Gulf Oil Lubricants India Limited

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Dear Sirs

Sub.: Transcription of Conference Call with Investors/Analysts held on 21-October-2016

We are forwarding herewith a copy of Transcription of Conference call with Investors/Analysts held on October 21, 2016 at 04.00 p.m. IST

Kindly take the same on record and acknowledge.

Thanking you

Yours faithfully
For Gulf Oil Lubricants India Limited

Gulf Oil Lubricants India Limited

Vinayak Joshi
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Encl.: as above

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"Gulf Oil Lubricants India Limited Q2 FY17 Earnings Conference Call"

October 21, 2016

MANAGEMENT: **MR. RAVI CHAWLA – MANAGING DIRECTOR, GULF OIL LUBRICANTS INDIA LIMITED**
MR. MANISH KUMAR GANGWAL – CHIEF FINANCIAL OFFICER, GULF OIL INDIA LUBRICANTS LIMITED
MR. VINAYAK JOSHI – COMPANY SECRETARY, GULF OIL LUBRICANTS INDIA LIMITED

MODERATOR: **MR. PRASHANT TARWADI – AXIS CAPITAL**

Moderator Ladies and Gentlemen, Good Day and Welcome to the Q2 FY17 Earnings Conference Call of Gulf Oil Lubricants India Limited 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: Hi, Good Afternoon to 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 performance for the current quarter and then we can later switch to question-and-answer session. Thank you and over to you, Chawla sir.

Ravi Chawla: Thank you, Prashant. Good Afternoon, Ladies and Gentlemen. This is the Q2 Call for Investors. We are happy to share that the Company has continued on its overall fast track growth trajectory in Quarter 2. We have notched up a double-digit volume growth of 10% overall in Quarter 2 last year quarter, that would be that the Company volume in Quarter 2 is around 20,000 KL compared to 18,000 KL of last year Quarter 2. Generally, the July-August-September is a lower quarter on account of monsoons, but we are happy to report this because we have had all round growth in each of our segments, except the Factory Fill business which was under some pressure as we supply to a few commercial vehicle OEMs. So, every other segment has recorded a positive growth and we have also seen that realization has been in line with Quarter 1, excluding our institutional order which we had in Quarter 1. So, overall good quarterly numbers as you must have seen from the results, both operationally and financially. Some of the highlights being that the PAT has crossed Rs. 30 crores and a healthy growth of 28% over last year quarter.

Some of the details which we would like to share with you surely is on the various segments. We have seen that the heavy-duty diesel engine oil segment, the DEO segment has notched up a good growth. We had excellent growth in the tractor segment mainly which was due to also the monsoons being good and our tie-ups with Mahindra and Swaraj and other brands, but also our brands have sold well in the tractor segment which we have. And the diesel engine oil segment also has done well in the OEM dealerships in the market, so that is a good growth for us which is a high single-digit growth. The passenger car segment which has been mentioned to you many times as a focused segment for us also has grown very well, in fact the volume growth in that segment where we have less than 5% market share overall but has been very healthy at (+25%) and against the industry growth of what we have anticipated at 2% to 3% the overall growth has been 10%.

In each of the B2B segments we have grown good double-digit growth. We are also happy to report that synthetic grades are starting to make a mark in the passenger car and motorcycle segment, and that is another reason where the product mix has helped us to maintain our margins. And we have seen some increase in base oils in May-July, but it has been steady for last two, three months, Manish will cover a bit of later and our endeavor has been to maintain the margins, also helped by our better product mix.

One of the things that we have done in Quarter 2 is that our A&P was slightly higher, we have invested in, most of you know the biopic of our brand ambassador MS Dhoni was there, we ran a special in-film promotion and also some retail activations. So our A&P is marginally higher for 7.25% compared to the normal 6% to 6.5%. And the other things that obviously are going on is the OEM dealership businesses across categories that has grown, industrial distributor channel has expanded quite rapidly where growth has been more than 30% - 40%, these are industrial distributors who sell to small and medium industries. We have also seen a good response in the marine domestic where we are today supplying to customers like shipping corporation, other players, so that has also helped us in terms of growth. In terms of the biopic promotions we did, we also launched joint co-branded promotions across 250 single theater screens for four weeks, we had a display contest, so that has also helped us in increasing our secondary sales.

