



“Gulf Oil Lubricants India Limited Q4 FY16 Earnings Conference Call”

May 16, 2016



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MODERATOR: MR. PRASHANT TARWADI – AXIS CAPITAL



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Moderator

Good Day, Ladies and Gentlemen, Welcome to the Gulf Oil Lubricants Q4 FY16 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. Please note that this conference is being recorded. I would now like to handover the conference over to Mr. Prashant Tarwadi from Axis Capital. Thank you and over to you, sir.

Prashant Tarwadi:

Thanks a lot. Hi, Good Afternoon to you all. On behalf of Axis Capital, I welcome all participants on the Conference Call of Gulf Oil Lubricants India Limited. Today, we have with us Mr. Ravi Chawla– Managing Director; Mr. Manish Kumar Gangwal– CFO; and Mr. Vinayak Joshi – Company Secretary. They will start with the overview of the Company's performance for the Q4FY16 and the full year FY16 and then we can later switch to question-and-answer session. Thanks a lot and over to you, Chawla sir.

Ravi Chawla:

Thank you, Prashant. Good afternoon, Ladies and Gentlemen. Welcome to the investor call for quarter four.

Well, we are delighted to share with you that this has been one of the best year for the Company in terms of operational and financial performance.

We have crossed Rs.100 crores in terms of profit after tax which is a growth of 29.6% and of course quarter four being another strong quarter we have crossed PAT at Rs.30 crores which is a growth of 38% over quarter four of last year, so this really is strengthening that the year has been a good year.

Our volumes closed at above 75,000 kl which again in terms of the estimates that we have in the private sector major players, we have moved from the sixth to the fourth position in terms of our position in terms of volume, and again we have maintained the fastest growing company tag, the top 10 players. And the Company for the year has achieved a double-digit volume growth of 10.3% versus 6% last year and even the quarter was a double-digit growth. This growth has been mainly led by the double-digit volume growth in the motorcycle segment, also on our B2B side the OEM business for us has been positive. Infrastructure customers have delivered a good growth and certainly in addition to motorcycle oils, diesel engine oils also have now come back to the positive territory.

In addition to that, we have got an institutional order in the bulk lubes category part of which has come into financial year 2015-16 and part of which will come into the current year that is the current year starting April. Vis-à-vis the volume growth which we are estimating at about 1% to 2%, again our 10% plus growth is continuing our strategy and our objectives of growing faster than the market. So we have increased our market share by nearly 0.5% if you take that calculation, especially in the bazaar market.



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Now we are also seeing that the bazaar market which was in de-growth in the last two years, last year we believe it has now come into the (+1%) and in our channel sales also we have seen a positive growth of 3x this, so (+3%) growth which is again ahead of the market growth. Again, new generation diesel engine oils, we see that there is a positive growth coming in from there, from the commercial vehicles, as we know that there are lots of new fleets coming in so factory fill is also doing well.

We are happy to share that we have extended our relationship with Mahindra with two new tie-ups, so in the Swaraj brand which is a strong brand we are going to be supplying some dealerships which will again for us the growth will come in this year for that and Mahindra Gujarat which is a small company they are again gearing up to grow well, we have started supplies there.

Investments in our brands continue. Our major investment was made in the motorcycle category, visibility programs on the ground and in IPL we continued. The global tie-ups that Gulf Oil International has had will be leveraged and we are happy to share with you that our brand ratings which we track internally through IMRB have moved up positively and as per our study we continue to be amongst the top three brands in terms of awareness and consideration. So this has been a good quarter, we have done well and also our EBITDA margin has expanded to 16.8% during quarter four which is a sequential improvement of 80 basis points versus last quarter, the quarter three that is and 320 basis points over last year. So again, margin improvement has happened in the quarter four and all in all that has been a good quarter.

I now request Manish to take you through a few more of the financial and other highlights of the performance. Manish?

Manish Kumar Gangwal: Thank you, Ravi. Good afternoon, Ladies and Gentlemen. So as Ravi mentioned it has been a good year, good quarter for us and we had clocked in a gross turnover of Rs.1,166 crores and a net turnover also has crossed for the first time Rs.1,000 crores and the profit has crossed Rs.100 crores as Mr. Ravi mentioned.

With this, you must have noticed from the result that the gross margin expansion during the year has been good at 6.6% which is the reflection of retention of fall in the input cost partially and Company has continued to deliver high PAT level growth which has resulted in an EPS of Rs.20.24 for the year. And the Board of Directors have recommended a final dividend of Rs.4 along with the interim dividend of Rs.3 which was declared earlier and paid, the total dividend payout you can work out is close to 42% including the Dividend Distribution Tax if we take.

