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**“Gulf Oil Lubricants India Limited Q1 FY19 Earnings
Conference Call”**

August 08, 2018



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

MODERATOR: MR. RAUNAK SARDA – AXIS CAPITAL



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Moderator Good Day, Ladies and Gentlemen, Welcome to the Gulf Oil Lubricants India Limited Q1 FY19 Earnings 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. I now hand the conference over to Mr. Raunak Sarda from Axis Capital Limited. Thank you and over to you, sir.

Raunak Sarda: Thanks. Good evening, everyone. Thanks for joining the call. From Management side we have Mr. Ravi Chawla – Managing Director; Mr. Manish Kumar Gangwal – CFO; and Mr. Vinayak Joshi – Company Secretary. Over to you, sir, for your opening remarks.

Ravi Chawla: Thanks Raunak. Good evening, ladies & gentlemen. This is Ravi Chawla here. Welcome to the Quarter's call. Thank you for your time. We are extremely delighted to share with you that this quarter has been a record-breaking volume growth quarter for us, with 33% growth, which leads us to the highest ever quarterly EBITDA of Rs. 64.5 crores for Q1. It is also all-time high in terms of volume and EBITDA.

The highlights are certainly that last year's Q1 was a GST quarter, we had grown 7% even then in Q1 last year, compared to our normal growth which you take last year was 13% - 14%, but this year's 33% is certainly a big boost. We have seen all-round growth, especially our channel business has grown really high double-digit and that is really good because of the distribution initiatives and also that is a better realization for us in terms of mix. So, that is a positive sign in terms of the demand conditions and our distribution, brand building and other initiatives.

We have been talking about 2x to 3x market growth rate, the market growth rate has picked up for high brand lubricants and better brands, we are seeing that across positively. I will come to segment wise growth but the market growth which we used to say 2% to 3% has possibly gone up by 1% or 2%. So, when we look at 2x to 3x certainly last quarter has been even more gratifying as you have seen a record 33% growth. We did take some price increases in February which are helping. We had another price increase in July which Manish will cover later and how that is helping us. But what is important to note is that now the diesel engine oil segment, the motorcycle segment both which have been key segments have grown more than 25% this quarter.

We also did a few things like in the motorcycle oil, we changed our pack, we had promotions with the Chennai Super Kings, and as you will see now the visibility drives are on, at the ground level our distribution is going up. And what is really making difference also to us is the rural distribution piece within the overall piece. Though it is still less than 15% of the channel, we see that that is doubling. So, the rural piece is really kicking in very well and we have now more than 600 rural stockiest below our main distributors. So, very good distribution initiatives backed by below the line, above the line initiatives. OEM factory fill has also done well, we supply to major commercial



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vehicles companies that has grown, you know the sales have gone up more than 50% in commercial vehicles in the quarter, so that has been very good.

Industrial distributor segment is also picking up and a new focus are for us was the passenger car segment where we have grown 30% this quarter and again that is on a lower base, but still 30% is a heartening thing where the new ranges are kicking in.

So, all in all, I think back-to-back it is the second quarter with volume of +27,000 KL revenue growth of 39%, EBITDA at the highest level at 64.5. And really the EBITDA margins are amongst the band of 16% to 18%. Definitely there is an impact on the depreciation, which is in the Chennai plant. And some adverse movement of rupee, Manish will cover that later. In spite of that we have got steady gross margins, the input cost scenario is good because base oils are more or less steady now. I just mentioned that we have just taken another 3% increase in the prices for some of our key segments in July itself, so that will help us. And a better segment mix which is coming on account of better retail sales, bazaar sales, and also the February price increase impact came in. So, these are good things that have happened.

We continue to invest on the brand and people. A&P in the range of 6% to 7%, in fact, a number of campaigns have been put in for various key segments. I mentioned the growth on the segments. And again, right across the OEM factory fill dealerships, industrial distributor we have seen very healthy growth.

So, given this and the momentum we have, we are certainly looking at much higher trajectory of growth, last year we did about 13% to 14% growth. So, definitely it is looking very positive and there have been many other initiatives we have done across segments, I mentioned a few things on the Chennai Super Kings, the motorcycle oils. And again, we are backing up the agri growth with a number of initiatives.

We have also launched a new loyalty program for our key retailers called Unnati which is gaining traction, so we will see a lot of excitement around that and we will hopefully see handsome double-digit growth in the segment.

So, that is all from my side. Manish, you want to highlight a few other things?

Manish Kumar Gangwal: Thank you, Ravi. So, as Ravi mentioned, it is a very robust quarter for us, 33% volume growth and 27,500 KL total volume for the quarter is again the highest volume for the quarter. March quarter also we did some 27,000 KL but usually you will recollect that March is a slightly high quarter for us, because of yearend schemes, etc., but even outdoing the numbers of March quarter in a June quarter is a really healthy sign. And +27,000 KL volume achieved for sequentially two quarters which is a very good confidence giving thing to us.



