On the tractor, as we know it is a seasonal product, there are seasons for sowing then therefore the use of the tractor comes into play and lubricants get used, so that usually it has about three seasons in the year and we see September-October there is a season which comes then again February a season comes and now again based on the monsoon how it goes you would have one more season coming before that any time. So we are hoping that can come early in September and we can see again some revival there.

Moderator: Thank you very much. Sir the next question is from the line of Mr. VinodBansal. Please go ahead.

Vinod Bansal: Just one broad question on industry trends, if I know it correctly the global OEMs tend to be happy to work with independent lube brands be it the Castrol and the Shell's of the world, whereas the Japanese car manufacturers are more keen on the general engine oil market, even the Hondas of the world. How do you see the Indian guys playing it up, be it Tata's and the Mahindra's and the Hero's of the world and do you see an increasing trend of OEMs shifting towards genuine engine oil market as opposed to independent lube brands?

Ravi Chawla: Yes, the genuine oil market is dealerships they have got a captive sort of usage, so that is continuing to grow because if you take the segments like the car segment specially, the servicing is moving towards that for the high end cars which are growing in numbers. Even if you take the mid level cars they are going back to dealerships with various attractive warranty offers and service offers, so that trend is growing. In addition, OEMs themselves are putting genuine oil brands and co-brands into the open markets so the impact of OEMs entering markets is growing and one will have to actually strategize based on that. And as you rightly said the global OEM players would prefer to go with global tie-ups, the regional Japanese prefer to go with the Japanese oil companies and I would also say that some multinational OEMs who are looking at regional sort of arrangements, so that is also places where one can look at strategic tie-ups.

Vinod Bansal: Sure. Sir would you say that your competition is not just with other lubricant brands but also with this new industry trend of OEMs wanting their own branded oil so to speak, so that is also an additional line of competition coming in which is not something that you see in global space. So in America for example or in Europe lubricant companies you do not see OEM branded oils as much unlike in Japan, so in India also do you see an increasing competition coming from that sort?

Ravi Chawla: USA you are right, Japan as we know that most of the Japanese OEMs have tie-ups with Japanese lube brands.

Vinod Bansal: Yes, so basically lubes are not what I meant to say was the competitive positioning of lube brands is somewhat in serial to the OEMs whereas in America or in Europe the lube brands are strong brands in themselves, in India it is a bit of a mix bag. So do you see a trend of OEMs wanting a greater share of the pie in that sense?

Ravi Chawla: Yes, I think that trend is as I mentioned earlier and obviously one has to strategize and see how we can be part of the trend so that we are able to do both.

Vinod Bansal: And would it be correct to say that for you to be a part of a trend you will have to sort of give up some part of profitability to the OEMs which essentially means that the industry is structurally looking at a lower profitability compared to let's say five years back?

Ravi Chawla: In terms of dealerships which are the captive area, yes, your equation will be holding there what you mentioned.

Vinod Bansal: Okay. And you also say that dealerships are becoming more important than they were earlier?

Ravi Chawla: See high end cars and vehicles obviously the servicing will happen in the dealerships, so that is still a single-digit percentage.

Vinod Bansal: Sure. And when you say you will have to strategize to be a part of that trend, what exactly do you mean by this?

Ravi Chawla: Like we have a tie-up now with Mahindra, it is a co-brand we do in the aftermarket so that would be the strategy.

Vinod Bansal: So could you give a very good example, so what is the Mahindra tie-up now, what is the oil coil that you have put in the place with Mahindra tie-ups?

Ravi Chawla: They were co-branded products which is Gulf and Mahindra co-branded name and that is sold in the open market, but we also supply genuine oil in the dealerships, so that's a multifaceted to the tie-ups.

Vinod Bansal: Sure. So what goes in the Mahindra dealership, what is that oil called, it is called Mahindra Oil, is it?

Ravi Chawla: Yes, that is right.

Vinod Bansal: It does not have a mentioning of a Gulf brand on that?

Ravi Chawla: We have, yes you have because the brand is always mentioned at the back.

