**Gulf Oil Lubricants India Limited**

May 18, 2017

**BSE Limited**
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400001
Tele.: 91-22-22721233/4, 91-22-66545695
Fax : 91-22-22721919
Email: corp.relations@bseindia.com
**Scrip Code:538567**
**Scrip ID: GULFOILLUB**

**National Stock Exchange of India Ltd.**
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E)
Mumbai – 400 051
Tel e: 91-22-26598235/36
Fax : 91-22-26598237/38
Email.: cmlist@nse.co.in
**Scrip symbol: GULFOILLUB**

Dear Sirs

**Sub.: Transcription of Conference Call with Investors/Analysts held on 17-May-2017**

We are forwarding herewith a copy of Transcription of Conference call with Investors/Analysts held on May 17, 2017.

Kindly take the same on record and acknowledge.

Thanking you

Yours faithfully
**For Gulf Oil Lubricants India Limited**

Vinayak Joshi
Company Secretary &
Compliance Officer

Gulf Oil Lubricants India Limited

**Gulf Oil Lubricants India Limited**
**Registered & Corporate Office:**
IN Center, 49/50,
12th Road, M.I.D.C.,
Andheri (E)
Mumbai - 400 093, India
CIN: L23203MH2008PLC267060

Tel: +91 22 6648 7777
Fax: +91 22 2824 8232
Email: info@gulfoil.co.in

**www.gulfoilindia.com**

HINDUJA GROUP

"Gulf Oil Lubricants India Limited Q4FY17 Results Conference Call"

**May 17, 2017**

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

**MODERATOR:** **MR. PRASHANT TARWADI -- AXIS CAPITAL LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day, and Welcome to the Gulf Oil Lubricants India Limited Q4 FY 2017 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' followed by '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 Con-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 the financial year ended March 2017 and then, we can switch to question-and-answer session.

Thank you very much gentlemen for devoting time. And over to you, Chawla sir!

**Ravi Chawla:** Thanks, Prashant and Good Evening, to All of You on the Call. And Welcome to the Call for Quarter Four for the Financial Year 2016 - 2017.

Well, we have ended the year and quarter four at a good point I would say with the highest profit we have made in terms of PBT nearly Rs. 50 crores, Rs. 49.5 crores. And also, revenues are all time high for us. Sales (gross) revenues coming at Rs. 346 crores.

On the business, itself we have seen that the growth trajectory we had for the three quarters has been maintained. The market growth is still looking at 2% - 3%. But we are happy to share that quarter four again we continued the run and we take out the base effect of the institutional order our volume growth has been 10% plus for the quarter. So, that has been a good growth.

Obviously, for us all the segments have grown well, we have also seen good uptick in the new OEMs, the factory fill and particularly that the personal mobility for us grew at (+20%) and synthetics we are literally doubling our base of synthetics. So, that has been a positive thing for us this quarter.

And I am happy to share that again with the volume growth we have maintained our strategies where we have grown well ahead of the market growth rate which 2% to 3% we are looking at the market volume growth. And we are ending the year on high note which is again a double-digit growth. And as you see from the numbers the annual numbers PBT and PAT are up 20.7% and again, revenues are also up 11.8% for the year. So, that continuous.

Quarter four we did see a good momentum in Passenger Car where we launched a promotion Manchester United, the whole global property we leveraged here. New dealership businesses with Bajaj again B2B all these have grown positively for us and we are very happy to share. And of course, Manish will highlight on the announcement the board has recommended the final dividend and other such gains overall.

So, really happy to share that this quarter has again continued and as we look ahead we want to further take on our strategies, we are expecting growth to be slightly better by a percentage point at least in the coming year. And we will continue to focus on our strategies where we look at going far ahead of the market growth rate. There are many segments in which we are focusing. I mentioned the personal mobility where we are looking, not only two times to three times but much higher growth for us. And all the OEM tie-ups are going well.

Chennai plant I would like to share the construction is progressing well as per our expectation and we will be going on stream as planned in quarter three of the this financial year and that is also going well in terms of, we are also fully geared up for GST. And of course, we are still waiting for the rate announcement. But internally we are gearing up and keeping all the internal and external people briefed on what is happening on GST in terms of the brand. Of course, the quarter four has ended but we have gone onto the IPL and the team Pune which we sponsor is also doing well, so it is coming on a high note. And we feel that performance definitely on a high note for the organization the brand and the businesses.

Thank you so much. Manish?

**Manish Kumar Gangwal:** Yeah, thanks Ravi. Good Evening everybody. So, as Ravi mentioned, the quarter four has been excellent for us in terms of both top-line and bottom-line and with that also we have closed the year about Rs. 1,300 crores of gross sales which is again for the first time we have been able to achieve that.