The distribution footprint is expanding. We have got retail base now of close to 55,000 retailers which is a 10% increase from what we started the year. In addition to that we have the branded independent workshops, bike stops and are happy to report that that number has touched close to 5,000, we started the year at 3,800. We have also got branded workshops in independent bazaar for the car segment which were at about 185 in the beginning of the year which have now touched close to 600. So these are some of the fast pace of distribution touch points that is going up for the Company. Our rural stockiest which are the second line stockiest catering to rural areas which were at 140 numbers across India is now across 250, so again we have seen expansion of that and obviously, it will help us in the long-term.

We have launched a new loyalty program for retailers which is really a very exclusive program based on like frequent flyer program, completely computerized called Gulf Unnati which we will see the brand effect of that in the coming periods. And the Chennai plant, I am happy to share, the project is on-stream, we are according to the structural works for pre-engineered buildings which are in progress and ancillary buildings works would begin shortly. And this is what is scheduled to start commercial production by October next financial year.

So, these are the main highlights which I would like to share with you. And again, as I started, the growth trajectory of being ahead of market and the new focus segments, the distribution initiatives, all are progressing well. We have seen some discounting by competition, even we have seen that certain segments discounts have been offered, but that is the easy way out. We have had to had some reaction to that but overall we have not really gone to the level which the competition has gone. We have seen that our brand and our distribution strategies are strong and we continue focusing a lot on that and definitely we are being competitive in certain areas where we do see as a main competitor. So that has really been Quarter 2. Quarter 3 and Quarter 4, the season is generally better. And just to share a few figures with you, our overall volume growth in H1 is 20%, some of you will remember we had institutional order in Quarter 1 which is one-time, even without that our overall growth is 13% to 14% in volume. So that is really the core business which we do and that is all I wanted to share at this time. We will of course open to questions and will also request Manish to add in terms of the financial highlights and other points.

Manish Kumar Gangwal: Thank you, Ravi. Good afternoon, everybody. So, as Ravi mentioned on the back of a double-digit volume growth the financial performance of the Company also continues to be robust with the Quarter 2 EBITDA clocking at Rs. 44 crores, PBT at Rs. 46 crores and PAT at Rs. 30 crores, which is again a 28% growth over last year Quarter 2 PAT. And for H1 we have recorded a PAT of now Rs. 61.4 crores which is 39% growth in the PAT. We have been able to retain the material margin levels and there is an expansion of, again, 300 basis points over last year Q2 which is largely in line with Quarter 1. And we have also published the balance sheet as of 30th September wherein you will see that all the balance sheet parameters, current assets are all in control. The ROC continues to be healthy at 68% and we continue to remain debt free with a net cash of close to Rs. 60 crores - Rs. 65 crores.

So, overall a good financial performance continues on the back of a good business performance. And now we would like to have the questions from the participants here. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: Sir, wanted a take on the entire segment per say, historically because of the drain period interval the growth was never really showing up, last two quarters particularly has been very sharp growth for the entire sector per say. So any particular reason for the uptick and do you see it sustaining?

Ravi Chawla: Yes, so the industry which were at a negative growth about two years back, we did see some positive growth of 1% to 2% in their volumes overall as an industry. And this year I would say six months we have seen that 1% to 2% become 2% to 3% we would say overall. We also have our own trackers in terms of tertiary and secondary sales, so we are seeing the overall industry go up. And I would say that definitely in terms of the movement of commercial vehicles, I would say the personal mobility, cars and bikes also and scooters, so diesel engine oils, tractors, there is some pickup in terms of overall market to that extent.

Raj Gandhi: It is more broad based across CV, passenger and everything?

Ravi Chawla: Yes, so we see that the first segment that went well was the personal mobility, so certainly cars and bikes and scooters, but now we have seen also that diesel engine oils, whatever vehicles have been sold over the last one, one and a half, two years are also coming in for service changes and that is helping.

Raj Gandhi: And the sustenance of this kind of growth sir?

Ravi Chawla: Yes, I think the second half generally tends to be positive also in terms of that, and overall even the macro factors are showing a positive trend.

Raj Gandhi: And sir, like in two wheelers we had a fairly good success in terms of gaining market share and last two, three quarters back you started with passenger cars, so just if you could share the initial success, the initial experience with that?