Vinod Bansal: Okay. But it is sort of predominantly a Mahindra brand but it is different from the one that you sold in the market in terms of the logos coming on it?

Ravi Chawla: That's right, that is a co-brand, and that is a genuine oil.

Vinod Bansal: Okay, the genuine oil is the co-brand, okay. And if it is not confidential, how is the pricing of the two?

Ravi Chawla: No, that would be obviously an internal arrangement.

Vinod Bansal: As in terms of, I am not saying exact pricing but if one goes for 100 bucks or whatever how much is it, it's a 15% discount, 20%, broadly?

Ravi Chawla: These are strategies in different selling points.

Vinod Bansal: Right. But generally, so would you concede that this is sort of a threat to the industry's profitability?

Ravi Chawla: It depends, see when the industry is moving in a particular direction I think you have to look at it from the point of view of growth and of course margin, so it would depend on where the markets you want to enter and grow in.

Vinod Bansal: Right, why I ask this question also is that we all know that how competitive lubes industry is and there is a generally perceived accepted wisdom that high competition means low overall industry profitability and this industry has huge profitability despite competition. So one wonders if that can sustain, your 40%, 45%, 50% gross margins can that kind of a thing sustain over three, five years given the kind of competition you have in the industry.

Ravi Chawla: Yes, I think what you are saying will have to be looked at various sort of tie-ups which we have in different forms.

Moderator: Thank you very much. The next question is from the line of Mr. Vishal Gajwani. Please go ahead.

Vishal Gajwani: My question is on two things, one is in terms of margins what is the kind of ANP spend as a percentage of sales that we have done in this quarter?

Manish K Gangwal: 7%.

Vishal Gajwani: And versus last year same quarter?

Manish K Gangwal: Last year same quarter was low, actually it was around 5%.

Vishal Gajwani: Okay. And this going forward what is the rate going to be?

Manish K Gangwal: We will be maintaining 6% to 7% because last year overall spend was close to 6%, quarter one was lower, this year quarter one we had big campaign which ran into June and July. So that has taken it towards the higher band of our internal targets of 5% to 7%, so we are 7% in this quarter.

Vishal Gajwani: For the full year will it be lower than this?

Manish K Gangwal: Yes, we should be ending somewhere between 6% to 7%.

Ravi Chawla: See the advertising while we budget for it at that level which Manish mentioned also depends on what competition does in what area, so it is not just going to be a fixed figure, it can be lower also if competition is not present in media, if we have to react to something we would be looking at it from business point of view.

Vishal Gajwani: Sure. Secondly on employee cost, it seems to be on a higher side this quarter, any reasons particularly for this?

Manish K Gangwal: As Ravi mentioned we have added people over the last one year and post demerger of course some of the new functions also have come in like secretarial and all which we have earlier combined sort of, so it is a combination of all these things.

Ravi Chawla: As mentioned we are in our growth phase now, we are looking at investment in people, for example even B2B sales we had to setup entire sales team across various segments, our own channel distribution we are increasing various other initiatives into rural. So we continue our growth strategies of definitely looking at how we can build our team also to manage the growth in the coming and future years.

Vishal Gajwani: Sure. Sir any target employee cost to sales that you have in mind for the full year?

Ravi Chawla: No, we generally, parameter we go by is about 4.5% to 5%.

Vishal Gajwani: Which is what you are comfortable maintaining?

Ravi Chawla: But it will only go up to a level, after sometime we will have our full team in place and then of course it will be fixed at that kind of level.

Vishal Gajwani: Sure, thanks a lot. And finally, what kind of benefit will the company enjoy because of premiumization, I understand your four wheeler market share is lower at the moment, you might want to target that. So in this financial year because of premiumization and logistics cost advantage, because of the south based capacity coming in what is the kind of margin benefit one would expect just because of these two things?

Ravi Chawla: Premiumization as we mentioned that there are certain segments in which we have outlined our strategy to grow, like we have grown in the commercial vehicles and motorcycles, the next segment for us is the car segment and that is going to come to play in a few month I would say from now and premiumization of course you will look at opportunities of that in the market how we can reach our customers with better value products and the south thing will only happens once Chennai comes in which as we explained to you will take another 18 to 24 months.