And other positives have been foreign exchange has been favorable, so you will see the finance cost coming down over last year from Rs. 17.78 crores to Rs. 9.73 crores this year full year basis, so that has been a positive where foreign exchange has been able to help us. In addition, we continue to have a healthy balance sheet which is debt free. We have a net cash of close to Rs. 110 crores today which we will utilize partly for Chennai expansion. And with that, high ROCE and ROE continues for the company.

So, the board have recommended final dividend of 250%, Rs. 5 per share and with the interim dividend declared earlier at 175%, Rs. 3.50 the full year dividend is clear at Rs. 8.50 subject to the shareholders' approval of the final dividend in the coming AGM. So, overall, Rs. 24.40 EPS for the company out of which Rs. 8.50 dividend has been declared so, it come close to 42% if we include the dividend distribution tax.

So, this has been overall a positive year for us and we would now like to have Q&A please.

**Moderator:** Thank you, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from Sneha Prashant from HDFC Securities. Please go ahead.

**Sneha Prashant:** Sir, I just had one question, what would be your margin in the B2B and B2C business?

**Ravi Chawla:** Manish, you want to take it?

**Manish Kumar Gangwal:** See, the margins in B2C are usually higher than obviously B2B but there again it depends on the segment, which segments we are catering to. So, within B2C also there are very sub segments like Diesel Engine Oil, Passenger Car, so personal mobility usually has a higher margin, as compared to the Diesel Engine Oil segment and then followed by B2B businesses which there and then last comes when the table the STUs and the government businesses, etc., so that is pegging order for margins. It is very difficult to disclose how much margin in each segment. But it is a combination of various factors product mix and B2C plays a very important role. As per our focus on personal mobility over the last seven years - eight years have yielded good results in terms of margin expansion. And we can see clearly our Motorcycle Oil growth has been significant ahead. Passenger Car again it is a good margin segment we have started focus last two years and we are doing well there.

**Sneha Prashant:** Okay. So, there is no number that you can really go to as in what would like even a ball park even a range if you can give because on a blended basis we have 15.5% kind of margins. But what would be typically the split between the two.

**Manish Kumar Gangwal:** That is very difficult to share the separate margin structure for each.

**Moderator:** Thank you. The next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

**Raj Gandhi:** Sir, you mentioned that the underlying volume growth is 10% adjusted for that base effect of a bulk order. Possible to give what the headline volume growth for that for the quarter?

**Manish Kumar Gangwal:** Headline volume growth is 3.5%.

**Raj Gandhi:** Okay. And for the full year?

**Ravi Chawla:** Yeah, so full year 10% plus. Manish 10% - 11% it is…

**Manish Kumar Gangwal:** Yeah. 11%.

**Ravi Chawla:** 11%.

**Raj Gandhi:** So, next year as you mentioned your target is to grow 1% higher, so 12% is what the company aspires to for the next year.

**Ravi Chawla:** See, we have at the market growth we are anticipating in 2016 - 2017 we are estimating it is about 2% - 3% volume growth. So, our trajectory to be has been at least two times to three times. So, we obviously the internal budgets we are working very hard on see how we can maximize our growth. If you look at it broadly, if the market is 2% to 3% it goes to say 3% to 4% next year and there are different segments which grow differently. So, we would definitely like to go ahead of what we are tracking, definitely looking at a better positive thing on the market growth. But there would be challenges on GST, there will be plus and minus we do not know exactly as you are fully aware in any industry. But certainly, as I mentioned to you there are certain segments like we mentioned personal mobility, we have already this quarter also 20% growth in that segment. So, we are quite looking at positive trend in terms of growth.

**Raj Gandhi:** Just one more thing, like you mentioned the headline growth is 11% for this year but what is the underlying growth ex of this bulk order, so when you say 1% higher it will be over and above.

**Ravi Chawla:** 11% is including the bulk order for that.

**Raj Gandhi:** Right. And ex of bulk order on a underlying basis what is the volume growth.

**Manish Kumar Gangwal:** So, Mr. Gandhi it is both same. Because last year also we had some institutional order in the last quarter and this year first quarter also we had that continuing. So, that neutralizes, so both actually for the full year both remains 11%.

**Moderator:** Thank you. The next question is from the line of Prayesh Jain from IIFL Wealth. Please go ahead.

**Prayesh Jain:** Sir, just one thing, what is the break-up of the volumes now for FY 2017 in terms of B2B and personal mobility and Passenger Car, Motorcycles, what kind of break-up is there for FY 2017?