Company has also been continued to strengthen the balance sheet and you can observe from the balance sheet published that now there is a net cash surplus of roughly Rs.40 crores on the balance sheet as compared to previous year 31st March when we had a net debt of Rs.35 crores. So overall a good year in spite of continuing with our part of the CAPEX program in Silvassa as well healthy dividend payouts, we have been able to turn the balance sheet also in a very positive



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balance sheet. And with that, the high return ratios are also reflected which is ROCE upwards of 60% - 70% and ROE of 40%+.

So all these financial highlights are there which have been published in the results and we can now take some questions from the investors. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Priyank Chandra from Dolat Capital. Please go ahead.

Priyank Chandra: Sir, my question is, how has been the scenario in the CV segment during the January to March quarter as compared to the period which is from July to December last year?

Ravi Chawla: So obviously we have seen a positive movement in terms of the OEM factory fill, that is done well and we are also seeing that on the ground the infrastructure companies are picking up more of these CVO related consumption. In the retail bazaar, actually we would say that it has gone into positive area only in this quarter compared to July - December, so all three indicators are positive in terms of the commercial vehicles consumption for us in terms of duplicates.

Priyank Chandra: And do you feel that this retail bazaar thing can continue, this is something that should continue, right?

Ravi Chawla: Yes, we are seeing that as a positive trend.

Priyank Chandra: And sir just my second question is on the Chennai CAPEX, how is it being progressing?

Ravi Chawla: Chennai we have obviously initiated the next steps to go ahead with the tendering process etc., so I think we are on course there to start of quarter two year, so that CAPEX civil construction all will start.

Priyank Chandra: And sir the base oil prices which has started moving a little bit upwards during this current ongoing quarter, so I hope there discounts are still being maintained or they are withdrawn to a certain extent?

Manish Kumar Gangwal: So currently base oil has started showing some upward trend but not as much as the crude has started showing trend so far, so it is lagging. And we are not seeing any major changes in the discounting pattern, it is continuing what was there in the last quarter.

Moderator: Thank you. Our next question is from the line of Avinash Sharma from Dalal&Broacha. Please go ahead.

Avinash Sharma: Sir, would like to know if you can provide me a breakup of your overall volumes between CVs, two wheelers and four wheelers as well.



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Manish Kumar Gangwal: So roughly for the year if we say 45% volume comes from diesel engine oil which we have mentioned in the past also that it is similar to all the lube companies, lube companies vary between 40 to somewhere between 50%. And MCO volumes for motorcycles continues to be in the range of around 18% - 20% of our product mix we are talking and PCMO is in the range of 5%.

Avinash Sharma: That is passenger vehicle segment?

Manish Kumar Gangwal: Passenger cars, and then there are gear oil, greases, etc., which are part of automotive portfolio which is around again 18%. So all put together roughly 80% - 85% of the volume comes from automotive category and balance 15% to 17% is industrial portfolio which is your hydraulics and others, cutting oil, etc.

Avinash Sharma: And sir, another question on the margin front, you mentioned the base oil prices are increasing with a lag, correct can we expect a year-on-year similar margins to remain intact, I mean not looking for a forward looking guidance but just over the course of next year can we maintain a similar margin?

Ravi Chawla: The margin enhancement this year we have retained around 3.2% overall, now obviously it depends on the categories and depends on the market pricing. So the industry does tend to retain margin when the prices are coming down, when prices go up the industry does take up prices, in B2B it takes a month or two, in the aftermarket you generally follow, we would look at what the top three, four brands are doing and the prices also go up in the aftermarket. So it will depend on two things, one is the kind of market environment and competitive pricing levels, so obviously for us growth is one of our key objectives, growth in volume of market share, the other is to maintain a healthy margin, so those two strategies continue to be there, we will be happy to retain the margin but based on each quarter the competitive pressures we have various schemes, etc., which go in the market every quarter, B2B is more a formula linked. So we will have to wait and watch. As of now we are not seeing anything drastic that the market is doing but as the base oil prices go up you may actually see some price increase happening in the market.

Avinash Sharma: And sir for us how much percentage roughly is the B2B business?

Manish Kumar Gangwal: Currently it is roughly in the range of 62:38, 60:40 range, 60% is automotive channel and 40% is B2B.

Avinash Sharma: 60% automotive and 40% B2B?