Ravi Chawla: Just before that I would like to add that the monsoon is also helping, we mentioned the growth. Certainly the first season has come now, September being the first season and we have seen a good lift of tractor oils and as we have also the OEM tie-ups. Coming back to your question on motorcycle oil, there is a bit of price competition in that segment now, but scooters is growing well and we are expanding our bike stops, which are these independent workshops, so we are seeing growth there. Plus the rural distribution we are putting in place is also helping us. So there is a bit of competition there, I would say in the motorcycle. But passenger cars for us has been a new area of growth because though we have been present we have not really had a very sharp range and a sharp focus. So that has helped us. And as I mentioned for us, passenger cars where we estimate we have got 4% - 4.5% market share in the bazaar, we have seen a good 25% increase in our range. And also within that 25% we have seen that the two, three synthetic grades we launched that is getting well accepted, they are very small figures at the moment but obviously we will build on that.

Moderator: Thank you. We have the next question from the line of Manish Kumar from HSBC Capital. Please go ahead.

Manish Kumar: My question is related to what you mentioned on pickup in synthetic rate, particularly in the motorcycle and passenger car segment. What has been the experience in the heavy vehicle or commercial vehicle segment in moving the truckers of the transporters from fairly low grade lubricant to high grade and potentially synthetic, if you could throw some light on that? And what is the potential, what is the potential in that segment for high grade lubricant and synthetic?

Ravi Chawla: So, right now in the diesel engine oil heavy segment the mineral based products, they are providing a long drain. So when we talk to our technology experts also, the situation in India today is that we already have a 80,000 kilometer oil and that is at a good price also, so really the truckers have been using the engine oils for say about 45000, 50000, 55000, 60000, they have still not gone to the 80,000 level. So for them to see a great value add in a synthetic grade, so if you see synthetics are of two types, one is mineral based synthetics which in a way we also have a semi-synthetic in a long-drain and then you have the pure synthetics which is PO Aster based. So PO Aster based products tend to be very expensive. So right now we see that with the drain intervals that the products are giving mineral, there is no real motivation for the truck driver to go for the fully synthetic. So right now we could say that synthetics in truck will still take some time, whereas in the two-wheeler and car, obviously the engine technology and the adoption of these grades has become easier because also the cost is more. In the truckers case the cost is the cost of operation, in the passenger car and bike it is more a commuters cost. So truckers will still take time to get to the higher synthetic grades.

Moderator: Thank you. We have the next question from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir, I have three questions. One on the volume growth side and the revenue growth side, the volume growth and the revenue growth matches, so there is no evidence of price lead growth which was still there until Quarter 1, so if you could highlight that part. Second question is, when you are referring to price competition by competitor, you are specifically referring to pricing actions in two wheelers?

Ravi Chawla: I will take the second question first, Manish will come back with the first one. So, price competition, yes we are seeing it in some price of the two-wheeler segment, as you rightly spotted. The other is, we are also seeing in the diesel engine oil some of the players at the higher grades of diesel engine oil dropping the price significantly. So it is in both I would say in diesel engine oil and in motorcycle we have seen this happen.

Pritesh Chheda: So, your response is correspondingly lower price offs or low price offs?

Ravi Chawla: No, it is very selective. We announce a quarterly scheme which is the trade promotions, etc. We would be very selective, for example we have done something in the motorcycle but diesel we felt it was not right for us to do it, so it is a selective response.

Pritesh Chheda: Any reason why it is a selective response?

Ravi Chawla: No, it depends on the market situation. So depending on what we feel will impact our volumes, we would also not like to change our price positioning drastically because one or two competitors are doing this. It would be selectively as to what we feel will impact us and also what we believe can result in our offering to the trade being at a good level.

Pritesh Chheda: Is it Castrol for that matter?

Ravi Chawla: I would not comment but it is a mix of competition, it is not only one player. See, we are priced below Castrol, as you mentioned, but we are also with the other group of players who are slightly below us. So we have to manage both the price points.

Pritesh Chheda: And about pricing growth not evident…

Manish Kumar Gangwal: Yes, so last one and a half year actually the base oil has come down from the highs and the discounts have to be passed on to customers. Usually the industry was taking always some price or realization better than the volume growth, but last 18 months you will see more or less the volume growth is driving the revenue growth rather than the realization or other factors. So, basically Quarter 1 also and Quarter 2 also you will see that volume growth and realization growth is similar.

