Gulf Oil Lubricants India Limited

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Dear Sirs

Sub.: Transcription of Conference Call with Investors/Analysts held on 22-May-2018

We are forwarding herewith a copy of Transcription of Conference call with Investors/Analysts held on May 22, 2018.

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 Q4 FY’18 Earnings Conference Call”

May 22, 2018

MANAGEMENT: MR. RAVI CHAWLA – MANAGING DIRECTOR
MR. MANISH KUMAR GANGWAL – CFO
MR. VINAYAK JOSHI – COMPANY SECRETORY
MODERATOR: MR. RONAK SARDA – AXIS CAPITAL LIMITED

Moderator: Ladies and Gentlemen, Good day and welcome to the Gulf Oil Lubricant Q4 FY18 Earnings 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over Mr. Ronak Sarda of Axis Capital Limited. Thank you and over to you sir.

Ronak Sarda: Good evening everyone. Thanks for joining on the call today. From the management side, we have Mr. Ravi Chawla – Managing Director, Manish Kumar Gangwal – CFO and Mr. Vinayak Joshi – the Company Secretary.

I will hand over the call to management for their opening remarks.

Ravi Chawla: Good Evening Ladies and Gentlemen. Thank you for joining us for the call for the Q4. We are delighted to share with you that Q4 has enabled us to end the year on a high note with record growth in volumes revenues and profits. I think you have seen the figures.

We are very happy to share obviously the profits have gone up by 35% for the year, and this quarter 31% to 32% when you talk of PAT and PBT. This has been possible due to the highest volume growth that we have recorded this year. In Q4 we have been able to achieve a 26% growth in our volumes, which is due to all segments and number of initiatives which were happening, but just to take you through briefly, the growth had a special sort of spurt in terms of diesel engine oils. We have seen factory fill, workshops, Bazaar volumes in our case do very well in Q4. And some of it has also been a push in the market where diesel engine oils have picked up and there has been good growth of 20% in diesel engine oil in this quarter.

The PCMO & Motorcycle which we call the consumer and the personal mobility has also grown by 15%. So I think the reasons have also been that channel, which is our retail business, that is where obviously the profitability is also higher in our brand, along with some of the OEM products, has actually started clocking in good 15% growth. And that is where some of the distribution initiatives which we have done for the last few years have started delivering not only in terms of width, but also the layer distribution into rural into various independent workshops and also the debt of distribution in terms of our retailer loyalty program. So I think this has been a very heartening feature this quarter.

While we have also seen a very good buildup of the B2B and other automotive products volumes, so that I think Manish will cover later in terms of split, but all-round growth is coming in, and that has really helped us to deliver this kind of impact, you will recall that the GST quarter in the full year we had a lesser growth. So, you have seen quarter-on-quarter the growth reaching in all time high of 26% which was around 22% last quarter. So, you have seen the whole positive movement there and as a result of that this year we have recorded a 14% growth in volume if you look at the year and even if the yearly results you will see that profits are up by 35% net profit and again giving us very good margin.

Overall the segments have again growth well DEO grew 20% in Q4, and overall for full year we have got a growth of 12% in DEO. The PCMO & motorcycle what we call consumer and personal mobility has a similar growth of 15% for the year.

Again our tie up with the new OEMs like Mahindra, Bajaj have grown 30% to 40%, factory fill has done very well for us. Ashok Leyland and other commercial vehicle OEM continue to be on a high growth in terms of both the factory field and the workshops.

So overall the brand initiatives, the distribution initiatives, the segment wise approach that we have taken has helped us to really end on a high note. And the team at Gulf Oil and all of us are very delighted to share that news with you and we see that this trajectory will continue as we look at the Q4 and coming into this quarter.

And the higher level of 14% growth has enabled us to retain our fastest growing tag and at ending the year touching 95,000 KL we believe now we have moved into the third position in the private sector and very close to the second position which is Shell. So that is really where moving towards our top two vision and in the private sector so that has been the year and the quarter so far.