Ravi Chawla: Yes, that is automotive channel, so our B2C channel is actually about 60 and if you take industrial distributors also there is 3% - 4%. So we are going more to channel now, so B2B is where we directly build industries and companies directly, so that as Manish mentioned is kept 38%.



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Moderator: Thank you. Our next question is from the line of Ankit Jain from Mirae Asset Management. Please go ahead.

Ankit Jain: Sir, this quarter volumes would be around 21,000, right?

Ravi Chawla: Yes, that is right.

Ankit Jain: So going with that if I look into gross profit per kiloliter, it seems to be declined on a QoQ basis, so is it to do something with the product mix or discounting has gone up QoQ?

Manish Kumar Gangwal: It is largely because, as we mentioned there was an institutional order also which we are servicing currently, so because of this the realization and per liter calculations show some different figure but no major discounting has gone out.

Ankit Jain: And sir, you mentioned that there has been some one-off B2B orders which might also be contributing to the volume growth during the quarter, so if you can quantify that for second half that last quarter also there has been this order so how much could be the contribution and then during fiscal year 2016?

Manish Kumar Gangwal: So without that institutional order also our volume growth will be in the range of 7% - 7.5% for the year.

Ankit Jain: And similar sort of a quantum is also expected to spill over in the next year?

Manish Kumar Gangwal: Slightly less, but yes.

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

DamodaranKutty: I have one slightly long-term question, not pertaining to this quarter. Just wanted to understand what kind of risk you are seeing, disruption risk you are seeing due to penetration of electric cars in India? In fact I think worldwide this is considered as one of the biggest risk and especially like most of the lubricants which are being used right now in the traditional car will become irrelevant with the electric cars. Is there any mitigation strategy on which you are working considering? And also the other thing which I would like to highlight that the penetration of the new technology right now is happening at much faster pace than it used to happen earlier.

Ravi Chawla: Well, Mr. Manoj this is one of the points that we have been internally and also discussing globally is that the electric cars we have seen it picking up at least discussions on it, but really in terms of penetration even in Europe places like Holland etc, in spite of a lot of the incentives it has not really caught on. So estimate is that only a small fraction percentage may happen globally and probably it will take some time for it to come to India, though there is a lot of talk on it. So while we think of that as impacting the business, there could be a 2% - 3% impact if we



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take longer duration which is maybe a decade's thing. In terms of preparing ourselves, obviously these electric cars will still require transmission lubricants but will not require engine oil etc. So if that trend catches on very fast than we will have to come up with either get into the battery business, one is that, but looking at lubricants per say we will have to look at how we can go towards other parts of the lubricant business because obviously we need to look at growth in revenues. So I think that impact will play out in the next few years to understand how it is going. In fact we asked this question in the recent ICIS conference, we asked this to the industry, so most of the industry people also felt that this impact will over the next decade we will know exactly where we are going.

DamodaranKutty: But the only thing is that right now the new technology penetration is happening at a much faster pace, so though we may say that it may be 5% to 10% but once people start getting used to you never know that the penetration may be much higher than what we may be pursuing.

Ravi Chawla: So we are keeping a very close watch, we can share with you that and obviously we will have strategies planned as we see this happening faster on the ground actually.

Manish Kumar Gangwal: Plus, passenger cars, motor oil refill is not a very big. Biggest component is commercial vehicles lead diesel engine oils in the automotive segment and motor cycle oils, etc. So even if it happens 10% - 20% of the passenger car portfolio itself that on an overall basis will be less than 5%.

DamodaranKutty: And you also mentioned that for electric cars transmission oil will be required, engine oil may become irrelevant. So I have to see the percentage of transmission oil vis-à-vis engine oil, how that math works?

Ravi Chawla: See, it varies segment to segment, I think you can contact us offline we will give you the details, but to look at passenger car, see passenger car is today about 6% - 7% of the total lubricant demand, all India, out of that maybe a third will be all this transmission and all, so roughly 3% to 4% will be impacted if engine oils go away, if all the passenger cars change to battery.

Moderator: Thank you. Our next question is from the line of SabriHadarika from Phillip Capital. Please go ahead.

SabriHadarika: Sir, I just wanted to confirm that, you said that your volume was around 21,000 kl so that is like a 10% growth YoY, right sir?

Ravi Chawla: Yes.

SabriHadarika: And what is the number for the full year?

Ravi Chawla: 75,000 plus.