**Ravi Chawla:** Manish?

**Manish Kumar Gangwal:** Yeah, so more or less the break-up remains similar to what it was a year before and we had close to 42% Diesel Engine Oils in terms of our product mix, 42% Motorcycle Oil continuing at close to 18% that Passenger Car Motor Oil also around 4% to 5%, other Gear Oil Greases etc., are 18% - 19% and rest is industrial which is again close to 17% - 18%.

**Prayesh Jain:** Okay. And sir, next year where do see like with GST coming in and commercial vehicles being spoken about as they might see some pressure. Do you see that the personal mobility segment might see a much faster growth than the other segments for you?

**Ravi Chawla:** So, if I can answer that see, the growth segments as in the market growth rates we are seeing definitely more Commercial Vehicles have got sold last year, so hopefully they will run more. So, we have two types of businesses, one is the factory fill and then the other is the consumption when the vehicles are running. So, we are at least optimistic that definitely if the economy picking up there would be more moment of goods and more construction happening, road construction, mining, so that will help more to sell more in the Bazaar and the dealerships which is also good for us because there the margins are better. Our factory fill may come down because as you rightly said BS-IV coming quarter one will be challenging for the factory fill and though we have tie-ups and we of course in our case we have new tie-ups coming in also. So, the market growth, personal mobility again, car there should be good consumption a little more than last year, Scooters are doing well, Motorcycle has also started picking-up. So, there will be more consumption, may be a percentage to more than what it was last year across segments. But our strategies are to now obviously leverage the new businesses we have got for example, Bajaj, Mahindra the monsoon season with 100% monsoon expected. We have already started our promotions on the ground. So, we are looking at a growth industry related but also pressing our levers where we look at growth. So, we have been talking a lot about personal mobility and I just mentioned to you that our personal mobility has grown 20% in quarter four. So, obviously, PCMO with a low base and Manish mentioned to you PCMO is 4% to 5%. So, there we would like our 4% to 5% to grow well above the normal market share gain. So, market share gain is say about 0.5% or 0.7%. So, we would like to see our PCMO growth double of that at least in terms of market share. So, we are pushing our levers and we expect some positivity in growth overall percentage or 2 percentages in certain segment. And for Gulf Oil we have been focusing a lot on we are not losing focus on the segments where we have got strength, for example, Motorcycle where we have got 18% - 19% of our mix, we definitely are pushing the Scooter category where we got more market share to gain. Example in the south that geography, our Motorcycle share is not very high in south. So, we are pushing there. So, there are various you know calibration and strategies which we have.

**Prayesh Jain:** Okay. And in terms of investments or you know with the Bike stops and where are we now in terms of numbers?

**Ravi Chawla:** Yeah, we are doing very well in that and we had updated you in the last call, but just to share a quick update on that. That is going on track quite well in terms of so we have taken our Bike stops up to about 6,000 in this year, so we were at 4,000 last year so that is real good increase. Car stops we are closing at 900 it was 200 just a year ago and Gulf rural stockiest we were at 123, we have gone to 400. So, that is the kind growth we are seeing in the distribution and that has been one of our building blocks for the last two years - three years this is there. So, obviously this distribution will also help us to look at the growth in terms of multiples of what the industry is doing.

**Prayesh Jain:** Okay. Sir, in terms of CAPEX the Chennai plant how much have we done and how much is left so far?

**Ravi Chawla:** Yeah, Manish can you update?

**Manish Kumar Gangwal:** Yeah, so we have spent already close to Rs. 75 crores. And as you see we have taken up some advance technologies in terms of blending which was decided slightly when we last gave the con-call figures of Rs. 150 crores - Rs. 160 crores, so there are having some latest blending technologies to edit further there. So, the cost is roughly around Rs. 170 crores - Rs. 180 crores which mean an incremental CAPEX of another Rs. 90 - Rs. 95 crores is going to be there between now and November.

**Moderator:** Thank you. The next question is from Sabri Hazarika from PhillipCapital. Please go ahead.

**Sabri Hazarika:** I wanted to know how is the company looking at the GST I mean is there any dealer level concern regarding GST or it would be a smooth sale for the company once it is implemented?

**Ravi Chawla:** Manish?

**Manish Kumar Gangwal:** As we know so far the rates are not announced for Lubricants sector there is no clarity on the rate really what is going to be the likely rate. But as per the government various officials announcing that the rate will be close to the existing rates of taxation suffered by each industry, if that is the case then we do not see any major issues in terms of transition.

**Sabri Hazarika:** Okay. And is there any issues on the inventory from GST?

**Manish Kumar Gangwal:** Too early to say but we do not foresee any major issue because we are anywhere in the industry which have been suffering one of the highest taxation. So, if we are in that band of higher taxation also, it should not have an impact overall to a significant extent neither us nor the dealers.