Manish Kumar Gangwal: So as Ravi mentioned for last quarter revenue is 373 crore. The profit after tax is 41.36 crore which is 32% growth and for the full year also 1332 crore of revenues at 22% revenue growth with the backdrop of 14% volume growth means that definitely our realization and product mix are going towards the right direction and that is helping us on the profitability side overall. The profit for the year has come at 158.56 crore, this is 35% growth and if you see Q4 in spite of input cost rising we have been able to deliver EBITDA of roughly 16.9% what we have been saying in the past.

In view of an excellent financial performance, the board has recommended a higher dividend in terms of percentage at 525% for the full year. So that has been quarter and year for us. If you see Q4 per se our depreciation has gone up as we commenced our Chennai plant production from 14th December. The depreciation is higher than December quarter by close to1.5 crore. As we speak most of the Chennai plant assets have been capitalized during the quarter. So the figure for the quarter represents almost a run rate we have almost completed the capitalization. At the same time FOREX towards the end of March started some adverse moment and the effect of that also come in partly in the finance cost. Finance cost for the quarter is up by Rs. Rs. 1.1 crore for the quarter against December quarter. So these two have actually led PBT to be lower by 2.6 crore, but at EBITDA level definitely we are higher than the even December quarter as well. So with all this we would like to now move on to the Q&A and we will be happy to answer the session.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question and answer session. We have a first question is from the line of Akshay Gavankar from ICICI Securities. Please go ahead.

Akshay Gavankar: Sir I just wanted to ask we have 14% growth in core volumes, right?

Ravi Chawla: These are core volumes these are no institutional order.

Akshay Gavankar: This is excluding institutional orders in Q1 FY17 right?

Ravi Chawla: No, this is overall including that.

Akshay Gavankar: Including the Q1 FY17 institutional order. So, the total volume growth it is for FY18 is 14%.

Ravi Chawla: Right.

Akshay Gavankar: And for Q4?

Manish Kumar Gangwal: This is 26% we mentioned. We do not have institutional order in Q4.

Akshay Gavankar: So 26% overall growth in Q4 FY18.

Moderator: The next question is from the line of Sabri Hazarika from Emkay Global. Please go ahead.

Sabri Hazarika: First of all we also thought that the volume growth was something 14%, 15% because we excluded that Q1 FY17, so you are saying right now your volume will be something like 27 to 28 million liters for Q4.

Manish Kumar Gangwal: 27 million liters. For the full year we are touching close to 95,000 KL.

Sabri Hazarika: Now second question is on basically the net realization and the margins so both of them seems to have fallen with this kind of volume, so anything specific on that?

Ravi Chawla: You are talking of Q4.

Sabri Hazarika: Versus Q3 it has gone down actually.

Manish Kumar Gangwal: Basically as Ravi was mentioning, we have grown our retail volume also for the quarter by close to 15% for Q4, but our B2B volumes have grown faster and that has how we have achieved overall 26% volume growth. It is not that realization is mainly because of B2B, B2C mix for the quarter. Actually if you remember previous quarter it used to be 63 B2C to 37 B2B like that 65 actually in December where retail sales are even better compared to B2B, but for this quarter the ratio is actually 60%-40%. It is mainly a segment mix not even a product mix.

S**abri Hazarika**: Segments like industrial distributor hydraulic some of the non-automotive products have gone in.

Manish Kumar Gangwal: Plus some of the exports also have gone up. We have also increased exports in this quarter, but basically the 26% volume growth is there, and our channel continues to grow at 15% and also that is improving compared to earlier. So, channel sales is very important and as a result of that you see a as you rightly observed.

Sabri Hazarika: So currently the automotive the pure retail would be what is the volume share of pure retail as of now?

Ravi Chawla: 60% as you mentioned for the Q4, but for the full year we continue to be 63% in terms of retail.

Manish Kumar Gangwal: So 60% is the mix of channel sales in Q4 for the full year is 63 and it normally is that 62, 65 range only.

Moderator: We have a next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Firstly, what is the amount of price hike we need to take because of base oil prices being strengthening for this quarter and for the year as a whole also?