Pritesh Chheda: And my last question is, with your focus on PCMO and also on mobility side, is it fair to assume that your efforts to drive higher growth in this part would necessarily mean that you would be in a situation where margins continuously expand for the next three, four years. First of all, is that assumption right? And second, if that assumption is right then what kind of margin traction should one look at on a year-on-year basis?

Ravi Chawla: So, in the motorcycle area we have reached a fairly good position, we are close to 9% market share in the bazaar segment. So there of course the growth will be slightly limited. But in the passenger car we are sub-5% share, so obviously we are looking to grow our share maybe by a 1.5% every year at least, internally we plan to do that aggressively. But the question is going to be on the margin that comes in from these new SKUs, also you require some investment in making it happen, for example advertising, etc. But as a trajectory, once we see these categories going up, certainly there will be a margin positive. Now our endeavor always has been to balance margin with volume growth, so it is possible that we will also take some volume opportunities in the OEM or the other side which may balance out the margin maybe, but our objective is to make good volume market share growth and maintain a good margin. So I think we have balanced it both.

Pritesh Chheda: Would you like to indicate us what kind of margin expansions there is possible on an annual basis on this portfolio mix?

Ravi Chawla: See, when we try to increase a particular portfolio we obviously want to look at margin gains, but it all depends on competitive pricing. If you ask me now the current pricing, if you see some competition bring down the pricing then obviously, it affects the category. So, at the moment we want to do both. If you ask me, I would like to grow volumes than margins, why not.

Moderator: Thank you. Our next question is from the line of Abhishek Laxminarayan from Catamaran. Please go ahead.

Lakshmi Narayanan: Sir, I have two questions. One is, if you look at on a six months' basis, what has been the volume growth on the personal mobility segment which is cars and two-wheelers? And second question, you mentioned the price competition coming in, right. Now, just want to understand, price are changed by region basis or is it like a pan-India the price competition is there, how does the price thing work? If you can just help me understand these two parts it would be good.

Ravi Chawla: So, there has been some discounting which his normal but it happens in all segments across, it is not that it is happening newly is that the motorcycle segment has been impacted by pricing, so we have actually grown single-digit there overall in terms of H1.

Lakshmi Narayanan: That is in terms of the volume growth, right?

Ravi Chawla: That is right, for us. So we are close to a double-digit figure there and normally we would like to do more there. And passenger cars for us has grown 25% as we mentioned.

Lakshmi Narayanan: In volume terms?

Ravi Chawla: That is right. But again in low base. And to explain your second point, you see the overall positioning of the products at an all India level is something which each company has but there is no very special region wise inputs. In some regions you see some competition would announce a special initiative like a retail tie-up or anything. So there are some pockets where we know which competitor does what, where. So we have to sometimes adjust but we generally follow an overall broad policy for the country.

Lakshmi Narayanan: And on the two wheelers, what is the volume growth you mentioned, is it a single-digit or double-digit volume growth?

Ravi Chawla: No, it is close to double-digit but it is not 10, it is below 10.

Lakshmi Narayanan: And what about the industry for both cars as well as two-wheelers?

Ravi Chawla: Industry, AC Neilson whatever we are tracking would be about 3% to 4% for two-wheeler and the car would be about 6% to 7%.

Lakshmi Narayanan: And the other question related to the crude and derivative, base oil etc. On an index of 100 what has been the price for us now for the half year? And then if you actually look in for the full year, what kind of a budget you are actually operating at?

Manish Kumar Gangwal: So, base oil you are right that it follows a crude oil pricing as a trend, but we have mentioned in our earlier calls as well that there are different grades and grades of base oil and each grade has their own demand-supply mismatches sometimes which lead to some sort of price deviation from the trend, so that continues in this H1 as well. But as a trend, now that crude has come up from the lows of $30 to nearly now stabilizing around $50 - $55, base oil also has increased from June onwards, but now it is more or less stable for the last two months before this new wave of crude oil increase from $46 to $52, because there is a lag effect of two to three months, so we will have to really see where base oil goes after two months.

Lakshmi Narayanan: And in your index to April 1 what is the thing you are actually operating at for the full year, what is the kind of budgets you are looking for?