- SabriHadarika:** So it is 75,000 plus for FY16 and in FY15 it would have been around 68,000 - 69,000 sort of a range, right sir?
- Ravi Chawla:** That is right.
- SabriHadarika:** And second question is on the market share, so can you just run down the market share as of now between bazaar trade and motorcycle, passenger cars and CVs etc?
- Ravi Chawla:** So overall we estimate that we got about 7% of the bazaar and in the motorcycle we are higher than the 7%, we estimate we will be around 8% - 9% and CV again will be similar level of higher 8%.
- SabriHadarika:** Around 8%?
- Ravi Chawla:** 8% to 9%. Amongst the private sector we are in the top three in the bazaar as per our internal estimates.
- SabriHadarika:** And PCMO it is around 3%?
- Ravi Chawla:** Yes, PCMO we have low market share, in fact that is one of our strategy which you are looking at, to grow faster in this segment.
- SabriHadarika:** Because when I see the market say for example in second quarter or third quarter I have the numbers for second, third quarter, at that point of time also your bazaar share was around 7.1%, motorcycle was around 9%, so it has remained more or less the same despite...
- Ravi Chawla:** We have added overall about 0.5% and in the bazaar market in the various segments since like motorcycle we would have grown double but you will appreciate that in one year it is probably a movement of only about 0.1% or 0.2% in the market share.
- SabriHadarika:** So I will give you average estimates of market share, exact of course we would be, we are now getting into exact 7.3% or 7.4%.
- Moderator:** Thank you. Our next question is from the line of NitinTiwari from Antique Stock Broking. Please go ahead.
- NitinTiwari:** Just wanted to understand how the brand spend and the channel promotion spend have moved on an annual basis between FY15 and FY16 and how the trend would be in FY17?
- Manish Kumar Gangwal:** Nitin, as you know we have been saying very clearly that we spend close to 6% to 7% of our top-line back into the brand, and this year also has been in the similar lines only.
- NitinTiwari:** So given that we have come up with some new promotional spends, some new promotions as well so that spend has not gone up, it has been mostly in line?



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Manish Kumar Gangwal: Yes, over FY15 the spend has gone up by roughly 90 basis points or so.

Nitin Tiwari: So FY17 we will be getting a similar trend like FY16?

Manish Kumar Gangwal: Yes, a lot depends on how the share of voice works out but 6% to 7% is what we really say and we try to maintain that.

Moderator: Thank you. Our next question is from the line of SwananadKelkar from Morgan Stanley. Please go ahead.

SwananadKelkar: Hi, Congrats on Rs 100 cr mark. Couple of questions from me, you have always been confident that you will grow much ahead of what the industry growth is and will be and you have demonstrated that over the past couple of years. Do you remain equally confident going forward that the drivers which helped you grow ahead of the market are still intact and if you could just list down some of them?

Ravi Chawla: See, our growth strategy has been based on the segment wise focus, so there are still segments we see where we have wide space, for example the car segment, the tractor segment. Of course the segments where we have achieved strength we will continue growing in that but the growth in the white space segments will be higher so we continue with that strategy and we are confident of that. The other is, we are definitely looking at our B2B business, industrial distributors as a growth area, so these are some of the other areas we are focusing on. And in addition to that, as you rightly said we have to look at newer things that will help us get to a higher growth. So one of the key things for us is that the brand has seen a very high consideration in terms of brand consideration we have got a good score but our distribution availability is not that high, so we are launching a number of distribution programs right from rural distribution to metro distribution to doing distribution in a more organized manner. In fact, we have invested a lot of our training and others in the last one year where now we believe that distribution gains for us would be much faster and much more effective. So there are few things we are doing differently and of course some of the strategies have continued, brand building is another investment we started eight years back and we continue but again now we believe that a lot of global associations can also be leveraged in India like Manchester United and some of the tie-ups we have with BMW which is for super bike championship. So all those will also come into play and we will have to continue to be innovative and step up the game in those areas.

SwananadKelkar: And can you just give me a sense of your geographical spread, I mean how many distributors you had a year ago, how many today, how many you are planning to add?

Ravi Chawla: So just to give you in terms of retail distribution, we believe we are at 55,000 outlets and we want to increase, last year we believe we have added close to about 17% - 18% to the number. So if you look at the number of retail outlets, the growth plan is 15% plus for us annually and we are present across India but in each segment we have different strengths and weaknesses, so for example in south we would not be so strong in the two wheeler segment but we would be very



strong in the commercial vehicles segment. Similarly, in north we would be strong in two-wheeler and not so strong in commercial. So each region has their various areas of opportunity for us and distributors, we have about 325 distributors in the automotive segment, we roughly add about 7% - 8% in terms of number of distributors every year. Industrial distributors, we had about 20, we have doubled that to 40 now, so that is an area of growth for us. So really distribution is going to be one third of the piece two grow is going to be getting this distribution right. And we have also gone into independent workshops in the bazaar channel the independent workshops are those workshops which basically are not run by the OEMs and we have increased our depth there, we have doubled it in one year, we have close to now the number is roughly about, we have looked at nearly 3,000 plus kind of bike stops in this area of the two wheeler. Similarly, we are starting car stops now which are basically branded independent workshops for the car segment.