**Sabri Hazarika:** Okay. And secondly, as far as the demonetization is concerned, so currently are we….

**Manish Kumar Gangwal:** I would like to add that we are taking all the steps here which will help our channel partners also in terms of taking that transition smoothly.

**Sabri Hazarika:** Okay, sir. And about the demonetization, are we now done with the demonetization or is there any more effect that is going on right now?

**Ravi Chawla:** Yeah. See, we have about 6% to 7% of our sale is in the IMF segment, what we call IMF Infrastructure, Mining, and Fleet. So, infrastructure customers who are into road building and metro building we have a large base of customers there. So, obviously for them the cash flows is still a bit of challenge. So, I was saying this segment for us was growing very-very well. So, I would say now very-very well it is very well. So, it has come down slightly. But otherwise demonetization on the market side is neutralized now. Only this particular segment, we do still see a very small challenge. But I am sure, it will normalize once funds into the project and that is also going on quite well. So, I think maybe it will this quarter for that to normalize.

**Sabri Hazarika:** Okay, sir. I just wanted to know has there been any impact that has happened during demonetization which basically should get set of somewhere over the next 6 months to 12 months where it may result on a sales up string. Is there a possibility of such a….

**Ravi Chawla:** Sorry, I did not get your question. Sale what?

**Sabri Hazarika:** I mean suppose the demonetization has happened because of let us say for example, somebody has postponed their Oil chain cycle because of demonetization. So, is it quite possible that thing may reverse over the next six months to ten months which may lead to an exceptional sales volume spurt for as far as Lubricants demand is concerned?

**Ravi Chawla:** No, I think the impact was more in the couple of months which you could say 45 days to 60 days and there is no difference probably guys will they are all going to go on the normal trend now. So, we do not see any blip in sales because of that, it is more or less normalized now.

**Sabri Hazarika:** Okay, sir. And just one last question, you said that the volume growth Y-o-Y was around 3.5%.

**Ravi Chawla:** No. For the quarter…

**Sabri Hazarika:** Sorry, for the quarter.

**Ravi Chawla:** Yeah, because of that you know we said that institutional order for quarter four it is 3.5% with the institutional order. On the core business without the institutional order it is 10% plus. And for the full year with the defense order because Manish explained that defense order was also in the previous year. So, our total volumes for the year have grown 11%.

**Sabri Hazarika:** Okay. And how many retail outlets you have at the end of this year versus last year?

**Ravi Chawla:** So, we tracking this, we have estimated we have not estimated, we have 15% growth in our retail base overall and close to now 55,000.

**Sabri Hazarika:** Okay. 55,000 is the retail base this year at the end of this year.

**Ravi Chawla:** Yeah, active retail.

**Moderator:** Thank you. The next question is from Pritesh Chedda from Lucky Investments. Please go ahead.

**Pritesh Chedda:** Sir, I missed the like to like volume growth in quarter four, did you say 3%?

**Ravi Chawla:** So, Manish you want to highlight it again?

**Manish Kumar Gangwal:** Yeah, for the sake of clarity I would say that last year quarter four we had won institutional order which not there in this quarter. So, if we take that base into account then the growth was 3.5%, still we have grown in spite of a large volume of one-time order in the last year quarter. But if we remove that base effect then we have grown close to 10% in quarter four. And for the full year, we have grown 11% in terms of our volume, without the defense also and with the institutional order also.

**Pritesh Chedda:** Okay. And my second question is, sir in your case when the PCMO grows faster than the overall growth there is a natural gross margin expansion possible. But when we look at the H2 that theory is not playing out obviously, there is some mount raw material price rise as well. So, just wanted to understand the pricing element how it is behaving? Have we taken any price increases or competition is behaving other way, some comments there if you could share and is our first observation is that clear that the gross margin ideally should have expanded?

**Ravi Chawla:** Manish, you want to that that then I will join you.

**Manish Kumar Gangwal:** See, you are right gross margins we have been able to expand even quarter-on-quarter basis. If you see quarter three versus quarter four also. In spite of the fact that we have been mentioning in the last that call Crude was going up from the historical lows and the Base Oil which is our key raw material raw material was also moving up in quarter four. But in spite of that we have been able to increase our material margin per liter during Q4 and as we mentioned there is a margin management strategy which each company follow. And we have taken a price increase in January party to take effect to neutralize that and maintain the margins. And as we speak, also the Base Oil after an increase continuously till the current month is now seem to be more or less stabilizing at the current level. So, let us see how it goes. But company is quite focused and maintain/ grow the margin and partially this is helpful because of the increase in personal mobility and expansion in the PCMO segment.

