Gulf Oil Lubricants India Limited

February 9, 2018

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Dear Sirs

Sub.: Transcription of Conference Call with Investors/Analysts held on February 7, 2018

We are forwarding herewith a copy of Transcription of Conference call with Investors/Analysts held on February 7, 2018.

Kindly take the same on record and acknowledge.

Thanking you

Yours faithfully
For Gulf Oil Lubricants India Limited

Vinayak Joshi
Company Secretary

Encl.: as above

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"Gulf Oil Lubricants India Limited Q3 FY'18 Earning Conference Call"

February 07, 2018

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. RONAK SARDA – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Gulf Oil Lubricants India Limited Q3 FY'18 Earning Conference Call hosted by Axis Capital Limited. As a reminder, all participant' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ronak Sarda from Axis Capital Limited. Thank you and over to you, sir.

Ronak Sarda: Good Evening, everyone and welcome to the call. From the management side, we have with us Mr. Ravi Chawla – Managing Director; Mr. Manish Kumar Gangwal – CFO and Mr. Vinayak Joshi – Company Secretary. I will hand over the call to the management for the initial remarks. Over to you, sir.

Ravi Chawla: Thank you, Ronak. Good afternoon to everyone who is on the Q3 Call for Gulf Oil Lubricants. We are extremely delighted to share with you that this has been all-time record quarter for us. Obviously, the results have been put out and we have seen that it has been 59% growth in terms of the Q3 PAT coming in at Rs.42 crores and certainly all the other figures have been excellent growth in terms of the revenues and in terms of the profits, and this is mainly due to the excellent volume growth that we have seen across in our business. We were earlier clocking about 10-11% and as you have seen last quarter 13%, that has gone up to 22% volume growth in this Q3. There has been obviously some base effect of demonetization but what is extremely encouraging is that the segments in which we are strong and we are growing, have recorded very-very good robust growth. To start with the Diesel Engine Oil segment which is normally a single digit growth, has grown upwards of 15% and for us this is around 40% of our portfolio and both in the Commercial Vehicles, Tractor segment, across our bazaar markets, across our OEM dealership sales, we have seen Diesel Engine Oils doing extremely well in this quarter and that also shows that the economy is picking up, the demand is picking up. In addition to that, Motorcycle Oils which have always been a frontrunner for us, in this quarter has grown +35%, so that is again excellent growth for us our own products in the bazaar, the OEM products we have with Bajaj and that is really excellent in terms of growth.

The other segment which is the Passenger Car which is the new focus segment has grown upwards of 15% in this quarter. Overall what we are seeing is a lot of green shootscoming in, in terms of renewed sort of vigor in terms of the growth levels. Even the IMF segment which had gone slow is now bouncing back and is growing positively in this quarter, the infrastructure customers which is about 6-7% of our sale. So right across all the segments we have seen that the growth has been excellent in this quarter. We are hopeful that this new trajectory of growth will take us to a higher plane in terms of overall growth which has been 10-11% consistently for many-many years now.

We would like to also add here that all the initiatives which we have put in, whether it is distribution or our new tie-ups with OEMs, our brand-building, we have in fact done a lot in that and we have announced a new tie-up with one of the construction OEMs Kobelco, which is in the top-five players in the Construction Equipments and that is the new tie-up which has come in. We have also started some exports to Bajaj Auto's markets overseas from India, that has helped.

You will recall I had mentioned a major campaign we did for our Passenger Car which was based on our international tie-up with Manchester United. Not only is Manchester United doing well as a team in the top-three in the premier league, we have seen that this campaign has really helped us to create good visibility, excitement amongst trade and we have seen that the visibility in the cities when we took outdoor and also we have the advertisements coming in the Manchester United and matches on Star. All this has contributed to really take the brand to a higher level.

What is also happy to report to you that we have in certain segments started leading the price increase in a small way. So that is the good strength of the brand and while we see costs are going up, we also taking our prices up as we have always told you that the industry is quite disciplined and we see a lot of the major players in the market doing that who are basically in the top ends of the brand awareness and that is a good sign that has happened in the market we have done that.