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At the gross margin level, as Ravi mentioned, input cost has been rising right from January, February onwards, but we have been able to maintain our gross margins, that is a very positive sign again and that is coming on the back of a good segment mix, retail sales picking up and the price increases taken in the month of February. So, these factors have contributed in retaining the gross margin levels at stable level.

And going forward, because of the rupee depreciation to us in April to June quarter, we lost some amount of close to Rs. 2 crores on the FOREX side. And Chennai depreciation plant is higher by close to Rs. 3 crores. So, this Rs. 5 crores impact is at the PAT level, but at EBITDA level we have grown 31%. So, that is quite healthy. And we have continued our investments as we have mentioned. So, we are looking for a very-very positive quarter going ahead also because of the price increase again taken in July. And input cost being quite stable now for the last one month we have seen base oil and crude being very stable. And Rupee is also at a level which is now factored in.

Now we would like to take some questions.

Moderator: Thank you very much, sir. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Nitin Tiwari from Antique Limited. Please go ahead.

Nitin Tiwari: Sir, a couple of questions. One is, what is the absolute volume sales in million liters, if we can get that. And then percentage breakup in terms of segment, how much is where in terms of PCMO, motorcycle oil, diesel oil and industrial oil? So, first if you can address that and then I will come up with the rest.

Manish Kumar Gangwal: Absolute number is 27,500 KL. Percentage break, it is more or less same, Nitin, in terms of overall, because we have grown almost all segments at quite a healthy pace, about +25%.

Manish Kumar Gangwal: So, there is no shift. For example, we mentioned to you that our DEO and motorcycle has grown +25% and PCMO has grown 30%.

Nitin Tiwari: In the March quarter there was some dip in the MCO, PCMO that was around 20%, now it is back to 22%.

Manish Kumar Gangwal: Yes. So, personal mobility has gone up from 20% to 22% if you see quarter-on-quarter, last quarter to this quarter.

Nitin Tiwari: So, basically motorcycle oil and cars both together are about 20% to 22%?

Manish Kumar Gangwal: Last quarter it was 20%, so that is a good positive sign overall. Otherwise, more or less the same.



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- Nitin Tiwari:** And diesel oil would be how much?
- Manish Kumar Gangwal:** Around 37% - 38%, continues to be within that range.
- Nitin Tiwari:** So, that means industrial oil must have grown really sharply for you in this quarter because your overall growth number is 33% whereas the other key segments which is your PCMO and motorcycle and DEO, they are sub 33%. So, there was a huge growth scene in industrial oil, is that correct, sir?
- Ravi Chawla:** Yes, so industrials have grown, and also AdBlue. We have started marketing a product called AdBlue for BS-IV vehicles having SCR technology. So, that also is growing slightly.
- Nitin Tiwari:** If you can like help me understand this product?
- Ravi Chawla:** So, this is a product which is used for the new BS-IV CVs, it is used as an after treatment device in special engines which they have. So, this is part of our industrial sales, but it is a very small part of the business currently and that has come in. But otherwise most of the ranges are growing very handsomely as we have shared with you. So, there would be a slight 1%, 2% shift because of these kind of things. But overall it remains the same, the mix.
- Nitin Tiwari:** And you also mentioned that there was a lot of strength which was seen in channel distribution and there is almost a double-digit growth in the channel sales. So, if you can just shed some more light on...
- Ravi Chawla:** So, channel sales are roughly two-thirds of our volumes which is what we call the bazaar market. And part of that, of course there are some OE products. But if you take that we have seen that that normally used to be sometimes double-digit or a little bit below or little bit above double-digit. But that has now nearly doubled, so this quarter we saw a lot of gains in rural distribution and that is a very positive sign. So, that is really where the consumption is taking place and the realizations are better. So, that has got close to 20% growth in this quarter.
- Nitin Tiwari:** So, going forward what would your guidance be in terms of how do we see the growth?
- Ravi Chawla:** So, we have always said two to three times market growth, and market growth has picked up. What we feel is market growth has gone to maybe 4% - 5%. So, if you will take that, minimum 2x to 3x of that is what we always give the guidance for.
- Nitin Tiwari:** So, in terms of your realization also, your realization per unit if I see that, that has improved slightly, so that is largely an effect of price increase that you took in February, is that a correct piece?