Moderator: Thank you very much. The next question is from the line of Mr. Dewang Mehta. Please go ahead.

Dewang Mehta: Have we added any further OEMs or have we done any tie-ups last quarter?

Ravi Chawla: No, this quarter we have not had, we are working on a few but of course we will sure to announce it once this is formalized. Work is on, work is definitely on with the number of OEMs.

Dewang Mehta: Okay. And can you share the breakup between motorcycle, passenger car, heavy duty engine oil or something like that?

Ravi Chawla: Yes, so motorcycle has moved up to close to it was earlier about 15%, 15%-16%, so it is about 18% now of our mix, diesel engine oils heavy duty is close to 40%, passenger car is quite less it is about less than 5%.

Dewang Mehta: Okay. Is this declining, I understand it was a bit higher?

Ravi Chawla: For what, passenger cars?

Dewang Mehta: Yes, passenger cars.

Ravi Chawla: No, as a industry it is higher but for us our current sales are low in this segment.

Dewang Mehta: Okay. And any new product or anything new in the diesel engine oil where we are strong?

Ravi Chawla: Yes, diesel engine oils we keep updating, right now we have all the products meeting the specs but as we see the commercial vehicle segments growing the new spec products come on annual basis. So at the moment we have all the products which are meeting the specs of the industry.

Dewang Mehta: And one last question, you have introduced motorcycle batteries some time back maybe six, eight months back, so any update on how is it doing or what is the plan going forward?

Ravi Chawla: Yes, we have our pilot test going on on that, as we see synergy in our distribution channels and that is again we have less than a percentage of that market share now, so we will be looking at the pilot in about six months time how we can proceed with that, it has been doing well.

Dewang Mehta: So we have captured 1% market share?

Ravi Chawla: Less than 1% in the motorcycle battery, it is not overall battery.

Dewang Mehta: So if you can give a number, 30,000?

Ravi Chawla: Yes, that's right.

Moderator: Thank you very much. The next question is from the line of Deepen Seth. Please go ahead.

Deepen Seth: I was just looking at your cost structure for this quarter and how it compares with other quarters and to me what looks like a very advantageous situation in terms of fall of raw material prices or base oil prices, so you are at close to something like 44% odd gross margin, but much of that is actually going away one, in staff cost which is a point which has been raised by someone earlier and I think your explanation there makes sense. But also in this big number called other expenditure, now some of it is advertising but what are the other large heads and other expenditure?

Manish k Gangwal: See there is roughly 11.5% is distribution cost which includes even the royalties of co-branded oils l through the OEMs, then there is a administration, typical administration cost of roughly 3.5%, 4%, there is a royalty of 1.5% and there is an advertisement of 7% in this quarter, that ads upto close to 23% which is the cost for the quarter.

Deepen Seth: Fair enough. So the royalty for using the Gulf brand is about 1.5%?

Manish K Gangwal: Yes, that's right, that has been in the same range for last many-many quarters consistently.

Deepen Seth: Okay, and that is nothing that is going to get reset in the visible future in anyway?

Manish K Gangwal: Yes.

Moderator: Thank you very much. The next question is from the line of Dhiral Shah. Please go ahead.

Dhiral Shah: What will be the tax rate for FY16?

Manish K Gangwal: 34.6%.

Dhiral Shah: And what will be the CAPEX for FY16?

Manish K Gangwal: CAPEX is hardly anything, any project will start only in quarter three, quarter four in FY16-17. Our Chennai project cost will start incurring from quarter three, quarter four of this year, benefit of that only in terms of taxation will be visible from FY16-17 partly, and we are like a full tax payable company.

Moderator: Thank you very much. The next question is from the line of Manish Agarwal. Please go ahead.

Manish Agarwal: I just have one question, I may have missed that. Just wanted to check what is the lag effect of the crude oil falling and base oil falling and benefits to you in terms of your improvement in margins?