SwananadKelkar: And with the bulk of your capital expenditure at Chennai behind you some time this year, can we expect better dividend payouts?

Manish Kumar Gangwal: So the CAPEX Mr. Swananad will continue till the second quarter of next year, which is incrementally Rs.110 crores is what we estimate out of the total project size of Rs.150 crores we have spent close to Rs.40 crores. So incremental cash outflow of Rs.110 crores. Once we are through with that, certainly we have got to decide on the usage of the fund we have because it is a high cash conversion business, you are aware of it.

SwananadKelkar: Just remind me once your Chennai timelines, when does it commission?

Manish Kumar Gangwal: As of now we believe we can start somewhere around end of quarter two next year.

SwananadKelkar: Second quarter FY18?

Manish Kumar Gangwal: Yes.

Moderator: Thank you. Our next question is from the line of Avinash Sharma from Dalal&Broacha. Please go ahead.

Avinash Sharma: Some of the questions have been answered, just would like to know, currently like excluding Chennai which are the plants we have?

Manish Kumar Gangwal: We have only one plant currently at Silvassa which has a capacity of 90,000 tons.

Avinash Sharma: And the proposed CAPEX in Chennai, how big is that capacity?

Manish Kumar Gangwal: That will be 40,000 to 50,000 tons.

Avinash Sharma: And that will be operational in Q2 FY18 you mentioned, right?



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Manish Kumar Gangwal: That is right.

Moderator: Thank you. Our next question is from the line of TejasGutka from Tamohara Investment Managers. Please go ahead.

TejasGutka: Can you take us through a little bit about your strategy in the passenger car segment, how do you plan to expand market share there?

Ravi Chawla: So passenger car we have re-casted our portfolio in terms of right from synthetic to semi-synthetic to the mass rates and we have repositioned our brands there both in terms of pricing and we are currently building our distribution with a focused plan in various locations and we have also looked at certain value propositions on each product. So all this is basically we have taken it to the market and we are looking at expanding our presence in this segment. In addition, obviously there will be a promotional strategy which you will see in short time how we will be bringing that to life.

TejasGutka: Sir already we have done pricing action, does it mean that you have taken price correction and can you elaborate on that?

Ravi Chawla: See, just to give you an example if there is a passenger car oil, one is, the specification should be right for what the market wants, so changing the specification may actually mean that you are increasing the price also. So to split up the segment into various sub segments and for each segment we have kind of re-casted our offering so that we are more focused and based on consumer insights and our industry knowledge along with our technology people we have re-casted this just to get our value proposition more sharper and more differentiated. At the same time we were earlier a bit fuzzy about we had two or three general products, and also we are going into the higher end of semi-synthetics which also means a good up the value curve kind of thing.

TejasGutka: And sir how important are OEM tie-ups in the segment?

Ravi Chawla: It is important, so we are working on that and as we know about OEM tie-ups we can only make announcements once we have something on the table. So we are working on OEM and that is an important element in the segment, you are absolutely right. Currently we are in fact we are doing business with Mahindra, we have a co-branded oil but that is Bolero and below. So obviously OEM tie-ups we have to look at that as one of the growth strategies and we are working quite hard to see what we can get there.

TejasGutka: In terms of volume share how much would be the OEM share, a rough estimate?

Ravi Chawla: In which segment.

TejasGutka: In the PCMO segment OEM bazaar.