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- Manish Kumar Gangwal:** Plus, as we mentioned, retail sales have really grown fantastically.
- Ravi Chawla:** You are right, it is a mix of the price increase we took, because those price increase normally comes in a month or two later and then the mix improves.
- Manish Kumar Gangwal:** If you see our last concall we have mentioned that retail was 60:40, the ratio of retail to B2B which is now back to 63:37 in this quarter.
- Nitin Tiwari:** So, your RM cost has not changed much, I am talking about the raw material cost which was on a per unit basis almost similar to the previous quarter whereas like there has been a meaningful movement in crude oil and also base oil prices. So, are we going to see a lag impact and probably an impact coming in this quarter, the second quarter I mean?
- Manish Kumar Gangwal:** No, so we have mentioned in the last call also that we have stocked some quantities more also of base oil seeing the upward trend, and we have been able to manage that quite effectively. Now, base oil has stabilized sort of we have seen last one month base oil is pretty stable.
- Nitin Tiwari:** So, more or less we should be able to maintain the margin that we have seen in the first quarter and second quarter and third quarter as well?
- Manish Kumar Gangwal:** We are quite hopeful.
- Moderator:** Thank you. Our next question is from the line of Shrinivas S from Mirabilis. Please go ahead.
- Shrinivas S:** Sir, I had a few questions regarding the CV in particular. Firstly, just wanted to understand the kind of mix between the OE fills and the bazaar and if you have any kind of some other channel which is meaningful. And then also in particular how has the growth been between these two, three channels, that is on the CV and second one is the old gen, New Gen, roughly kind of how the mix has moved in terms of the oils which you have sold?
- Ravi Chawla:** OE basically we have three parts, we have the factory fills, then we supply to the OEM workshops and we sell OE products in the bazaar. So, for us about the factory fills will be close to 8% - 9% of our volume, the workshop would be again about maybe close to 10%, and the balance 10% to 15% are OE related in the bazaar. So, these are the three segments which roughly make up a third of our sales, that is the way what we do. Now, we have seen, the OEs that we supply, the commercial vehicles as you know they have grown very well this quarter, so obviously the growth has come in terms of factory fills for us, we do a number of OEMs there. And since you are talking about CV, yes that has been growing very well, both HCVs and medium-term and also light. Regarding the workshops, we have again seen an excellent growth, because the number of new vehicles coming in, getting serviced within warranty, outside warranty and all the people we are tied up with there also has seen a good growth in terms of that. So, workshops whom we supply



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also have done positively. In the bazaar we are seeing that growth as we are mentioning diesel engine oil consumption again going up. We are mostly in to the New Gen, so we can clearly tell you that for us the focus is New Gen, New Gen is more than 60% - 70% of our diesel engine oils. Of course, some of the diesel engine oils are going to tractors where the New Gen is coming in. So, the 15W 40 Oil are coming in. So, for us we have seen all three segments grow positively and that has really been very heartening for us in this quarter.

Shrinivas S: Sir, could you specifically share the bazaar sales growth, especially on a year-on-year basis how that has been?

Ravi Chawla: Bazaar I told you it was earlier high single-digit, and now it is moving to a double-digit kind of figure which last quarter has been very good, it has been close to 20% but we would anticipate a good double-digit figure in bazaar as we go forward.

Moderator: Thank you. Our next question is from the line of Baidik Sarkar from Unify Capital. Please go ahead.

Baidik Sarkar: Could you help us understand what percentage of gross margin expansion was withheld as a result of not passing through your price hikes? And the hike that you have taken in July, what percentage will that capture?

Manish Kumar Gangwal: We have passed on the cost increases proactively in the month of February for the bazaar segment. So, when we talk of price increases we usually talk of bazaar segment which is 60% - 65% of our volume, because B2B and OEM that portion is a bit of negotiation and partly formula linked also, so quarterly there is a revision in the pricing based on the global indices of base oil. So, margin management has been our focus, and this recent price increase of July is again in the bazaar segment, close to 3% to 4% in selected products we have taken. And, again, we have taken it proactively to counter the rupee which has depreciated in the last quarter significantly where base oil has been almost stable.

Baidik Sarkar: So, I was just trying to understand what percentage of your inflation now remains to be passed on?

Manish Kumar Gangwal: It is very difficult to say how much is remaining to be passed on on a per liter basis, because we do not monitor, because we have to see the competition and pricing action taken by competition as well. But overall, we are quite confident to maintain the gross margins the way we have been able to maintain in the past.

Baidik Sarkar: And obviously Q1 had effect of low base last year, adjusted for that would you be able to quantify what kind of market share gains we took from our competition?