Manish Kumar Gangwal: We have taken a price increase in the month of February which we mentioned in the last call which was in the range of 3% to 4%. And we have also mentioned that it takes usually 2 to 3 months for the full realization of that price increase because we carry inventory that channel also carries inventory. So, we are yet to get full realization of the price increase. And as we speak that was for B2C, but B2B takes a little longer in terms of realizing the price increases and that is happening as we speak also in the current quarter. So, some of the B2B businesses also are going ahead with the price increase. So that will take care partially of the increase in input cost and then we will have to see how after the first price increase of February fully realized how the input cost scenario is and we will take the call accordingly.

Ravi Chawla: So normally the markets as you know is following a very disciplined approach in B2C there is increase which happens with the lag time of 2 to 3 months depending on what the situation is and we do cut back on the few of the spends if the cost is also going up. And in B2B most of the larger B2B customer we have a formula linked thing and what Manish mentioned in the B2B industrial distributor as we speak there are some price increase is being affected so that is how we are managing the cost escalations.

Saket Kapoor: Because the crude on a relentless rise will definitely have effect of base oil prices also, it should be of inflationary impact going forward also other than that had the crude remain in the same range the base oil prices would not have moved I think $120 or 130$ was the thing that has happened base oil for the last one year. So how will then we tackle it and will it be the total pass on going forward and what is the trajectory for base oil for the last quarter and for April, May also how are the prices trending?

Manish Kumar Gangwal: You are right base oil has a tendency to follow crude, but that is with the lag effect of 2 to 3 months and as I mentioned we also carry inventory and seeing this rising cost of crude and base oil we have increased, if you see our stock levels we have in the balance sheet published, we have increased slightly also our inventories for extra 15 days, 20 days. So based on this, we are currently seeing that that actually in the month of April the base oil has not moved much rather in some of the grades where the demand supply also plays a important role it was actually coming off the high. So it is a mix scenario a base oil is also various grades demand supply plays a big role. So we are seeing that let see after 2 to 3 months if crude is in the range of this $80 we will see but base oil currently is not increasing the way crude has gone up in the last 10 days.

Manish Kumar Gangwal: You are talking about this $100, $120 that has happened over the year for which we have already impacted a price increase. You see besides the price increase we also can reduce our trade spend so what we do is we also recalibrate some of our trade spend

Saket Kapoor: When I was comparing your number for quarter-on-quarter if the comparison can go from the December to March Quarter the number were more or less on the flatter side to slightly lower also even on improved sales, so is that comparison correct, or quarter-on-quarter has a seasonality factor also. Is it fair to compare it from December to March Q-O-Q?

Manish Kumar Gangwal: As we mentioned the product mix also plays a role in the segment mix. Our B2B sales have gone up faster than the retail. Retail has grown double digit 15%, but B2B sales are even higher and B2B sales are usually at a lower margin then the retail we all know. So is the impact of that as well, but we are quite satisfied that we have been able to maintain our band of EBITDA margin. 16.9%. EBITDA margin for the quarter which is what we have been able to deliver for the quarter in spite of all this and in spite of a 26% volume growth in the quarter which means that our volume versus margin management is in the right direction.

Ravi Chawla: So Saket just to add what Manish is saying. We are gaining market share in our consumer B2C side, we are gaining and growing faster in the B2B side where we have lower market share. So our strategy is not to say no to volumes as long as we can maintain that band of EBITDA margin which this year has been around 16% to 18% in earlier year it was slightly lower. So we are focused on the margin also and also on looking at gain in market share, but we are balancing this as we keep explaining to you all is the balanced approach for us in this area.

Manish Kumar Gangwal:

And also I mentioned in my opening remarks that versus December there is an incremental depreciation and for finance cost which has come to the extent of close to 2.7 crore because of new Chennai plant and FOREX rupees deprecation so that also is impacting versus December at PBT level, but if you see our EBITDA we have grown EBITDA even over December quarter which was a high quarter.