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- Ravi Chawla:** We have no OEM tie-ups in the PCMO segment for dealerships at the moment, we do a co-brand with Mahindra which is a very small part of our business, around 1% – 2%..
- TejasGutka:** Sir I mean generic industry level, I mean do you have some idea as to how much would OEMs contribute and how much would bazaar contribute?
- Ravi Chawla:** Yes, we have our split, so if you see roughly 20% of the volumes of the bazaar is in OE tie-ups, OE dealerships.
- Moderator:** Thank you. Our next question is from the line of Romil Jain from Quantum Advisors. Please go ahead.
- Romil Jain:** Sir, one question on the volume growth, if you can just throw some light on where are we looking at volume growth in the next two, three years?
- Ravi Chawla:** See, as we mentioned our segment wise strategy, we are in certain segments so we look at two to three times the industry growth. So to give you an example, if commercial vehicles those are 2% we get into various segments there and look at two to three times growth, so that is how we play our game plan in terms of our volume growth. Of course there will be some segments where we do not have much market share, it would be higher than that but it is a mix of this across segments. So each segment we have different approach, for example, now we mentioned in the commercial vehicles in the diesel engine oil there is a tractor segment, so tractor segment we are low so that is an area where we can look at better growth. Then light commercial vehicle again is growing, so that is one of the segment we are launching some products. So based on each segment that has been our kind of focused are for strategy.
- Romil Jain:** And sir in lubricant market for the last couple of years has been de-growing in terms of volume, so partly because of the automobile slowdown which was there and partly because there is a shift, so there is lengthening cycle that is happening. So can you just make me understand on your realization growth going forward taking into account the lengthening cycle that is there now.
- Manish Kumar Gangwal:** So you are right, the longer range internal products usually command a better pricing and if the market is moving towards a longer range interval product, while the volume growth may be slightly lower but the value growth usually is higher. And you may be aware of that, in the commercial vehicles segment Gulf has been pioneer in the long range engine oils in India. So considering all this it is very difficult to say but how much exactly will be the value growth out of this long range proposition etc, but that is one of the area. And then product mix also plays in terms of overall realization, so if the person mobility goes up then the realization can grow faster than volume growth and synthetic product, semi synthetic which we have launched in the car segment all these can add positively to the value growth.



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- Romil Jain:** So this year actually I think there was a slight de-growth in realization when I calculate, so partly that may be because of the oil price also going down, but if you see purely on the CV front at the diesel engine oil and the motor cycle, has there been a uptick in realization so that we can understand that going forward also this proposition may work?
- Manish Kumar Gangwal:** Last year because oil price have been falling consistently throughout the year everybody has passed on certain more discounts, although at MRP level there has not been any major discounting by any player or reduction but of course there have been some more schemes and discounts which has led to a lower value growth. But if you take the history of last three, four, five years it is always the case that value growth is higher than the volume growth.
- Romil Jain:** So do we expect that going forward too, just that is what I wanted to understand?
- Ravi Chawla:** So again, we cannot say that what is going to happen but all these factor we have explained are the contributors to a value growth.
- Romil Jain:** Just last question, in terms of volumes for the industry where do you see over a longer term three to four years?
- Ravi Chawla:** If you take the reports by Cline who do research globally, they have predicted that the Indian market will go by 2.5% overall, our estimate of the segments we are in, we are not talking of the complete process oils and all, without process oil we believe last year we could have seen a 1% to 2% growth and going forward we hope this goes up at least by 1%. And again, bazaar tends to be a 1% point higher than all this, so that is where you will have... and of course personal mobility will grow faster, the motorcycle, scooters and cars, so these are the way we see the market.
- Moderator:** Thank you. Our next question is from the line of PrashantTarwadi from Axis Capital. Please go ahead.
- PrashantTarwadi:** Sir, I have two questions, firstly, I understand you mention you have signed two new OEM tie-ups, so if you can elaborate on that, that is number one. And second thing is, more on a strategic perspective where do you see yourself five year down the line, as in whether you have any quantifiable targets in terms of volumes or in terms of the market positioning etc, so that would be great. Thank you.
- Ravi Chawla:** Yes, on the two new tie-ups, we have got as we said we extended relationship with Mahindra, in the Swaraj tractor business we are going to be supplying to some of the dealerships in Swaraj, so that is a new area for us. Earlier we were doing a Swaraj oil which was in the open market, so that is a new development for us. And the other tie-up we have had last year is with the Mahindra Gujarat which is again a Mahindra company which is making tractors in Gujarat. So these are the two tie-ups which have fructified for us. Of course we are working on many other tie-ups, which as I mentioned we will not be able to announce till we finalize them, so they are still in the



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process of finalization. Our target is to get at least two new tie-ups every year. Regarding the second one, where we will be is obviously our strategic plans to grow ahead of the industry, we have been a fastest growing brand in terms of volume what we believe in the top players and we believe and we are confident that that is going to be where strategically we strive to go. And once we are achieving those obviously our position in the market should improve, like this year we mentioned we have moved from six to fourth, so it will also depend on the competition and the vision is obviously to get to the top three position.

Moderator: Thank you. Our next question is from the line of TejasGutka from Tamohara Investment Managers. Please go ahead.