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- Ravi Chawla:** See, last year we grew in the quarter in spite of GST our growth was 7% in the quarter. So, last year quarter one we grew 7%, this year we 33%. The market growth we are anticipating is 4% to 5%. Then you can see the market share growth rate, because obviously if we are doing three times the market growth rate then we would add at least nearly about 0.3 basis point kind of market share, given the market size of bazaar which is where we usually track it. So, that would obviously give us more market share, because anyway that is how we have been growing for the last eight to ten years if you see, our growth has been close to 11% CAGR volume, a little higher last year. So, if we have gained roughly about 0.5% to 0.6% market share every year in the bazaar this would be higher if this growth continues for us.
- Baidik Sarkar:** So, Ravi, in the context of full year guidance of about 14% - 15% volume growth given the strong impact we have had for Q1, is it fair to state that that is a very-very conservative outlook?
- Ravi Chawla:** See, we have to look at various segments as you know. When we look at the bazaar, yes we would say that bazaar would be slightly higher than that, but as a company is what the guidance we give. So, you should understand bazaar we will gain maybe more with what we are telling you because most of the market share calculations we are telling you are on the bazaar basis.
- Baidik Sarkar:** Sir, my question was based on your full year volume growth outlook. I understand your bazaar but the blended growth that you had in the non-bazaar category, obviously the full year growth estimate of about 14% - 15% in terms of volume looks a bit conservative, right?
- Ravi Chawla:** We will have to watch. We also want to keep guidance on what the competition is doing which we do not have, but we obviously look at the market and calibrate as we go quarter by quarter.
- Manish Kumar Gangwal:** And just to add here, we are certainly confident of again 2x to 3x of the market growth rate. So, if the market is growing 4% to 5% we are quite confident of growing 3x the market growth rate, that is in terms of our growth numbers.
- Baidik Sarkar:** Just to take on Castrol, I think for the first time you have kind of publicly shared that they are also gunning for volume growth and I think they have taken some price actions. Should that be cause of concern for the entire industry? Given that everybody kind of follows Castrol on taking price hikes.
- Ravi Chawla:** See, you have to look at industry as a whole and this same thing on volume growth each of the companies try volume growth in various stages. So, we have seen earlier also the same thing, we have heard volume growth is objective. So, we obviously have to look at the overall market and look at what is happening. And we believe our position and our strategy is we want to clearly be focused on that and that will help us to grow in what we think will matter to us.
- Moderator:** Thank you. Our next question is from the line of Sabri Hazarika from Emkay Global. Please go ahead.



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- Sabri Hazarika:** First of all, wanted to understand your views on the axel load increase and its impact on the lubricant demand over the medium-term? So, anything you would want to say on that?
- Ravi Chawla:** At this stage obviously, this load will mean the vehicles can only carry a particular, so more new vehicles will come in. So, based on that we will see some demand in the new vehicles. But overall, we will have to just wait and watch, certainly it also depends on the movement of goods, what is the index there. So, we are watching that and seeing how that will impact.
- Sabri Hazarika:** How do you see the industry growing over the next two, three years, I mean we have got some positives like economy is stabilizing post-GST, against that the axel load increase will probably impact the sales and it would lead to more loading of the existing fleet. So, do you see any structural shift in the industry growth rate or you think it will be still at a 4% to 5%?
- Ravi Chawla:** You are talking about lube industry.
- Sabri Hazarika:** Yes, lube industry.
- Ravi Chawla:** Lube industry earlier used to be 2% to 3%, we are seeing 3% to 4%, and even in the bazaar if you go slightly more. So, we see that the trend, especially for branded lubricant of the higher end, the New Generation oils, since people are buying new equipments there more new trucks are coming in and new vehicles are coming in and new cars are coming in, we see more of a growth in fact for higher end of the value-added brands that are in the market. So, that is a positive for us.
- Sabri Hazarika:** And secondly on bookkeeping, actually I logged in late, I just wanted to know the 33% can you just break it up between PCMO, MCO, diesel engine oils and industrials?
- Ravi Chawla:** As we said, the growth in the three segments which we usually share is our growth in the PCMO segment has been 30% and for the diesel engine oils and motor cycle it has been 25%.
- Moderator:** Thank you. Our next question is from the line of Ronak Sarda from Axis Capital Limited. Please go ahead.
- Ronak Sarda:** A couple of questions from my side. Sir, in the press release you have highlighted the rural focus and the Unnati program. If you can just highlight how much does tractors contribute to your top-line and is there some low hanging fruit where we can increase market share?
- Ravi Chawla:** We have products which are Gulf products for tractors, we have products which we have co-branded with Mahindra, Genuine Oils Mahindra & Swaraj. So, these are the three products that we have in tractors. Besides that, tractors also take the gear oils and they have something called multipurpose fluid for oil immersed breaks. These are type of products which go into tractors. Now, we have been increasing our rural distribution, as I mentioned to you, we have now 600 plus