**Ravi Chawla:** You see the PCMO segment today is less than 5% of our total mix. So, for the PCMO to have a major impact, obviously we are gunning for higher market share but that will also flow through when the percentage mix of this particular segment goes up. Of course, personal mobility for us is both PCMO and MCO, so MCO we have close to 18% - 19% as we mentioned and PCMO 4% to 5%, so that mix is today say 24% - 25%, when that mix starts going up which is what our plans are then you will see significantly and also we are going for volume with profits. So, we would take OEM business, we would take dealership business. So, overall, we have to maintain it and what has also happened as Manish explained to you, it is not just about the mix, the mix sometimes helps us to get better margin. So, there has also been a challenge on the Base Oil cost movement and we would say that we have been quite proactive in our price increases. And some of the competitors probably did not go up in December but after that we have seen a positive trend in the industry which is increasing prices and calibrating them with the cost increases. And also this time Base Oil has increased from November onwards slightly more different from Crude. It has gone slightly more. But as Manish said, now the Base Oil is stabilized. So, these are some of the challenges we have to keep doing and as an industry we are seeing good price moment now so that is positive for the margin I would say.

**Pritesh Chedda:** Can you give us some idea on the blended increase in Base Oil in the last five months since November and what is the blended price hikes taken?

**Ravi Chawla:** Manish you want to?

**Manish Kumar Gangwal:** No. There are different grades of Base Oil and each one of the grade has its own supply and demand challenges, it is very difficult to benchmark against a particular Base Oil and tell you the overall trend.

**Pritesh Chedda:** Sir, for your raw material basket?

**Manish Kumar Gangwal:** Yeah, so overall if you see the raw material basket we have been able to manage our inventories also quite well in terms of planning the Base Oil pricing and our procurement and the effect of that is visible that if the overall increase in Base Oil during this H2 has been close to let us say Rs. 3 per liter to Rs. 4 per liter on our overall inventory, this cost has only gone up by roughly Rs. 2 a liter or so slightly less than that. So, we have been quite proactive not only in terms of planning our procurements, etc., and also taking the margin management by way of proactive pricing.

**Pritesh Chedda:** Can you give it in percentage sir, the RM basket increase in percentage and the price hike taken in percentage?

**Manish Kumar Gangwal:** So, we have taken 2% to 3% price increase sometimes in January. Before that, we had also taken a small price increase in the month of November when nobody in the industry had taken that price. So, with that, we have been able to still maintain the gross margins or slightly grow it rather.

**Pritesh Chedda:** So, corresponding RM basket will also be equally higher about let us say 2% - 3% of that.

**Manish Kumar Gangwal:** That is right.

**Pritesh Chedda:** Okay. And lastly, I just want to check, let us say three years in place the drivers for Gulf Oil would be (1) faster than market growth and (2) gross margin expansion based on mix. If you have to peg certain numeric to these drivers what kind of over and above market growth that you should look at and what are the basis points expansion gross margin is possible for the next three year, if you could give some idea or thoughts there?

**Ravi Chawla:** Ravi Chawla here. See, we are definitely looking as our strategy has been to go higher than market 2x to 3x the guideline we have been following it can be more than that. That is what we minimum want to achieve and gross margin, things do not remain the same because if you look at competitive pricing. So for us reasonable margin band is there and we have been talking about the band. So, currently the band is 16%. Manish that is right, that is the band that we have been speaking about, right Manish?

**Manish Kumar Gangwal:** Yeah. 15% to 17% is what we have delivered over last many quarters.

**Ravi Chawla:** So, based on the industry how the competitive pricing goes obviously, we are keen to increase the band. But we have to keep calibrating and seeing what it is and since, we are also looking at volume growth there are certain businesses we are not going to say no to businesses we are expanding our capacity in Chennai for example, if OEM comes. We definitely have to recalibrate once those things happen. But as a mix we are looking aggressively at the personal mobility mix with PCMO in particular and continuing to increase our distribution. So, when you increase your distribution your Bazar sales will go up. So, this year especially we are looking at good growth in our B2C business. So, that should also help us in terms of margin. But ultimately, we will have to calibrate to see what market forces and what other volume growth come in for us.

**Pritesh Chedda:** But sir, this 15% to 16% margin vis-à-vis the peer at 21 to 23 or may be slightly higher the difference is explained by PCMO in scale. So, and we are continuously increasing in these two parameters. So, would not you like to peg a certain expansion margin possibility?