TejasGutka: Sir, just speaking on the previous question, do you have any target in terms of market share as to where you want to be in the market let's say three, five years down the line? I mean passenger car obviously is one segment where you have spoken about increasing the market share, how about the other segments and what are you looking at there?

Ravi Chawla: So we have in the past as we mentioned 7% to 9% in the new generation diesel engine oil, motor cycle, so certainly for us gaining 0.5% market share or more than that is going to be our vision every year and the different segments we would have to look at faster growth because overall if you look at 0.5% you would be growing 1% in some segments every year. So we would like to look at the next three years where we can take our position to the top three, that is what our focus is on overall.

TejasGutka: And in terms of margin hierarchy it would be diesel engine oil followed by motor cycle followed by passenger car, right?

Manish Kumar Gangwal: Yes, in the ascending order, yes. So the margins will be lowest for diesel.

TejasGutka: And the difference would be in the three segments is quite significant or is it couple of percentage points?

Manish Kumar Gangwal: Again, depends on the competitive strength you have in each segment, so some players may have a very good competitive strength in passenger cars, some players may have in diesel engine oil but largely that is the packing order.

TejasGutka: For the industry in general would you have some figures that you can share with us?

Manish Kumar Gangwal: Very difficult, because it will be purely from player to player, it will be varying from player to player.

Moderator: Thank you. Our next question is from the line of SabriHadarika from Phillip Capital. Please go ahead.



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- SabriHadarika:** Sir, I wanted to know what was the industry volume growth in Q4, because Castrol is also reported to have grown by almost close to 10%, so I am just wondering who are the ones, I mean has any one lost market share, what has been the growth like for the industry as a whole?
- Manish Kumar Gangwal:** So quarter four separate industry growth, we do not see anything changing majorly, maybe it is similar in the range of 1% to 2% only, except with that there is some positiveness in the diesel engine oil segment, but whether as an industry something has dramatically changed, we do not see that.
- SabriHadarika:** Industry wide it has been around 1% to 2% only, so you have done close to 10%, so that is like five times of industry growth that you have reported?
- Ravi Chawla:** Yes, our annual growth last year has been 10%.
- SabriHadarika:** In Q4?
- Ravi Chawla:** Q4 is upwards of 10% .
- SabriHadarika:** Yes, that is right, that is 68,000 to 75,000.
- Ravi Chawla:** So you have got the industry figures, as for our estimate on the ground, what we track on the ground the market is growing at 1% to 2% and there is a higher growth in the personal mobility segment and commercial vehicles is now growing better in this fourth quarter.
- SabriHadarika:** There is some CV recovery you are seeing from replacement demand or it is like fresh new CV segment that is coming?
- Ravi Chawla:** No, even in the replacement demand, especially in the road construction and other areas you see consumption going up.
- Moderator:** Thank you. Our next question is from the line of SaketLohia from Kanav Capital. Please go ahead.
- SaketLohia:** Sir, I have one question, it is more for increasing my understanding on the overall segment, the crude prices which used to remain somewhere around \$100 for the last two, three, four years and now they have for the past year on an average maybe \$50, so how has the raw material prices have affected our realization, if I just compare the realization two three years back and the realization now? That is the first question I have.
- Manish Kumar Gangwal:** So obviously the realization, because with the crude oil fall base oil prices which is one of the key raw material has also fallen and industry had to pass on part of it to the consumers, so that has led to a value de-growth as we can see from the results also, so that has been happening. But



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as I mentioned to some earlier question, no major MRP level reductions have happened, of course the discounting and schemes have gone up in the market.

SaketLohia: So do you have the numbers with respect to realization, if I take two, three years back, if you have that?

Manish Kumar Gangwal: I think overall it will be in the range of 3% to 4%, because we have also mentioned that we have been able to increase our gross margins in spite of pass on by around 6.5%, for the year as a whole. So that has been the positive side of the base oil fall.

SaketLohia: Sir so if I just conclude the statement, there is almost a 100% fall in the prices of the crude and increase the margins by roughly 6% over here and just to increase my understanding, where did the rest of the 90% of the value went?

Manish Kumar Gangwal: So you have to understand that the crude fall is not directly translating 100% into the base oil all first of all, and base oil also is not the entire cost in the end product, there are a lot of additives, packaging which also goes up. And the additives also we have mentioned in our earlier concalls have not fallen additive pricing. So all these are also the other input costs which keep on at a stagnant level of increasing trend. So the net effect of all this has been 6.5% retention in the margins. Just to give you an example, from January to May crude has gone up by again 43% from the lows of January but the base oil today has gone up by only around 15% from that level. So it has not fallen exactly in line and of course there is a timeline, then people carry inventory also. So all these factors play.