We have also made very unique initiatives; last year we succeeded with the IPL Social Media Campaign and the other campaigns during the Pune Rising Supergiant's League Matches. We use the same concept of involving the fans with our Manchester United property and launched something very unique in India for the first time, "Gulf Fan Academy" that is also getting a lot of excitement amongst the audience, again the audience, that is the football crazy matches, Manchester United fan, he would then get predisposed to look at buying our passenger car or our motorcycle oils. So that is a good campaign.

We continue to do on-ground activations in a very big way. We have done a number of service camps, conducted oil camps in the Farm segment. I understand that is over 15,000 service changes we have initiated. We are also doing lot of work in the Rural segment and our Retailer Loyalty Program is again gaining a lot of traction and we have also seen that the top retailers are also recording a handsome double-digit growth in their offtake to the market. So these are excellent signs and obviously complete team effort, the team is very charged up, we believe our brand values of quality, endurance, passion translate into everything we do, even our activations on the ground and that is one of reasons of our success.

We also would like to share with you that Chennai has scheduled and started production. In this quarter we would see that nearly a fourth of our production starting in Chennai, mainly catering to south and to our eastern locations. As we had shared earlier, the Chennai would be manufacturing the entire product range what we manufacture in Silvassa. So it is definitely going to help also in terms of service levels and the capacity that we have should also help us in attracting new customers in the long-term.

So this is what I would like to share in terms of the overall business that has happened. We are definitely expecting Jan-Feb-March to continue a good momentum in growth. As I mentioned, there was some base effect in October-November-December but the higher trajectory of growth in Diesel Engine Oil and what we have achieved in Motorcycle, coupled with that we have some exciting plans which are drawn up in these segments and that should help us to take us to a higher plane of growth in the coming quarter.

I would now request Manish to share a few of the "Financial Highlights" also. Manish, over to you.

Manish K Gangwal: Thank you, Ravi. Good Afternoon, everybody. I recall that November concall after the Q2 results where we have mentioned that it has been a record quarter, and I am happy to again share that as Ravi mentioned we had again record-breaking performance across sales, profits and revenues; volumes 22% revenue 34% and profit at 59% growth, it has been excellent. At the same time, it has been a good product mix, helping in spite of input cost going up with the crude rising from the levels of $45 to $50 to close to now $70. There have been good product mix improvements; B2C, B2B ratios have been good in the last two quarters which have helped us continue with the good margin realizations and with that we have been able to maintain our gross margins at pretty much the same level with only 1% impact there. As Ravi mentioned, industry has been disciplined. So another price increase is taken during the current 2018, so that will take care of the base oil impact which is there. At the same time, our investments in the brands have continued, so this quarter as we mentioned our campaign is going on, so our A&P expenses have been continued at the same level of last quarter which is at close to 7.5% of the top line which usually you will remember was in the range of 6-7% but the last two quarters we have slightly increased the investments there and we continue to remain on the balance sheet side debt-free in spite of our CAPEX in Chennai plant going to complete now, it is almost done and we have started pilot production but that has been internally completely funded except for minor import we have taken some loans but largely internally funded and we will continue to remain net debt free on the balance sheet side.

With this, I think we can take the questions now.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the "Question-and-Answer Session." We will take the first question from the line of Basant Patel from HDFC Securities. Please go ahead.

Basant Patel: Just wanted to understand this DEO largely includes the Construction Equipment portfolio also?

Manish K Gangwal: Construction Equipment, we sell through the excavators and the other loaders and all. They use a lot of Hydraulic Oils and they also use Diesel Engine Oils. So yes, the Diesel Engine growth includes it is at the company level, so it aggregates what we also sell to that segment but just to clarify the Construction segment also buys other products like Hydraulic Oils, Greases and Gear Oils.

Basant Patel: What I wanted to understand is what you have given the 15% growth that is inclusive of the Construction Equipment?

Manish K Gangwal: Yes-yes, it is on a composite level, all Diesel Engine Oils that we sell as a company, which includes Commercial Vehicles, Tractors, and as you mentioned everywhere there is a Diesel Engine Oil including Construction Equipment.

Basant Patel: What is the contribution from MCOs to our overall revenue mix as we mentioned DEO is around 40%, so can you share …?