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rural stockiest. So, these products go to this segment which is a bazaar segment, all these products are sold there. Some of the genuine oils we supply also to the workshops for Mahindra, Swaraj in their workshops. So, we are seeing that this distribution increase is helping us to sell more of our products and the co-branded products, certainly that is going in. We also see the new oil immersed brake oils which we have is doing well. So, that is a new product which has come into the bazaar market. And the workshops continue to now go towards the New Generation oil for tractors which is a 15W- 40 oil, so that is also picking up, as we see the Mahindra and Swaraj consumption in various workshops. So, really for us this is the tractor segment. And out of the total diesel engine oils which we mentioned it is about close to 37% - 38%, about 8% - 9% would be the tractor segment in that.

Ronak Sarda: And few housekeeping questions. What would be our inventory for base oil? Have we increased our inventory period because your prices were volatile or are we back to the old inventory levels?

Manish Kumar Gangwal: We did increase some inventory, as we mentioned in the previous call as well. But as we see now they are more or less stabilizing in terms of our number of days.

Ronak Sarda: So, 45 days?

Manish Kumar Gangwal: We usually keep between 45 to 60 days of base oil, because now 50% to 70% of our base oils are imported.

Manish Kumar Gangwal: So, there is a transit time, so we have to keep based on the transit time also.

Manish Kumar Gangwal: Our overall working capital days are in the range of 90 – 95 days, including receivables.

Ronak Sarda: And this FOREX loss which you had highlighted last quarter as well, does it fit in the other expense?

Manish Kumar Gangwal: No, it is a part of finance cost.

Ronak Sarda: And is it like a realized FOREX loss or is it something like on the balance sheet item?

Manish Kumar Gangwal: It is a mix of both, anticipating that rupee is depreciating, we have mentioned in the previous calls that we have a hedging policy which is suggested by FOREX experts, and we have been following. And they had advised us to hedge more as the rupee was depreciating. And that has also helped us to contain the loss to just Rs 2 crores – Rs. 2.5 crores in that range and that has been really a positive thing for us for the quarter actually, that in spite of 5% rupee depreciation, or more than that, our FOREX loss is Rs.2 crores – Rs. 2.5 crores.



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Ronak Sarda: And sir, advertisement spend for the quarter? I mean usually Q1 and Q4 would be bigger quantum of spend and does it normalize in Q2 or Q3, what would be the advertising spend as a percentage of sales?

Manish Kumar Gangwal: Should be in the same range of 6% to 7% in this quarter.

Ronak Sarda: And final question on CAPEX, I think would be just maintenance CAPEX for this year?

Manish Kumar Gangwal: Yes, only maintenance CAPEX, no major CAPEX other than that.

Ronak Sarda: And then what is our strategy, I mean cash flows are pretty strong, free cash generation with new plant coming up it would be at a record high. So, any new product like you highlighted AdBlue as one, so what is the strategy on deployment of cash?

Manish Kumar Gangwal: So, we have mentioned that we have started two-wheeler battery as a pilot and that is where the focus now is to invest in terms of backing up with some resources there. So, we are trying to do that, we have a decent number in terms of now clocking every month on two-wheeler battery. And that is how we will try to put in more resources.

Ravi Chawla: So, we had started a pilot three years ago, because our channel synergy showed us that our retail outlets which sell our motorcycle oil which is today nearly 20% of our portfolio also sell two wheeler batteries. And given our understanding of the market we found that for quality batteries which are made by quality brand name, certainly there is a demand. And we had started the pilot and we have got some market small market share, but the investments were not made behind that, there was selective distribution and no real advertising marketing. So, now we have taken this business on and we are going to do certain investments. And as you will see that these are some of the things which will hopefully get us our brand Gulf Pride which is in the motorcycle, we want to look at that growing in extension in terms of two-wheeler battery.

Ronak Sarda: So, what would be the strategy here, I am assuming it would be contract manufacturing on the product side?

Ravi Chawla: So, we are right now sourcing this product from out of India, and it is a very excellent quality so that is why the pilot took time, we ensured that the quality is top like our lubricants quality. And we will unfold our strategy, you will have to give us some time on that, but currently we are planning to get into the segment with some more investments.

Moderator: Thank you. Our next question is from the line of Nikhil Vaishnav from VD Investments. Please go ahead.

Nikhil Vaishnav: I would like to ask you at what CAPEX utilization company is running right now?



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Manish Kumar Gangwal: So, we will be close to 70% in terms of our capacity utilization post the Chennai plant block. We had one plant which was at Silvassa which is 90,000 KL and we added 40,000 KL capacity in Chennai in the new plant, to begin with. And combined we have 130,000 tons. And we are currently at a quarterly average of 35,000 plus KL every quarter. So, you can calculate the math.