Ravi Chawla: So, there is an increase of close to 7%, 8%, 10% in certain categories, there are different categories and as I mentioned it is very difficult to quantify a single percentage. But so far last two months have been fairly steady, in fact base oil slightly came down from the highs of July. So it depends, but some of the major refineries if they announce a shutdown, suddenly the base oil goes up. So it is very difficult to say but we have seen that we have been able to maintain the gross margin levels in Quarter 1 and Quarter 2 and we hope we will be able to continue with that kind of current levels of cost structures going forward at least for the next two three months, because we carry inventory for two to three months as well.

Moderator: Thank you. We have the next question from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.

Swanand Kelkar: A quick question, I think you have done a very commendable job of growing much ahead of the industry and two to three times is what you have always alluded to on the back of distribution deepening, etc. What I wanted to check was, for the next few years do you think you can still aspire for the same kind of growth which is much ahead of industry and what would be the factors which will help you achieve that growth?

Ravi Chawla: So, yes we have got a lot of white space we see in our market share still in terms of segments and also the segments where we have strengths certainly we see that there is headroom for various other products, various other new technologies where we are not present in a big way, just to name synthetic as one of them. Our distribution strength, we still have a reach which has a long way to go in terms of our brand, our brand today we see that the investments we have made in the brand have given us, just to give you one statistic, our brand consideration when we ask consumes what are the top two brands you would like to buy, Gulf is mentioned by close to 60% of them. So if you look at that statistic that the brand has got consideration, but it has to be available. So increasing our distribution and our distribution is today only at one-third of the urban universe, plus rural is another piece which we are also pushing. So, distribution touch points is important, we do that well and we have been focusing a lot on that, a lot of our efforts in the last two years has been to make it, we are now linked with our distributors online in what they bill. The ways of working has been improved, we have also got talent coming into the Company in this area to further strengthen how we do our distribution. So there is white space available, definitely we think what we do in the market besides the key five strategies of technology, brand, distribution and passion, I think we definitely see that as a player in the industry we are working harder and stronger and higher, in fact that is our theme for our retail Udaan, higher, faster and further. So, I think all of this we are pretty confident that we have white space till for us, plus in the PCMO segment, the CA segment where we have less than 5% market share, tractor again where we have less than 5% market share, we believe those are the areas where certainly allows us to grow well ahead of the industry.

Swanand Kelkar: Sir, 55,000 retailer number which you mentioned, if I got that right, you are saying that still has a headroom to grow?

Ravi Chawla: Yes, so like I told you 60% want to buy our product, so if you take the universe of 175,000 we should at least be in 60% just to match that.

Swanand Kelkar: Understood. So 175,000 into 60%?

Ravi Chawla: That is right, that should be the base we want to build. Of course, this is just a theoretical number, it also means that you need to see width and depth of distribution.

Swanand Kelkar: Absolutely, just to get a sense of the number.

Ravi Chawla: Yes. So there is white space and we are pretty confident that we will be able to really look at taking the market shares up.

Swanand Kelkar: Sir second question was, with the strong volume growth which has come through now double-digit running for two quarters, do you feel sometime in the second half which is again much better than the first half in terms of volumes, you will face a capacity constraint at your Silvassa plant?

Ravi Chawla: No, we are at 90,000, so we are very well equipped to meet the demand even if it goes to a higher level.

Swanand Kelkar: So that is not a challenge?

Ravi Chawla: Yes. And 90,000 is two shifts, so we can have another half shift added.

Swanand Kelkar: With the upcoming emission norm changes, I mean, for BS-IV for commercial vehicles and eventually BS-VI, what implications does that have for the lubricants industry?

Ravi Chawla: So we are a global brand, as you know our technology team also does entire global work. So we have all the products ready for the next stage already tested with the OEMs and we hope to see that the BS-IV implementation will also give a demand for the commercial vehicle segment. And we are very well prepared. In fact, we are ready for BS-VI also.

Swanand Kelkar: And is that shift in general margin accretive, is it realization accretive?

Ravi Chawla: Yes, that would help in terms of margins.

Swanand Kelkar: In terms of better realization?

Ravi Chawla: Yes, but again it depends on competitive level what they do, but per say yes it definitely improves the margins.

Swanand Kelkar: Last question from my side, now with a net cash balance sheet with your CAPEX getting in a year's time, would you think about a formal dividend policy?