**Manish Kumar Gangwal:** So, that is obviously the aim. Aim is obviously to not only fill the capacity in the Chennai plant which we are building up but also to have a further improvement based on both parameters we mentioned scale as well as the product mix.

**Pritesh Chedda:** Okay.

**Ravi Chawla:** And also it depends on the pricing strategy of the competitor which you will appreciate that also brings the benchmark up or down in the market.

**Pritesh Chedda:** Had the competitor taken the price increases post-Jan?

**Ravi Chawla:** Yes, they have taken. But I would say in the year 2016 we have seen a shift because the pricing normally would go and come in pretty fast but competitors have been slow in that.

**Pritesh Chedda:** But they have taken.

**Ravi Chawla:** Yes. Finally, as I told you the industry is now going in positive trend.

**Pritesh Chedda:** So, the January price hike which you took should slow down in the corresponding quarters numbers now or it is already there benefiting the quarter four numbers?

**Manish Kumar Gangwal:** So, partially it has come into play in quarter four and partially obviously, it will come in this current quarter but in the meantime Base Oil also has gone up. So, our strategy is to in these times maintain the margin and whenever there is scope to grow it.

**Moderator:** Thank you. The next question is from the line of Sreekanth PVS from Spark Fund Advisors. Please go ahead.

**Sreekanth PVS:** Sir, just wanted to know your volume break-up again sir, sorry missed it.

**Manish Kumar Gangwal:** We have already mentioned that the Diesel Engine Oils are close to 42%; and Motorcycle Oil has been same as last year like 18% - 19%; Passenger Car is in the range of 4% to 5%; Gear Oil, Greases other automotive products are in the range of 17% - 18% - 19% that is the range. Industrial Oils are close to 17% - 18% that is the broad break-up we have.

**Sreekanth PVS:** Okay. And sir, what would be the split between your OEM and aftermarket?

**Manish Kumar Gangwal:** So, it has been in that range of 65% - 35% was the range, 63% depending on the quarter or year one-two good orders from B2B can slightly change it but largely the band is 65% - 35% or in 67% - 30% I would say, 33% B2B 67% B2C

**Moderator:** Thank you. The next question is from Prashant Tarwadi from Axis Capital. Please go ahead.

**Prashant Tarwadi:** If you can elaborate on your Chennai plant expansion, now it is probably only two quarters or three quarters away what are the benefits in terms of volumes and margins, in terms of freight cost, etc.? That would be helpful.

**Manish Kumar Gangwal:** So, as we have mentioned in our previous call Prashant that when Chennai production starts, we will shift our south India volumes immediately from Silvassa plant to Chennai plant. And that is close to 30% of our volumes today Southern part of India and part of East also. And with that, obviously, there will be a clear freight savings in the outward freight. But at the same time, as a new plant there is fixed cost increase which will happen. So, with the capacity we are currently in Silvassa having already utilized close to 90% - 95% of our capacity, we anyway needed a plant, new plant and we are also building the plant in Chennai which is an auto hub, so close to the market in terms of OEMs, etc., to showcase the technology. So, these are various advantages we are looking at in terms of Chennai plant, per se it is very difficult as of now to quantify how much margin expansion it can happen. But obviously, we want to grow over volumes ahead of the market, two years to three years in the market we need capacity and there is a clear freight savings which will happen on 30% of our volumes partially offset by the extra fixed cost which a new plant can have always.

**Moderator:** Thank you. We will move to the next question which is a follow-up from the line of Prayesh Jain from IIFL Wealth. Please go ahead.

**Prayesh Jain:** Sir, I wanted to check on this Rupee movement, Rupee appreciates substantially, so that should benefit us in a way that we have import quite a bit.

**Manish Kumar Gangwal:** So, Rupee appreciation 60% to 70% of the Base Oil we import today which is imported, the Rupee appreciation is definitely helping in terms of input cost. But as I was mentioning in the previous question that Base Oil which is key raw material has been also moving up over the last six months and as Ravi mentioned clearly ahead of the Crude usually it use to have a core relation with the Crude. But this time because of various demand supply situations of certain Base Oil grades, it has moved ahead of that curve and that has offset the Rupee appreciation to some extent. In spite of that if we see quarter four we have been able to maintain our gross margins in such a scenario which is a good sign.

**Prayesh Jain:** Sir, what is the take on synthetics what is the share of the volumes now? How do you think it will pan out in future?