Nikhil Vaishnav: You said that your CAPEX plan is only for maintenance CAPEX, so what will be the amount, can you give us some details?

Manish Kumar Gangwal: It will be less than Rs. 10 crores.

Nikhil Vaishnav: And I want to ask you why PAT margin is low as compared to previous question, like Q4 FY18 and Q1 FY18, can you give some details about this?

Manish Kumar Gangwal: PAT margins are lower?

Nikhil Vaishnav: Yes, like Q1 this quarter is around 10.20% and last quarter it was 11.08%. So, why is it low?

Manish Kumar Gangwal: So, we have mentioned that last year in this quarter there was, the Chennai plant has not started so the capitalization of Chennai plant has happened in March quarter and partly in the June quarter. So, that is the impact to depreciation which has come in at the PAT level. And also, the FOREX, last year June quarter rupee was fairly stable and this year rupee was quite depreciating, close to 5% in terms of depreciation from March end to June end. And these two factors have impacted PAT to the extent of Rs. 5 crores both put together.

Nikhil Vaishnav: And you said your volume would be around 27,500 for this quarter, right?

Ravi Chawla: 27,500.

Nikhil Vaishnav: And what is the realization for this?

Manish Kumar Gangwal: It is close to Rs. 141, we have a top-line of Rs. 390 crores.

Nikhil Vaishnav: And how much you are targeting for FY19 whole year?

Manish Kumar Gangwal: We always say that we will do 2x to 3x the industry growth rate, industry as we currently estimate is growing at 4% to 5%.

Moderator: Thank you. Our next question is from the line of Shraddha from Edelweiss. Please go ahead.

Shraddha: If you could just share market share across categories? Because clearly from the earlier run rate of 2x to 3x I think we are growing even faster at 3x to 4x the industry growth. So, did we have a sharp jump in market share cross categories?



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- Ravi Chawla:** We do not have data on the quarter what has the market done, because it is difficult to track that. So, we do this annually. And if we maintain our growth which we do as 2x to 3x the industry and now we are looking slightly aggressive growth, we will certainly gain close to 0.6% - 0.7% in terms of market share. Of course, the quarter has been good, so our market share will move up if we continue this trajectory. But we also have to look at what is happening with the overall players in the market. So, the trackers in the market as you know we do not get it so often, though we get retail track data, it is not very accurate. So, I think our market share will move up a little better if the growth is maintained.
- Shraddha:** So, two-wheeler particularly, are we at a double-digit kind of a market share?
- Ravi Chawla:** We still have to touch double-digit, but we are close to that now.
- Shraddha:** And DEO would be similar?
- Ravi Chawla:** You are right, bazaar was similar and PCMO will be less than 5% at the present.
- Shraddha:** And just wanted to understand, industry growth trend based on the current fleet, how do we see the industry growth for the next two, three years?
- Ravi Chawla:** What we can see now is that certainly 1% - 2% extra points in terms of growth is coming in, also because the economy is picking up. So, both in terms of new vehicles and usage of vehicles, usage of also personal mobility and other things, usage of construction equipment, we certainly see that the growth rate will be better, I would say, for at least couple of years which looks to be positive.
- Shraddha:** And do we have any tentative CAPEX figure for this new battery plant that we are taking?
- Ravi Chawla:** It is all work in progress, obviously we are doing our work on that, but at the moment we are just looking at how we can take it to the next level in terms of from pilot to investing in other things which will be required for selling.
- Manish Kumar Gangwal:** Shraddha, first leg of investment is going to be towards distribution and marketing and brand building. Then after reaching a certain stage we will look at CAPEX in terms of plants, etc. But that also is not a very high capital intensive industry.
- Ravi Chawla:** You will see from the advertisement which has come with the results, we have signed on Hardik Pandya, cricketer, for promoting the battery business for us, to start with. So, obviously we would be putting in some investments into the brand.
- Shraddha:** And lastly, this 3% to 4% price increase that we have taken, does it cover up our cost increases for the base oil so far?