Manish Kumar Gangwal: So, Mr. Swanand you know that SEBI has anyway mandated a dividend policy to be announced, so which we will be considering in our upcoming next Board meetings and we will announce the dividend policy.

Moderator: Thank you. We have the next question from the line of Abhishek Datta from Prabhudas Liladhar. Please go ahead.

Abhishek Datta: Sir, I just wanted to know how are the PSUs shaping up their campaign to meet the growth opportunities? I hear that HPCL is aggressively eying the lubricant markets, so what is your sense about their competition?

Ravi Chawla: See, Abhishek the PSUs already have 40% share in the overall lubricant market, so they are already there in every segment you can imagine they are there. So it is not something new they are doing, we do not see any new things that they are doing in terms of, but they continue doing there whatever they are strong in. And generally the market is as you know very competitive, so all the players are anyway there, they have been there for decades now. So whatever we have seen, there is no change in terms of what they are trying to do with the market place.

Abhishek Datta: So, if you can give some color on the competitive intensity, like PSUs have 40% market share, how are the other players and how do you stack over there sir?

Ravi Chawla: So amongst the private sector players we are number four, so obviously PSUs have got the highest volumes overall. And you have, I would say, after the PSUs there would be another 10 - 12 brands which are significant, and we would be stacked up number four. We are close to the number two, three and obviously Castrol, the private sector player is the market leader amongst the private sector. And that is how we stack up, number four in the private sector.

Abhishek Datta: So if you can give the market share, how Castrol and your market share stacks up?

Ravi Chawla: So, in the bazaar market Castrol has about 21% market share, that is what we estimate, we are at 7%.

Moderator: Thank you. We have the next question from the line of Pravesj Jain from IIFL. Please go ahead.

Prayesh Jain: Sir, could you give us breakup of your volumes in terms of segments for the H1 what will be the breakup of volumes vis-à-vis the full year number?

Ravi Chawla: See, our sales in terms of automotive and industrial, if you take the product classification is 80:20, this is a product classification. If we take it segment wise, so we may say 80:20 is automotive products and industrial products. Now within this if we take the 100 again, 40% - 45% is generally DEO, generally, and motorcycle is about 19% - 20%, CCMO is 4% to 5%, industrial grades are 12% to 14% and the balance is others which is we have metal working fluids and other types of gear oils, greases. So that is the split.

Prayesh Jain: And sir if you could indicate in terms of margins how was, possibly not the exact margin but in terms of ranking?

Ravi Chawla: See, in terms of ranking we cannot give you ours, I will give you industry norm which gives you an idea. So if you have B2C to your left and B2B to your right, when you move from left to right your margin comes down, so imagine B2C to your left and B2B to your right. And on top if you put the range, the best margin would be in the passenger car motor oils and then again you can break that up to synthetic and mineral. Same thing you can do in the next column would be motorcycle oils, then followed by your diesel engine oils and then you would go into the gear oils, grease and specialty. So that is how it moves. But it can also vary based on what kind of tie-up you have with the OEM, it can also vary on the segment you are going to, so it varies. But per say, if you have a long drain product you could get a premium on that, so it all varies in terms of also the product offering.

Prayesh Jain: And one more question, sir what kind of volume growth you are looking in the second half of this fiscal?

Ravi Chawla: So, as we mentioned we have grown 20% volume in H1, but if you take out the one-time institutional order our growth is 13% to 14% in volume. And generally we follow internal, our internal targets are to grow two to three times industry in the segments we are playing. So we would be obviously striving to get a good double-digit growth and of course 13% - 14% is also an excellent growth as we see it.

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

Raj Gandhi: Sir, just on this advertisements and promotions as you mentioned this quarter it was higher than trend, so do you expect this to continue over next few quarters?

Ravi Chawla: So we would be around 6% - 6.5%.

Raj Gandhi: So it was just a quarter phenomenon wherein you ran the campaign?

Ravi Chawla: Yes, we had invested in the movie, as you know the movie was a big release and 6% to 7% is our range. And of course we do a share of voice analysis, so based on the segments in which we advertise, we have an agency, every quarter we review the figure. So if we find that we do have to put in more investment, we will not hesitate. But at the same time this has been more or less a general range we have been working on.

Raj Gandhi: And just you mentioned other brands also coming with offers, Castrol is a known competitor, any other smaller players, any other brand ramping up pretty quickly in the market?