Manish K Gangwal: MCO we have at about 20-21% of our mix and around 4-5% is PCMO, so together Motorcycles and PCMO make up Personal Mobility.

Basant Patel: So this PCMO includes Bazaar trade which…?

Manish K Gangwal: Yes, everything, these figures that we are giving you is on a category level for the company irrespective of the channel.

Basant Patel: Going ahead even after commissioning the Chennai plant, do you expect even for the couple of quarters the strong double-digit volume likely to continue, so what is your thought on that?

Manish K Gangwal: We have been growing double-digit consistently, actually for us double-digit is the 10-11% growth and you see also we have done 13% in some quarters. So that is the growth we have been getting consistently. Chennai will help us obviously because we have large market in South and East. So, in terms of requirement of capacity, we anyway needed it because Silvassa was running at close to 100%. So we needed a capacity. As we grow our businesses in various segments, the spare capacity in Chennai and now a little bit in Silvassa also because we are shifting the production of South to Chennai, will help us to gain more customers and the growth level as I mentioned to you this quarter has been very good in Diesel Engine Oils Motorcycles. So hopefully the 11-12% growth average we have been getting we will be able to improve on that.

Basant Patel: As a product mix, South accounts for almost 30% of the volume, is that correct?

Manish K Gangwal: That is right, close to that.

Basant Patel: If we are going to cater that from Chennai plant, so what kind of logistics and distribution cost we are going to save in terms of, can you give…?

Manish K Gangwal: We have mentioned in our earlier calls as well that for running a new plant certain fixed cost will go up, at the same time you will get freight saving as you rightly pointed out. So both will offset. So net-net some savings will be there incremental but largely the extra fixed cost incurred for a new plant except the depreciation will be covered up by the freight saving, that means that we are getting 40,000 tons extra capacity without any extra fixed cost.

Basant Patel: Sir, commenting on the base oil prices, if crude goes up to around $70-75 assuming, so is there any threat to get the base oil as a raw material means whenever you need the base oil requirement, is the scarcity happens, is that correct, so what is your thoughts on that?

Manish K Gangwal: There are certain demand/supply gaps but those gaps are temporary, it is not that base oil is not available, it is always available at a certain price. If the crude goes up, base oil goes up usually with the lag time effect of two to three months, but there may be a temporary mismatch between demand and supply of the certain grade of base oil because there are various grades, but there is no challenge in terms of getting base oil.

Basant Patel: So what is the current prices of base oil, can you share that please?

Manish K Gangwal: It is very difficult because as I mentioned various grades of base oil and these base oils have been on upward trajectory for the last three, four months. Everybody carries an inventory of two, three months but then thereafter it starts impacting. As we mentioned, we have already taken a price increase in the current quarter, and that should hopefully take care of the increase as long as crude remains around $70.

Moderator: Thank you. We will take the next question from the line of Ronak Sarda from Axis Capital. Please go ahead.

Ronak Sarda: First question was again on raw material cost. So the base oil price as you indicated are almost linked to crude oil price with a lag. So, how the demand/supply situation, do you see base oil prices to jump as high as the crude oil have gone up in last six, eight months or based on the demand/supply for base oil we are not expecting sharp increase?

Manish K Gangwal: As I just mentioned, base oil has been also on the rise for the last four, five months, it is not that it has not been going up, it has been going up steadily and that is why to proactively manage margins we have taken a price increase already.

Ronak Sarda: That kind of covers the current increase in base oil price?

Manish K Gangwal: Yes, as long as the crude remains in the range of $65-70.

Ronak Sarda: What would be the advertisement spend for the quarter…has that kind of formalized because last quarter we had some spillover impact?

Manish K Gangwal: We have incurred 7.5% this quarter as well because the campaign was ongoing. While having the last call in the month of November, we have mentioned that this campaign is ongoing for two quarters. So December quarter also we have continued with the campaign in a mega way and A&P continues to be in that range of 7.5%.

Ronak Sarda: A bit of a question on how the competitive intensity changes. In a rising crude price scenario, is it the state oil PSU companies do they have upper hand because of the…?