**Ravi Chawla:** Yeah. See, there are semi-synthetics and synthetic, so in the Motorcycles segment there are some synthetics we have started selling and in terms of Passenger Car also we are seeing synthetics and I mentioned that Passenger Car has doubled for us. It is very small volume today. So, it is not even I would say a percentage of our volume. So, obviously, once we start building on this and it is helping us because we see the synthetic usage is going up. Also some of the brand synthetics are a good portion of their sale. So, we hopefully want to take that up from 1 percentage, 2% - 3%. So, the impact will as we see this year and the following two years - three years. So, the base has been set, the products are launched, we are focusing on it and I think, right now it is not very high but I would say less than 1%. But it will definitely grow very fast. So, that will help us as we go forward. In the overall personal mobility mix you will appreciate that from the current 25% if we get into 30% or 35%, all these synthetics coming in will definitely help both ways in terms of image and in terms of margins. The work has started so, at least that positivity If you go on our website you will see a number of new products and new communications on this.

**Prayesh Jain:** Okay. Sir, just one more on this, the thing that you have mentioned that you have gone through advance technology for blending in Chennai plant, is there something that will help in newer products or what is that exactly?

**Ravi Chawla:** Yeah, so this plant that we are having we will also invite all our people to see the plant when we showcase it. It is basically going to have much higher quality standards. And also, in terms of the whole blending operation it is going to be done with the latest technology. So, you will see a lot in terms of quality control, in terms of the faster time for changing grades. So, this is very important to OEMs both in India and global OEMs. And also, in terms of as we mentioned to you many times we make all our products in house. So, some of the we use are those can be safeguarded with this kind of technology. So, the impact on quality will be very high plus quality assurance and in terms of OEMs I think it will be quite a plus factor, plus when we are putting up a plant, we also wanted to put a plant which is of a good global level. So, these are the things which will help in terms of the technology.

**Moderator:** Thank you. The next question is from Vijay Karpe from Dalmia Securities. Please go ahead.

**Vijay Karpe:** The FY 2018 sales guidance has been given at 10%. So, my question is once the Chennai plant gets the full four quarters, what can we expect the FY 2019 sales there?

**Manish Kumar Gangwal:** So, we do not give any particular number as a guidance on top-line or bottom-line. But what we have maintained is that we want to grow 2% to 3% as the market growth. As Ravi mentioned, the market is expected to grow 1% at least higher than what it was in FY 2016 - FY 2017 and accordingly we want to also grow at a slightly faster pace than what we have achieved. Chennai plant is more capacity which was needed, it is not that directly it is going to add in the top-line and in terms of volume growth because ultimately, we are looking at a market in terms of our overall volume growth coming out currently only from Silvassa, it will come together from Chennai and this current Silvassa plant.

**Moderator:** Thank you. The next question is from the line of Sabri Hazarika from PhillipCapital. Please go ahead.

**Sabri Hazarika:** I have three questions. The first one is you mentioned about the Chennai plant additional expense. So, currently the company is having an operating expense of around Rs. 350 crores, so that includes the employee cost and other expense and it is growing at say 9% to 10% Y-o-Y. So, once the Chennai plant comes, any idea on how the operating expense would go further up?

**Manish Kumar Gangwal:** So, as I mentioned, there is a freight saving also which we are contemplating for our volumes which we are being currently seeing from Silvassa to south of India. So, it should largely offset the additional fixed cost and we will may be neutral to positive on that.

**Sabri Hazarika:** Basically, as far as the numbers are concerned that will remain unchanged, but you will get a hold in the Southern market because of this plant due to which your OEM position will probably go up. Is that the right way to look into it?

**Ravi Chawla:** Yeah. Plus sir, current capacity in Silvassa is a bit stretched, you will appreciate a 95% to operate the plant with a lot of logistics and with a number of packs we have with amazing kind of operations so far. But that stress is high. So, we will have that plus there is margin for growth, so when we approach the customers, OEMs we will look at some minor exports, you have the capacity available, so you can ramp-up pretty soon. And obviously, when we look at

India growth, we have a strategy when we look at our current pie. But if we add new customers, we add new bases we want to go to, this capacity is available for us and certainly, as a long-term this capacity would take care of the next few years of our growth overall.

**Sabri Hazarika:** Right. So, if I consider everything remaining constant and if I do not like take any synergy from this plant, so net-net the increase in operating expense will be totally set off by the savings in freight cost?

**Ravi Chawla:** And also I must add here that we are putting up a capacity of 40,000 Kl to 50,000 KL in Chennai and we have scope to increase more in the future. We need to put in more CAPEX, Manish that is right? If we want to expand further.

**Sabri Hazarika:** Right. Okay. And second question is on this other expenditure break-up actually, can you give us rough break-up between the various heads like advertising and selling and distribution and other things for quarter four, I want it.

**Manish Kumar Gangwal:** So, our advertisement, we have been attaining that band of 6% to 7%. So, it was in the same band. And more or less, all the other expenses also we have been mentioning in our previous calls they are in the similar lines there is no major change in those percentages.