We are also positioning ourselves for a better outlook for going forward also depending upon what the business environment is as on today. So we are very hopeful that we can maintain this growth momentum.

Ravi Chawla: Yes, you are right.

Saket Kapoor: Lastly sir one point was there. Standard Greases is one our associate concern that holds around 20%, 29% in tide water oil are we anywhere.

Ravi Chawla: They are not our associates. They are supplier with part of our Grease portfolio.

Saket Kapoor: We are in no way directly or indirectly holding any ownership in Standard Greases?

Ravi Chawla: No.

Moderator: We have the next question from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: How much raw material cost rises in last 10 days?

Manish Kumar Gangwal: It is very difficult to track each day. But as we mentioned that the trajectory has been on the up till March. In April, base oil softened to some extent marginally but the last lag of this crude rally which is coming from \$70 to \$80 the lag effects on base oil will be after 2 to 3 months so we will be only be able to know after 2 to 3 months where the base oil is heading to.

Ravi Naredi: So we are growing higher in the industry, so can you tell us industry is growing in what percentage rate?

Ravi Chawla: Our estimate is industries is growing about 3%, 4% overall and our growth rate as we have just shared with you is 14% for last year.

Ravi Naredi: Only 3% to 4% industry is growing in volume growth. Any CAPEX plan for financial year current year and '19-20.

Manish Kumar Gangwal: No major CAPEX plans for '19-20 as we have already completed our Chennai project to the large extent.

Moderator: The next question is from the line of Sabri Hazarika from Emkay Global. Please go ahead.

Sabri Hazarika: I have got a few housekeeping questions. The first one is of course the volume growth among the various categories in Q4 actually, so how much was it for PCMO, MCO and DEO?

Manish Kumar Gangwal: I think I covered this in my opening remarks.

Sabri Hazarika: Yes because we have some problems with the line, so I could not get it.

Ravi Chawla: Actually, I mixed up one figure also I must correct it. Q4 personal mobility grew 15%, DEO grew 20% in Q4 and full year DEO grew 12% full year and full year personal mobility what is basically the car and **motorcycle** grew 20%

Sabri Hazarika: How much PCMO in isolation how much is PCMO grew.

Manish Kumar Gangwal: PCMO is similar what we said personal mobility.

Sabri Hazarika: Okay it is like 50% from both MCO as well as PCMO.

Manish Kumar Gangwal: PCMO is marginally higher.

Sabri Hazarika: What was the ad spends for Q4 as a percentage of sales?

Manish Kumar Gangwal: We are back to now the band of 6% to 7% which you will remember in the previous two quarters we have a campaign going in so it was slightly at an elevated level. Now we are back to the range of 6% to 7%.

Sabri Hazarika: Currently, what is the volume share of MCO, PCMO, CVO so it was earlier 20%, 5%, 40% so that has changed now in Q4?

Manish Kumar Gangwal: It has not changed significantly.

Sabri Hazarika: It has remained more or less the same.

Manish Kumar Gangwal: A percentage here and there largely in the same direction.

Sabri Hazarika: So you have taken a last price hike in the month of February after that has there been any price hike by you or by the industry at large?

Manish Kumar Gangwal: So we just answered in the previous question that B2C price hike happened in the month of February, but the balance 35% of B2B portfolio we have now selectively taking prices wherever we are getting opportunity like industrial distributor we have just taken the price increase as we speak.

Ravi Chawla: Most of the OEMs follow quarterly pattern so that happens at the end of the quarter.

Sabri Hazarika: So you are currently covered up to $70 crude anything of that sort?

Ravi Chawla: We have to look at base oil as Manish was trying to explain. So base oil will have 2-month, 3-month lag time and also depending on base oil.

Manish Kumar Gangwal: Demand and supply also plays a very important role. So suddenly if the refiners are having extra base oil the prices may not move in the same line as crude.

Sabri Hazarika: Your interest in depreciation so there was a Chennai Plant also which got expense in the end of last quarter, so this is the full impact of Chennai Plant is being seen in interest depreciation for the quarter.