Ravi Chawla: So we have some of the price players, I would not like to name them, but they are resorting to some discount to try to get volumes.

Moderator: Thank you. We have the next question from the line of Samir Kapadia from Fortune Interfinance. Please go ahead.

Samir Kapadia: I just wanted to know what is the current utilization?

Manish Kumar Gangwal: 85%, close to that in Silvasaa.

Samir Kapadia: And in terms of the Chennai project, how is it going to phase out in terms of operating capacity?

Manish Kumar Gangwal: So we are looking at a 40,000 tons to 50,000 tons of capacity there in Chennai and the project is on schedule and we hope to start commercial production sometime in end of Quarter 2 or early quarter three next year.

Samir Kapadia: So like that 40,000 tons - 50,000 tons would come again in FY18 only or it would be in the phases manner which I was trying to understand?

Manish Kumar Gangwal: So, initially we will start with 40,000 tons and obviously we have mentioned that our South India requirements then we will start catering from Chennai plant to obviously have some freight savings, etc.

Samir Kapadia: And can we just throw out some light in regards with the GST implication which you would be facing?

Manish Kumar Gangwal: So, we are still looking at the law to come out first. We are a supply and distribution lead company, so distribution obviously, GST helps in distribution everybody knows, so it should be positive for the Company.

Samir Kapadia: What is the current practice overall, like currently which you are paying?

Manish Kumar Gangwal: Currently, our excise duty is 14% and VAT is of course different in different states, but on an average we can say it is 14% to 15% on an average.

Samir Kapadia: So net-net if we come into the 26% brackets it would be neutral for us?

Manish Kumar Gangwal: Yes, if it is in the highest bracket of 26%, we do not know as of now the classification where it will be. So depending on standard rate or a higher bracket rate we have to see really where it is. And then obviously the competition, how much of it is obviously passed on to the consumers.

Moderator: Thank you. We have the next question from the line of Tarun Lakhotia from Kotak Securities. Please go ahead.

Tarun Lakhotia: Firstly, I would like to congratulate for the commendable performance on the volume side, your volume growth still continues to be fairly strong. Can you just give your perspective on the pricing discipline which we are seeing in the industry for the last year or year and a half despite the fact that crude prices have corrected, we have only seen some increase in discounts and channel commission, nothing no significant change on the retail prices. Now, assuming say crude remains steady or starts rising going forward, how do you see the pricing environment for the next two, three years?

Ravi Chawla: So, your first part in terms of pricing discipline, obviously in the industry we have seen that different players will have different strategies. Overall, nothing has changed major but some of the players in terms of volume gain have put in some extra discounts and some have succeeded and some have not for whatever you can see in the market. We have grown our business so we continue with our strong strategies, sometimes we do have to react in certain segment, for example motorcycle we mentioned normally would grow double-digit, but that has been impacted. But we are trying our distribution very aggressively. The increase in cost had come in, as we mentioned the industry generally is quite disciplined but if there are significant increases in cost then those are passed on. In fact, in the case of B2B there is a price variation clause and in the case of channel if there is a significant increase it is passed on with a lag time, normally there would be few of the market leader people taking it up and then the other people would follow one or two months later. And in case there is a price decrease, that also happens sometimes in some manner but generally industry tends to gain both ways.

Tarun Lakhotia: So, say if crude were to increase from current $50 level to say $60 - $65 in next couple of years and settle out there, can we expect the gross margins or EBITDA margins to remain in the similar range what we are earning right now?

Ravi Chawla: So, if crude goes up and if base oil as we said follows the lag time, so if base oil goes up by the similar proportion so you are talking about an increase from say $50 to $65 which is a 30% increase, or $55 to $65 whichever way you want to look at it, then there will be increase in the cost and we would expect that the industry or industry generally would take up the prices. If it does not, then obviously it will impact the margin. So there are two ways to recover the margin, one is you improve your mix or you reduce your expenses or you take the prices up. So, a combination of all the three will be required and if in case the industry does not take it up then some of the players have to decide what is the pricing.

Tarun Lakhotia: Last question from my side, so you are seeing some improved traction on the synthetic side, right. So what kind of opportunity do you see specifically for PCMO or motorcycle oil segment, I mean, in say two, three or five year horizon, what could be the percentage of synthetic oils in these two segments?

Ravi Chawla: So, we would see that at least from the overall two-wheeler and car, car will be more. At least about 10% will come from synthetics.