**Sabri Hazarika:** So, in the quarterly run rate basically increase from around Rs. 70 crores to Rs. 77 crores actually?

**Manish Kumar Gangwal:** That is in line with volume. So, in terms of percentages you will see more or less same as what it was.

**Sabri Hazarika:** Okay. So, the OPEX per liter remains same actually at around 43% to 44%. And third question is on the drain interval outlook for CVs for the next say five years to seven years. So, how are you seeing it is currently at around 35,000 to 40,000 on an average? So, do you think that what happen in the last five years to ten years may happen again in the next five years to ten years or are you seeing a peak in terms of drain interval increase?

**Ravi Chawla:** You see with now BS-IV coming the pressure on the both in terms of the Lubricant performance I think drain interval will remain stable as it is. Of course, the 35,000 - 40,000 you mentioned, we have products which goes up to 80,000. So, you are right, the usage average usage could be around that level. But we believe that Gulf Oil products definitely 35,000 - 40,000 is the average. We have an average which is probably delta more than may be 20% more than that. But you are right because of this BS-IV thing you will see not that much increase in the drain interval because the Lubricant and other things are more on fuel economy, new technologies. So, there would be some I would say sort of leveling of the drain interval.

**Sabri Hazarika:** So, it would not possibly say go up by 30,000 - 40,000?

**Ravi Chawla:** It is on a normal trend go up. So, as the new oils are coming, you are seeing, so earlier what you said 35,000 - 40,000 was earlier 30,000 - 35,000. So, I would say that if you say 35,000 - 40,000 it should go to another 5% - 10% more overall which is the trend. But it is not really going to gallop away because you also BS-IV which has come in now which is also putting other demands on the Lubricants like fuel economy others.

**Moderator:** Thank you. Next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

**Manoj:** Hi, this is Manoj here. My question mainly on GST, have you evaluated the savings in input tax credit especially the service tax which you may be paying on advertisement. Right now, you are able to claim the entire benefit of the Service Tax and whether there will be some additional savings in terms of Input Taxes which you are not table to claim in the current taxation system which may be available under GST?

**Manish Kumar Gangwal:** So, Service Tax as of now whatever we have been paying also was fully convertible against our Excise payments. So, there is no issue on that. Obviously, there will be GST is a seamless credit procedure across territories and across the different types of taxation segment. So, obviously there will be some benefit coming out of that like CST which is the Central Sales Tax was not cenvatable. So, now with GST coming in obviously, it will be a seamless process. So, on these accounts there will be more better tax optimization.

**Manoj:** What kind of taxes we will be savings on account of this CST, have you done some calculation on that?

**Manish Kumar Gangwal:** No, it is very difficult to share that calculation on the call.

**Manoj:** Okay. And secondly, are your dealers and distributors prepare especially your large C&F they are prepared for handling the e-way provision which has been introduced under GST like each and every moment of goods which is exceeding Rs. 50,000 has to be accompanied by e-way bill?

**Manish Kumar Gangwal:** Yes, so everybody has to gear up. If there is a government guideline the companies, the entire distribution channel, not only for us, for the industry for all the other industries also has to gear up to the same. All our distributors are already using internet, they are already you know on our software which is connected to them and they daily upload their data. So, our distributor system is geared up for all those technological advances which are coming up.

**Manoj:** And is there a sizeable presence of unorganized players which whom you are competing?

**Ravi Chawla:** Yeah. So, I had mentioned, I do not know if you saw the CNBC, today the unorganized sector is quite less there would be a few percentage points and we would not deny that. But currently we do not have a direct because the kind of quality that people except from the Lubricant today

I mean, the vehicle is costing x lakhs or the vehicle businesses at stake, we find that the unorganized sector mainly accounts for now a very-very I would say the lesser part of consumption. Of course, it will be there. So, for us that is not really in an area which we find in terms of where we need to really do something special, there is a share of the pie but that is not where we are focused on, it is not very large.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question due to time constraints. I now hand the conference over to management of Gulf Oil Lubricants India for closing comments. Over to you.

**Ravi Chawla:** Thank you, Prashant. Well, first of all, I would like to thank all the participants for the call and we hope, we have been able to answer your questions to the best of our ability. And of course, we look at the period ahead we are working on our strategies, making them more robust and at least from our point of view, we have focused on segments where we believe, we can succeed well and things are going positively in that direction. And of course, we look forward to meeting you on the next call and in other interactions. Thank you so much.

**Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf Axis Capital that concludes that today's conference call. Thank you all for joining us and you may now disconnect your lines.

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