Manish Kumar Gangwal: We are almost at this run rate we should be there in the next year almost there.

Sabri Hazarika: Your interest also has some foreign exchange component?

Manish Kumar Gangwal: As I mentioned again close to 1.2 crore of FOREX loss is there as a part of finance cost.

Moderator: We have a follow up question is from the line of Saket Kapoor from Kapoor Companies. Please go ahead.

Saket Kapoor: Sir, how is this electric vehicle story developing and what are you seeing how can this change the future for the lubricant industry?

Ravi Chawla: Obviously, we have done our extrapolation of what we feel will be the conversion rates and from whatever we have estimated it looks like up to 2030 we are going to see a positive growth in the lubricant industry that is what we have looked at. Obviously after that if the conversions are happening at those rate predicted by various people and the SIAM and others, we may see that the growth rates of the industry may kind of come down and then maybe around 15 years, 20-year mark you might see that flatten but overall, we see a positive growth as I mentioned to you of lubricants growing so we need to focus on that. Obviously, electric vehicles as a future strategy we are deliberating and watching the space closely. Internal combustion agents, in fact if you look at the commercial usage, the marine usage, the industrial usage and the commercial vehicle, will continue it was a vehicle car park is going to be very high.

Saket Kapoor: One more point sir what are the utilization levels for all the lubricant industry as a whole I mean to say that what kind of capacity expansion is needed with the type of growth we are seeing in all types of vehicle whether it is the two-wheeler, three-wheeler, four wheeler or even the other categories, in almost all categories, what kind of CAPEX will be required for 3 to 5 years down the line to maintain this momentum for the lubricant industry and what is the utilization level?

Ravi Chawla: You are talking about Gulf Oil or the industry?

Saket Kapoor: I am talking about the industry. In particular if you could just overview for the industry and then Gulf Oil in particular.

Ravi Chawla: See industry is predicted to grow at 2%, 3% volume growth I think there is capacity available today in various ways there are toll blenders and all. As far as we are concerned we have made in house capacity. We are at 95,000 kl now. We were earlier growing at 10% to12%. Now we are growing at 14%. We have internal capacity coverage for number of years now looking at the future, but we are also looking at opportunities on how we can use the current capacity. So industry there is capacity available and new capacity is also coming up in the industry. You can come off-line I can share with you what are the new plants coming up and the capacity getting added, but there is enough capacity in the industry which has been built up.

Sakeet Kapoor: Foreign players have also made entry in the segment I am forgetting their names big players?

Ravi Chawla: We can take it off line I can share with you who are the players who are putting up capacity, but that is available in public domain also.

Sakeet Kapoor: If we define the market share type geographically what is the split-up ratios for us, where are the predominant and who is the nearest competitor?

Ravi Chawla: No, so we are as we mentioned we estimate that we are #3 in the private sector and close to the #2. And in the Bazaar segment we are #2 across India. Our market share is around 8%. This is a similar market share we have in the regions of course some segments will go up and down, but this is more or less the similar market share across regions.

Sakeet Kapoor: Just to have an understanding how do you define the Bazaar segment I am not convenient.

Ravi Chawla: Bazaar is roughly a third of the total market around 800,000 kl, total market is about 2.5 to 2.6. So a little more than 1/3rd is the Bazaar market which is the retail shops which service the open market not the retail fuel stations, retail shops and independent garages that is Bazaar market.

Moderator: We have the next question from the line of Ronak Sarda from Axis Capital Limited. Please go ahead.

Ronak Sarda: One question from my side if you look at our balance sheet is pretty strong now generating decent amount of cash, no major CAPEX lined up any thoughts on capital allocations now and any thought process are entering any news for that or what do we plan to do with the cash?

Manish Kumar Gangwal: We have been generating cash you are right. We have maintained a 40% dividend payout in the current year also if you see our line with the increase in profitability we have increased the dividend percentage. And we are looking at opportunities as we mentioned in our earlier calls also if there are some opportunities in certain product segments we are looking at those opportunities as well something is there is coming up in terms of utilization of cash.