Manish K Gangwal: Typically it is one to two months, earlier it used to be at least two months but now the lag time has come down to sometimes one month also, but then everybody carries inventory for two to three months in terms of raw material two months, then there is a FG inventory which lies again for maybe 30 days, all India depots etc. So by the time the two translations happen it takes a quarter.

Manish Agarwal: If I just look at this then probably the second quarter this year you should see some improvement in the margin assuming that the price what you said about the competition in the incentive stay where they are, can we see improvement in the margins in Q2?

Manish K Gangwal: No, I mentioned somewhere earlier in the call that April, May, June the prices have gone up of base oil because the crude which was falling till March had gone up from $47 to $65 and in line base oil prices also had gone from the bottom maybe 15% or so up, so that inventory will be used in quarter two rather.

Manish Agarwal: Okay. So quarter two you may see a decline in margins?

Manish K Gangwal: Slightly.

Manish Agarwal: Right. And I just was looking at the number of all the peer group of Gulf Oil, I am just not able to calibrate, in terms of most of the other peers are showing a little improvement in margin, though the volume for you have been better but the profitability there has been a little higher, how should we look at it because they are also in the same market competing with you and having the same structure of price incentives?

Manish K. Gangwal: If you are talking about the market leader?

Manish Agarwal: Yes, and even others for that matter, there are two three of them which is listed domain.

Manish K Gangwal: At the gross margin level it is almost similar, for some of them there is a 9% decrease or improvement in gross margin, for us also it is 7.5% nearly, 1%, 1.5% can be due to product mix as well. So we have been able to also gain similar kind of gross margin increase.

Manish Agarwal: Right, so you got affected because of your ramp up expenses that is other expenses and advertising cost?

Manish K Gangwal: See we are investing it back.

Moderator: Thank you. Sir, at this moment we have a follow-up question from the line of Mr. Deepen Seth. Please go ahead.

Deepen Seth: Just one thing, it would help a lot if you could consistently talk in either kiloliter terms or tonnage terms and you know a lot of us get confused on that, I do not know if the bulk density on an average that we should take should be 1kg per liter or something, so I will be very grateful if you express your capacity and your current volume in any one unit whether it is kiloliter or ton, I would really appreciate that clarity.

Manish K Gangwal: We always mention volume in kl, kiloliters.

Deepen Seth: So your quarterly volumes which are right now let's say about 17,000 or whatever it is, 17,000 is a good guess?

Manish K Gangwal: Yes, it is kl.

Deepen Seth: So that is kl, and when you set up a new plant you specify capacity in tons?

Manish K Gangwal: No it is also kl, 75,000 kl has gone up to 90,000 kl in Silvassa.

Deepen Seth: And we are setting up 50,000 in Chennai?

Ravi Chawla: That's right.

Ravi Chawla: Yes, we stick to kl, no problem.

Deepen Seth: Okay, everything is kl, fine, thanks. So there is some confusion in popular literature about kl versus ton. And if we were to attempt such a conversion, should we skip to a bulk density thumb rule of 1 or is it different?

Manish K Gangwal: Typically it is from kg to kl if I have to say 1.1.

Deepen Seth: Okay. So 1 ton would be about 1100 kl?

Manish K Gangwal: That's right.

Deepen Seth: Or rather 1,100 liters?

Manish K Gangwal: That's right.

Deepen Seth: Okay, that helps. Also, the fact that all your publicity and branding and positioning for the brand seems to rely so much on Mr. Dhoni that I am afraid, so he is clearly in downhill mode right now so what happens after Dhoni?

Ravi Chawla: As you saw our latest campaign on the motorcycle segment, obviously we track all the campaigns we do in terms of formal research marketing techniques, so obviously we as a strategy would use it to strengthen our brand and in terms of his cricketing career, that's a long discussion we can have separately, but in terms of his reach and the differentiation that the brand is getting in various segments we believe there is a positive additional rub off and obviously we need to also make sure that the association is a longer term association because things take time sometimes and we continue tracking that. And at the moment as you must have also read a lot of newspaper reports on his, he is definitely in terms of brand personalities amongst the top not only in India but in the world today, we are seeing that. But yes, we do have to keep a watch and see how this is going to pan out.