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- Ravi Chawla:** Yes, it should.
- Shraddha:** And on that price increase, the current gross profit trajectory that we have of around Rs. 65, that should ideally move up, right?
- Manish Kumar Gangwal:** That depends on a lot of factors in terms of segment mix, as we said retail sales currently this quarter has been very good. So, if we continue to do that, yes, it should. But it depends on really how the B2C, B2B mix continues to play out.
- Ravi Chawla:** Our strategy has been to look at volume growth wherever obviously there is profit. And B2B and B2C also there are opportunities. So, if B2C is doing well that is also good, but if we get B2B opportunities also we will be there. And we would more look at a band of margin we want to get and obviously we are investing in the brand, so we would like to obviously take it higher. But we always want to say that it is within this band we want to look at opportunities. If there is a new opportunity that comes we will not say no, again, if retail growth continues at this pace we also see a positive of that adding to the overall margins.
- Shraddha:** And lastly on the base oil, any trend that we see going forward? And has it gotten up with the crude oil price increase?
- Manish Kumar Gangwal:** So, last one month we are seeing base oil to be stable. As the crude is stabilizing around \$74 - \$75 per barrel, the base oil has also stabilized.
- Shraddha:** At around 115-116, right?
- Ravi Chawla:** Various grades are there, so different base oils have different pricing range.
- Moderator:** Thank you. Our next question is from the line of Nitin Tiwari from Antique Limited. Please go ahead.
- Nitin Tiwari:** Just wanted to understand the capacity utilization again, if we can have a breakup plant wise at Silvassa and Chennai plant, how much is the utilization in each plant? And second question was, we were looking to gain out of shifting some production to Chennai because of saving and logistical cost that would be there. So, has the savings started to flow in into our numbers and what part of that savings is flowing in? If you can just throw some light on that.
- Manish Kumar Gangwal:** Chennai plant started stabilizing production in this quarter, and we did a ceremonial opening of the plant on 18th of May during the quarter, although the actual production started before that. But the plant is stabilizing every month on month as we progress, and more and more SKUs are getting shifted to Chennai plant. Freight savings, if you see, our overall other expense if you see which includes the freight, transportation expenses is fairly stable in the range of 23% which we have



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been saying that in spite of increase in the fixed cost of the new plant that will be offset partly by the freight savings. So, that is clearly coming out in the numbers also that the other expenses are stable in the range of 23% - 24%.

Nitin Tiwari: So, basically sort of a more going rate utilization would be there in Chennai in this quarter because the first quarter as you said was more about ceremonial opening?

Ravi Chawla: Yes, as we speak every month we are adding new SKUs. So, yes, we are reaching the desired plant production level there now.

Nitin Tiwari: What that broad range would be, if you can just help me with that?

Ravi Chawla: In the range of what we were saying that our South India volume if we primarily want to target which is close to 30,000 KL is what we initially planned to shift to Chennai and that we will reach.

Moderator: Thank you. Our next question is from the line of Hemanshu Shah from HDFC Securities. Please go ahead.

Hemanshu Shah: Sir, just a couple of questions. One is, our depreciation run-rate we should assume a further increase, because the Chennai plant we would have started depreciating only from current quarter?

Manish Kumar Gangwal: So, as part of this capitalization has happened during the current quarter but depreciation on a run-rate basis going forward in the range of 5.1 crores every quarter is something that every quarter, annually Rs. 20 crores in that range is roughly what is going to be the likely run-rate.

Hemanshu Shah: Secondly, on the gross margin front because of the price increase that we have taken we should be able to maintain the gross margin levels of first quarter what we have reported. If you can just provide some color over there?

Manish Kumar Gangwal: Price increase has been taken as you mentioned on the bazaar side which is 60% - 65% of the volume for us. But B2B side takes a slightly longer time in terms of price increases and realization on that account, because of quarterly formula, etc. But overall, we are quite confident to maintain the gross margin.

Hemanshu Shah: Sir, why I am asking this is because probably we had benefit of low cost inventory that we would have built up in earlier quarters as we mentioned during the call. So, once that inventory starts getting exhausted and we would have seen some inflation in the base oil price, so yet we should be able to maintain our gross margin range?

Manish Kumar Gangwal: Yes. Because that is the reason price increase is proactively taken. And also, the base oil is fairly stabilizing now for the last one month, slightly gone down \$30 - \$40.