Moderator: The next question from the line of Shaan from Edelweiss. Please go ahead.

Shraddha: Sir just wanted to understand how is the competitor intensity shaping up because we were hearing there is lot of aggression from the readers also. Yet our outperformance is significant compared to the industries so I mean if you could highlight what is leading to such a strong outperformance?

Ravi Chawla: So I think as I mentioned to you we have definitely our base of distribution is going up, our brand strength is going up. We are seeing distribution which I mentioned is very layered and getting into lot of intensive and extensive distribution both by that I mean that our retailers are buying more from us and more retailers are buying. So that is the way we are positioning our different segment. Definitely our market share is lower, so we are able to take market share in various segments where we have focused. Probably some of the other players have already saturated that level so they will look at other ways to kind of hold on to the share which is where you talk about intensity and our mantra has been to focus in what we are doing keep ourselves positioned there increase our brand strength wherever we are able to use our resources very specifically oriented and we are also looking at the B2B segments where we see opportunities with new OEMs with we look at OEMs that have come with us they are adding new geographies based on our proposition to them in terms of improving our service levels, giving a better market share for them also where we can do intensive activities.

So we are very focused on our own activities which I believe each company has their own strengths and their own strategies so we are quite focused on that. And continue to look at it that way. Yes some of the competition we have for example, a very good retail program for 'Unnati' which is helping us get more retailers to buy more often and buy more and we are doing things around these kind of activations. In infrastructure we have mentioned to you we are taking a lot of we have a road construction companies. So some of the competitors maybe looking at price cuts and that is part of it and we are focused on giving our value and increasing all segments we are focused on including dealership and that strategy what we are focused on.

Shraddha: You know the 65, 35 that we were earlier having the mix, could we look at it getting more skewed towards 50:50 B2C, B2B?

Ravi Chawla: Yes, you are right B2B we have a lower market share where we estimate the market share is less than 5% in B2B in some segments. So if our channel business is growing at 15% as we shared with you, we do not mind a B2B business growing at (+20%). So that is where the ratios may change, but overall as we said we want to maintain our band of margin and we recalibrate our inputs and outputs based on that.

Shraddha: We were last year having a little tough time entering that, so what has led to this 20% growth and has it been in line with our expectation?

Ravi Chawla: So PCMO we are expecting a higher growth. Certainly, we saw that the GST and other things impacted the consumption of PCMO and motor cycle more in the few months and we have started investing in the brand, the campaign we did with Manchester United was one. First, we did it was done on Television and it was also done in select cities. So, we are focusing in markets where we think the growth can come and these things take time because we are obviously looking at our distribution gain how we can get into Car Stops which is our independent workshop program. So I think this is something which we are focused on and 20% growth in a PCMO is a starting point. I think it is only looking at more positive growth as we look forward.

Shraddha: So we have been able to get OEMs here or it is still driven by B2C only?

Ravi Chawla: We have driven with our product range here. We do not have any major OEMs tie ups in this. We do supply to Mahindra for the Bolero and below that, but not any major OEMs after that. We are trying, we will let you know as soon as we have a few wind is there.

Shraddha: When we refer to this market share in B2B less than 5% so what are we referring there?

Ravi Chawla: So we are talking about direct industries, cement plants, we are talking about infrastructure segments who are buying hydraulic oils such mainly those kind of industries cement, steel.

Moderator: Ladies and Gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Ravi Chawla: I think overall the Q4 as we mentioned has been a positive quarter in terms of higher level of growth and given that April, May, June is a good season. We are well geared up to look at our segments, to look at our even newer segments which may evolve within segments like LCV like looking at DEO across all the manufacturers, looking at better growth in PCMO. We believe that the tailwind on the DEO is a positive input for us in the industry and continued focus on our initiatives, our strategies keeping mind what the competition is doing and recalibrating as required. We are as part of Gulf Oil here quite confident that we can continue at the growth momentum we have and look at gaining market shares and of course maintain our discipline on pricing, on cost management and other things and looking forward to meeting up and talking to all of you in the next call.

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