Tarun Lakhotia: Broadly in the same range for both segments that is?

Ravi Chawla: So more in the car, 10% would be more in car and motorcycle will be slightly less.

Moderator: Thank you. We have the next question from the line of Nihal Jha from Edelweiss. Please go ahead.

Nihal Jha: Three questions from my side. Firstly, segment wise wanted to understand, in the two-wheeler segment you somewhere said that our market share has now reached a descent 9%, so you think now the visibility is for a high single-digit only or you think this pricing action has something which drove this volume to single-digit and it was temporary and we look at some pricing action to resort back to that double-digit kind of a growth?

Ravi Chawla: Well, coincidently our market share also is similar to the growth number we have got, so 9% is our market share and our growth has been single-digit as we said. So, we do not think that the pricing action is required, the pricing action taken by competition has passed over now, it has been changed by the competition. So we are hopeful that November onwards there is no further pricing action required and we will be able to get back on our growth journey. But again, as we sit here we do not know what will be announced in November but whatever competition had done, the major competitors we look at, they have rolled back their price in the month of October.

Nihal Jha: Now coming to PV segment, just wanted to understand, as you said across segments we have seen this pricing action except PV. So I know, I mean, we are very small and there is a huge way to go for in terms of increasing our distribution reach, but if there was very aggressive pricing action we believe with this kind of base, 20% - 25% can continue?

Ravi Chawla: Yes, we are in fact looking at a higher growth because we have a small base and some of the people in the PV who are resorting to pricing actually they are not the major players. So we are hoping that, in fact we are growing, we have recast our portfolio so our portfolio is quite well positioned in terms of pricing also and we believe that distribution and other promotions etc will help us to continue having this growth rate.

Nihal Jha: And lastly, just on the CV side just wanted to understand, while the CV cycle has been picking up, but do we see this kind of a double-digit growth sustaining? Because obviously we keep saying the drain intervals are increasing structurally and what phase of the cycle are we would you say?

Ravi Chawla: So, commercial vehicles certainly the vehicles sold in the last two years that is coming in for the service intervals and that is helping us also in terms of growth. And mining and infrastructure also is picking up, infrastructure particularly road building. So there again a lot of diesel engine oil is consumed. And these two would, if it improves on a macro level certainly we see a positive because we have close to 350 customers who buy oil for us for road building, etc. And again, when we look at diesel engine oils, tractor, I mentioned it, is also consuming diesel engine oil and that is seeing a good growth because of the monsoons being favorable. Plus, in addition to that we have got tie-ups with two key OEMs, Mahindra and Swaraj where we supply the oil to the dealerships and the bazaar for them.

Nihal Jha: And just a follow-up on the CV side, as you said now the CVs are coming up for servicing, so the growth pickup that we have just started seeing should continue for some more time, right?

Ravi Chawla: Yes, yes it will.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to the Management for closing comments. Thank you and over to you.

Ravi Chawla: Thank you, Prashant. Well, we have tried to share with all our investors what we have achieved in Quarter 2 and also give you a view on what the various segments are doing. Definitely the Management Team and the entire outlook of our strategy is that we see a strong robust period ahead. We are also hopeful that both the seasonality is over now with the monsoons gone, so we will see a good traction across segments. And except for the OE factory fill where we still see some challenge, most of the other segments we see are good positive take up. And some of the initiatives we have put in in distribution, in terms of loyalty programs, etc, we see that also taking a major impact. Some of you who must have seen, we have also launched a very good signage program in certain pockets across India to again look at how the visibility, and that is one of the most important aspects also besides the brand advertising. So that also hopefully will give us definitely more brand recognition and market share. So look forward to that and thank you once again for all your support. And if any of you have any other queries, of course you can contact us. Thank you.

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

All forward-looking statements are subject to risks, uncertainties and assumptions that may cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that may cause actual results to differ materially from our expectations include, among others General economic and business conditions in India and other countries, Our ability to successfully implement our strategy, our growth and expansion plans and technological changes, Changes in the value of the Rupee and other currency changes, Changes in Indian or international interest rates, Changes in laws and regulations in India, Changes in political conditions in India, Changes in the foreign exchange control regulations in India and the monetary and fiscal policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally. We do not have any obligation to, and do not intend to, update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not materialize.