SaketLohia: So in this quarter is there any inventory gain as such, if we do have?

Manish Kumar Gangwal: Which quarter you are talking?

SaketLohia: March quarter, sir.

Manish Kumar Gangwal: So there have been no inventory gains per say because people carry inventory of two to three months, we also do the same.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints we will be taking the last question that is from the line of Shraddha from Edelweiss. Please go ahead.

Shraddha: Just one question from my side, just wanted to understand as we are increasingly also focusing on OEMs, adding two OEMs per year so incrementally and at the same time we are also focusing on the PV side along with NPO penetration. So if you can highlight what is optimum product mix we are internally targeting over the next two to three years in terms of our mix B2B, B2C and maybe even segment wise within that and also auto versus industrial?



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- Ravi Chawla:** See, we want to increase our share in the passenger car oils, now there is passenger car oils we sell in the bazaar market and then there is a passenger with the tie-ups, so right now we do not have tie-ups which we have announced with OEMs, so we want to increase our passenger car share in the bazaar market. So obviously we want to improve that mix, that is one of our clear objectives. The other this, wherever we can improve our mix in the segments that we are targeting, for example tractor, now tractor we want to increase our percentage market share and we want to continue doing well in the segments in which we have also developed some strength i.e. commercial vehicles, new generation diesel engine oils that is and motor cycles. So if you ask me on the best mix possible we would like to move towards definitely looking at higher mix for the passenger car, at the same time B2B is also a growing segment and we will not let that opportunity if it comes whichever way it comes. So I would say focus is on these segments and there is no ideal mix, ideal mix is also in terms of our market share growth, we are looking for opportunities. So if we do get our opportunity even in industrial hydraulic oil we will go for it, it is not that we will not go for it. So there is a mix of all the opportunities we are trying and given the competition level obviously we will also have to look at what we can get, because there is competition in all the segments. So just to give you an example, with SchwingStetterwe have a hydraulic oil which goes into it, so we are definitely looking at value adds across segments.
- Shraddha:** So personal mobility today would be around 20% - 22% odd of the over sales.
- Ravi Chawla:** That is right.
- Shraddha:** So you believe that can go up to like 25% - 30% over the next few years?
- Ravi Chawla:** We would like to go in that direction.
- Shraddha:** Because that is also alongside our B2B also going up, so this is possible, right?
- Ravi Chawla:** Yes, but if both go up in equal percentage then the mix will remain the same in volume.
- Shraddha:** It can also possibly remain at the same level considering our focus on B2B as well as industrial.
- Ravi Chawla:** Yes, so ideally we would like the passenger segment to go up, the personal mobility but obviously if we get growth in the other segments also that is an opportunity we would like to tap.
- Shraddha:** And along with that opportunity in the B2B and the industrial, we believe our margins we have enough levers to sustain them going forward, because there is a big gap between B2C and the B2B. So do we believe that can sustain?
- Manish Kumar Gangwal:** Just to answer your question, few years ago, maybe three, four years ago our mix was 75:25 in favor of B2C, 75% was B2C and over the last two, three years the mix is now in the range of let's say 65:35, in some quarters it is 62:38, but you can see that the margins have been continue to move higher from the range of 12% because there at that time to now 16% of what. So one of the



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key factors also we will be focusing, because we are building the capacity and along with that the operating leverage also to come into play. So all these are going to add to the overall EBITDA level.

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

Prashant Tarwadi: Thanks a lot Gulf Oil Management for devoting time for this call. Thanks a lot to all participants for taking time off and participating in this call. Now let me request Mr. Chawla for his final closing comment. Over to you, Chawla sir.

Ravi Chawla: Thank you, Prashant. I think overall we would like to say that it has been a positive quarter four, the year has been a very strong performance for us overall with the support of our associates, our customers, our internal team which is also very charged up and we are looking at positive trends in terms of the market demand, we are optimistic about the new year with our focus on segment wise and overall performance levels, we are looking at a higher performance level also for the team, the sales team, the marketing teams and certainly we see the positive monsoon will help the tractor volumes in overall economy, similarly we are looking at the CV uptake, the infrastructure uptake and the distribution activities that we have lined up will certainly give us a stronger performance in the year ahead and hopefully that will translate in terms of both realization and profits of a very-very good level. Thank you so much.

Moderator: Thank you, members of the management team. Ladies and Gentlemen, on behalf of Axis Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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