Manish K Gangwal: So in terms of price increase, as I mentioned, the top brands that are there, usually take the pricing up first and then we have the price-oriented brands… of course the PSUs have also moved in this quarter what we have seen. So there is a movement but maybe sometimes there is a lag time on the various movements because each of the companies have their own internal policies and stocking levels. So we have seen that the PSUs would take a price increase immediately after the market takes it up overall.

Moderator: Thank you. We will take the next question from the line of Sabri Hazarika from Emkay Global. Please go ahead

Sabri Hazarika: First, just wanted to clarify, your volume on absolute terms is 24.5 million litre?

Manish K Gangwal: Yes, that is right.

Sabri Hazarika: Secondly, what is the magnitude of the price hike that you have taken in January?

Manish K Gangwal: The price hike has been taken across various categories of products based on our strength and where we are trying to do things in a different way. Largely it will be in the range of 3-4% especially for the bazaar market and B2B pricing is mostly linked to formulas and that keeps on going up or down depending on the base oil movement.

Sabri Hazarika: What about competition, the PSUs in particular have they also taken a price hike because we have…?

Ravi Chawla: So as I mentioned to you even the PSUs have taken the pricing, we do not know about all three PSUs, but we have seen one or two PSUs where the prices moved.

Sabri Hazarika: They have also taken on the similar lines around 3-4% because that is what has been the indication for the entire market?

Ravi Chawla: Yes, so some of the players have taken up similar to us and some of the people had not taken the previous price increase, so they have taken it together.

Sabri Hazarika: So in their case it is more than what you have taken?

Ravi Chawla: Probably last time they did not take it up for whatever internally.

Sabri Hazarika: Currently, what is the automotive versus industrial mix, it used to be around 65% versus 35% in the previous quarter, so has there been any change on this, I think the automotive segment has improved I guess?

Manish K Gangwal: No, because we are growing both the segments at the same pace, this quarter also it is 65:35 only.

Moderator: Thank you. We will take the next question from the line of Vivek Sethia from Stewart and Mackertich. Please go ahead.

Vivek Sethia: Sir, if you could just throw some light on what is the present size of the lubricant industry in India right now? What is our market share in it?

Manish K Gangwal: So the total market we estimate is around 2.6 or 2.7 mt including process oils. So if you take out process oils, it is about 1.7-1.8 and that is where we play in, so that is basically automotive and industrial grades, within this overall market we would be at about 1.8, so that is 5%, and out of this 1.8, about 800-odd would be bazaar market, in the bazaar market, we estimate we will be little bit above 7.5% market share. And then within the segments of this automotive market if you take Diesel Engine Oils, again, we classify ourselves in the segment called "New Generation," we would be close to 8-9% there, in Motorcycle Oils, we would be similar 8-9% in the bazaar, and some of the other shares obviously passenger cars we will be less than 5%. So this will give you idea overall where we are playing and obviously the market size there are more details you can get into B2C, B2B that would be route-to-market. So overall this is how the market is.

Vivek Sethia: You told 2.6-2.7 mt is the market size, right and excluding process oil is 1.7-1.8 mt?

Manish K Gangwal: That is right.

Vivek Sethia: Out of 1.8 mt, we have 5% market share?

Manish K Gangwal: That is right, and out of the bazaar which is 800, we have little above 7.5.

Vivek Sethia: Bazaar is included in that 1.8 mt?

Manish K Gangwal: That is right, bazaar is the subset of that 1.8 mt.

Vivek Sethia: Last, a general thing like since we know (**Inaudible**) 23:14-23:17 right now. So what impact do we see of EV in the next say…?

Manish K Gangwal: Vivek, the EV what we have done is we have tried to see how the impact will come. So there will be some impact, but for the next 12-15-years, given the growth of the industry in terms of automotive population, population of vehicles and the Construction Equipment, by 2030 the market is going to continue growing and continue to be a large market, all round in terms of lubricants. Maybe after 2030, 2035 onwards, you will see some impact where the market will probably level off, but that is our estimate that in the next 15-years we really do not see any impact and in fact growth will continue.

Vivek Sethia: Sir, I know like directly lubricants will not be like in EV. So, are there any other areas in which we can try to get into this EV permit like create a market wherein the EV permit?

Manish K Gangwal: So at the moment, we are definitely looking at that strategy, but nothing concrete at the moment to share.