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- Hemanshu Shah:** And lastly on the volume growth front we are guiding 2x to 3x of industry growth, now even if we assume industry growth of let's say 5% or something and 3x for us, that would for the year amount to around 15% odd kind of a growth or 110 million kiloliters which would basically imply that the run-rate for rest of the quarters would be similar to current quarter volumes. Fair to assume that or we should see some bump up from current quarter volume levels in the subsequent quarters?
- Manish Kumar Gangwal:** Usually July to September quarter is slightly weak quarter because of the monsoon, but overall we have 2x to 3x the industry growth rate which means the double-digit volume growth should continue.
- Hemanshu Shah:** Sir, specifically basically last year we had done around 94.5 million liters – 95 million liters and if I assume 3x growth of industry for us, like 15%, we should be at 110 million KL. And we had done rough, which is around 27.5 kind of a run rate per quarter, which would be similar to first quarter run-rate. While I believe second quarter would be low, so that is where the ballpark volume range we should see at for the entire year or it could be much materially different from this level?
- Manish Kumar Gangwal:** Hemanshu, as a policy we do not give any specific number. But you can definitely do the math which I think is in the right direction.
- Hemanshu Shah:** And just lastly, if you can help with our overall FY18 market share in the bazaar segment if you could help, that would be helpful.
- Ravi Chawla:** So, overall bazaar we targeted 750 million, if we take 60% - 65% we will be getting close to 7.5% market share.
- Moderator:** Thank you. Our next question is from the line of Pankaj Bajaj, an individual investor. Please go ahead.
- Pankaj Bajaj:** I would have one question, in comparison to 2017 when we were having 300 distributors and around 55,000 retailers, what is our current stand in 2018 in terms of distributors and retailers?
- Ravi Chawla:** So, distributors would be similar sort of figure, maybe 10 – 12, more than that. That keeps changing depending on the realignment. And distribution wise our endeavor has always been to take at least a 15% increase in outlet. So, current count we do not do it every month, but we have more than 65,000 retailers now.
- Pankaj Bajaj:** So, is it in line with our 50% capacity addition in terms of Chennai plant which we have done, is it in line with that, a growth of nearly 15% in our retailers?
- Ravi Chawla:** The capacity added in Chennai, again, we have added capacity of 50,000 which can be ramped up if we want, even higher. So, that is the long-term requirement for our demand. And what we do



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annually, obviously we look at growth and we look at increase in distribution, increase in customers. So, that is over a period of years you would increase it, because the capacity would not get used in the first year, we would go in steps. So, we are looking obviously our capacity increase will take care of our needs for next few years.

- Pankaj Bajaj:** So, I assume that it is in line in comparison to 55,000 – 65,000.
- Ravi Chawla:** Yes.
- Pankaj Bajaj:** Second question, from this new plant are we more inclined towards industrial oil or is it more towards mobility oil?
- Ravi Chawla:** See, we have both our plants, Silvassa and Chennai, both can make all the products. Of course we make some, most of it are in automotive and B2B products, both can be made in both the plants. So, there is no skew towards a particular segment in both the plants.
- Pankaj Bajaj:** Just one last, if you can give a quick figure on depot? Also, how many depots we have increased?
- Ravi Chawla:** 30.
- Pankaj Bajaj:** Still 30, so is it just like in 2017 also, here also we have 30, no addition in terms of around Chennai plant or somewhere?
- Ravi Chawla:** No, in fact now we have good stocking in the plant itself, so we may look at some rationalization later also because GST has come in. So, right now we have 30 service points.
- Moderator:** Thank you. Our next question is from the line of Nikhil Vaishnav from VD Investments. Please go ahead.
- Nikhil Vaishnav:** I would like to know there is increase in finance cost of more than Rs 4 crores, why is this increase from previous quarter?
- Manish Kumar Gangwal:** So, we mentioned that it is partly because of the FOREX loss sitting in the finance cost also because of adverse rupee movement during the quarter.
- Nikhil Vaishnav:** So, any new tie-ups with the company in this quarter?
- Manish Kumar Gangwal:** Sorry?
- Nikhil Vaishnav:** New tie-ups like OEM tie-ups with the company?
- Ravi Chawla:** We have shared with you, we have tied up with Force Motors for their business in the workshops.



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Nikhil Vaishnav: And can you give a growth of OEM segment and industrial distributor segment, what is the growth of this?

Ravi Chawla: You are asking what is growth of OEMs and industrial distributor?

Nikhil Vaishnav: No, OEM factory fills and industrial distributor segment what is the growth?

Ravi Chawla: So, OEM factory fill, as I told you, we are supplying to the commercial vehicles OEMs, so we have grown in line with their growth which you have seen is about 50% in this quarter. And the other growth you are asking for is industrial distributors, we have a very small base so there the growth has been another 30%, but the base is not very high.

Moderator: Thank you. Ladies & gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Ravi Chawla: Well, we have shared all the information we could on the quarter gone by. Obviously, for us this kind of growth is a positive input into what we look at going forward. July, August, September is the monsoon quarter, it is definitely one of the weaker quarters in the industry, but again, we are sure that the momentum we have gained, the programs we have, the kind of new things we are bringing in, along with our distribution we see a healthy growth ahead. And also look at some buoyancy that has happened in the market which will continue, new vehicles are also doing very well. The partnerships we have both in terms of OEMs and our tie-ups that has also been positive in terms of various segments we are in. Both B2C, B2B are areas in which we have seen positive growth this quarter. And we also see the momentum will also help us along with the work done by all of us here. We thank you for your support. It has been really gratifying to get lot of suggestions and also we hope that we have been able to answer them to the best of our ability. Thank you so much.

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

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