Deepen Seth: And is it fair to say that your association with him in terms of trying to enhance your brand positioning also borrows a lot from the Chennai Super Kings as well, it is not just Dhoni. So I think the long-term durability of both brands for me it is under serious question, but yes it is an argument we can take offline, it is something that you might want to de-risk yourself with.

Ravi Chawla: Yes, surely. So we are looking at that and we do regular surveys to look at the brand impact.

Moderator: Thank you very much. We have a follow-up question from the line of Mehernosh Pantaki. Please go ahead sir.

Mehernosh Pantaki: Sir basically we have seen two or three announcements of you entering into some tie-up with a foreign company for either the concrete mix lubricant or construction equipment lubricant, so are you extending yourself into other segments apart from two wheelers, cars, and trucks?

Ravi Chawla: Yes, you see our B2B segments you can go into a number of segments right from supplying to medium scale industries through distributors, so when we talk about B2B so each segment has a sub-segment and a sub-segment so our focus strategy which has been one of the engines of growth for us is to go in to that segment where we believe we can grow much faster and also grow well and enter the segment with whatever our other fundamental approach to the segments are. Now infrastructure even eight years back, obviously we all know that it is a growing segment, when you say infrastructure you will need concrete sir, you are sure about that and the company we have the tie-up with is SchwingStetterand which is the leader in ready concrete, ready mix concrete carriers and this mini concrete plants. So they are a market leader and also globally they are well placed, they belong to a Chinese group now but it is a European group and we have been talking to them since a number of years and now that we have successfully have tied up not to supply to their equipment when it leaves the factory but also to supply the genuine oil to the dealerships. And with the growth in infrastructure we are optimistic that the requirement of this particular not only the equipment but the vehicles which carry these ready mixers is going to be very-very positive. So we would like to be in segments ideally which are growing well, so that is part of our strategy.

Mehernosh Pantaki: And with somebody like JCB or some construction equipment guys?

Ravi Chawla: Yes, yes so we are pursuing with a number of construction guys, but as we also know it is quite difficult to get into it where you already have a current player well entrenched, so those also would be some of the areas where we would be looking at trying to make a breakthrough sir.

Moderator: Thank you. Sir we have a question from the line of Mr. KashyapJhaveri. Please go ahead.

Kashyap Jhaveri: In my earlier question you had mentioned about operating leverage in terms of ad spends, now today we span roughly about 70 crores odd or slightly more than 70 crores odd on ad spend as of today, so when you talk operating leverage does it mean that over a period of next two years that number probably would remain stagnant or how would it grow?

Manish K Gangwal: Advertisement is something which we have maintained that we will be as Ravi mentioned it will be in line with what competition is doing and what our share of voice will be, but it will largely be in the range of 6% to 7% which means it will grow in line with revenue, if the revenue growth is not happening to the extent or the market is not growing at that extent, we may cut down and keep it within the range of 6% to 7%, so that is something which will be constant in terms of percentage, the figure may go up or down depending on how the market is.

Moderator: Thank you very much. As there are no further questions I would like to now hand the floor over to Mr. Prashant Tarwadi for closing comments. Please go ahead, sir.

Prashant Tarwadi: Thanks a lot for Gulf Oil Management for devoting time for this call. Thanks a lot to all the participants for participating in the call, we really appreciate Gulf Oil management taking time off their busy schedule and organizing this call. Now may I request Mr. Chawla for his final closing comment, Over to you, Chawla sir.

Ravi Chawla: Thank you Prashant. Thanks to all the participants for the call. I think we have tried to share in as much lucidity whatever we have been doing in this quarter. Definitely the positive sign has been for us as the volume growth in the channel business which was stagnant for last year with various challenges. We have had good success with motorcycle segment and an improved margin. I am sure as we look at the times ahead, with the monsoons also coming out quite decently and our tie-ups which are in place now we would look at positive quarters going forward. Thank you so much.

Manish K Gangwal: Thank you.

Moderator: Ladies and Gentlemen, on behalf of Axis Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.