Moderator: Thank you. We will take the next question from the line of Megh Manseta, individual investor. Please go ahead.

Megh Manseta: My question is on the spare capacity that now we have given that Chennai is operational. Strategically over the next couple of years, what kind of new business do we see ourselves going after? This spare capacity should be giving us certain options that we did not have say 12-months ago.

Ravi Chawla: Yes, Chennai we have started with the 40,000 mt capacity which we can actually ramp up even later if you want but we definitely are looking at a larger customer base in all our segments, to start with there is obviously the OEMs who we are talking to, there are 15-odd OEMs around Chennai itself and then of course we are also looking at some of the OEMs who are expanding not only in India but other markets, we are looking at getting more into the segments like Greases of course which we do not manufacture, but there are segments like Greases, Coolers, we are also looking at the infrastructure segment which is going to be very big and that is really going to be one of the things where the volume capacity can get utilized. So all these segments for us will present opportunities…in fact, we can now look at even big customers because if a large customer available with a very large base we can offer this in terms of capacity and some of the exports that there were a lot of opportunities which were coming our way but now with this capacity we can also look at some exports to neighboring countries and countries like Africa.

Moderator: Thank you. We will take the next question from the line of Paras Adenwala from Enam Holdings. Please go ahead.

Paras Adenwala: Sir, I just wanted to know on the commercial vehicles side under CVO side, we have seen good volume growth. What are the key trends that you are seeing in the industry? Do you think this kind of growth is sustainable?

Ravi Chawla: Paras, what we are seeing is that the new vehicle growth is quite good and based on that obviously we do factory fill for a number of OEMs. So new vehicles are coming in as you have been reading in the papers also, the new norms of loads and the fleets are getting more modernized, so in Construction Equipment also we see uptick, we supply to a few Construction Equipment OEMs, so that again comes like a commercial vehicle for us, it is a vehicle which uses Diesel Engine Oils. Even when the vehicle population of new vehicles goes up, the uptick on the dealerships because they are under warranty and they also come back for servicing. So these two segments we clearly see that the commercial vehicles is doing well. Also, we could say that the Construction Equipment because of the infrastructure the activations going up, we definitely see that the metro projects are coming up, whatever projects we are seeing around, road building, so these are the areas where we see good activity happening.

Paras Adenwala: Could you comment a bit on the drain intervals, do you think there have been other states long drain intervals or do you think the drain intervals continue to go up?

Ravi Chawla: I think they have stabilized. We were the first company to launch the 80,000 Kms oil in India. I think what we are seeing is the stability now because when you move into BS-VI and all, people will be looking more for fuel economy and other things. Already those tests have started. So I think what you see is definitely overall the drain interval in the dealership sectors have stabilized, maybe the bazaar market little bit extension may happen but overall it looks like it is now kind of reached a level where people are having the high spec in terms of the Diesel Engine Oils.

Paras Adenwala: Do you still maintain 2x growth of the industry kind of …?

Manish K Gangwal: Yes-yes, we have been growing consistently at 11-12% over the last many years, even this year before this record quarter we were at 13% volume growth, industry we understand it is growing only 2-3%, maybe 0.5-1% more than the bazaar. This is basically our strategy to grow in the segments and also we have got new customers coming and joining us, new businesses we have been looking at in terms of segments. So we have continued I would say more than 2-3x but we would like to continue to have minimum strategy of 2-3x.

Moderator: Thank you. Sir, that was the last question. I hand the floor back to you.

Ravi Chawla: Thank you. I think we like to thank everybody who has joined the call. I know it has been a very busy day and we definitely had a lot of calls across industry happening and I think Manish and me have tried to explain to the best of our ability whatever we could share on the business, definitely a positive push in this quarter and we are hopeful that we will continue to look at a much higher plane of growth in terms of volume and certainly Jan-Feb-March quarter is going to be an exciting quarter and we will continue our strategies, we will ensure that we continue building our brand, our distribution and we definitely look forward to taking the momentum up and sharing with you soon in terms of the progress that we have made in this coming quarter and what we plan for the future. I surely like to thank all of you and for your good wishes, your support and hope that we can live up to the expectations. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Axis Capital Limited, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.
