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“Gulf Oil Lubricants India Limited Q2 FY-22 Earnings Conference Call”

November 08, 2021



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**MANAGEMENT: MR. RAVI CHAWLA – MD & CEO, GULF OIL
LUBRICANTS INDIA LIMITED**

**MR. MANISH GANGWAL – CFO, GULF OIL
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MODERATOR: MR. NITIN TIWARI – YES SECURITIES INDIA LIMITED



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Moderator: Ladies and gentlemen good day and welcome to the Gulf Oil Lubricants India Limited Q2 FY22 Earnings Conference Call hosted by Yes Securities India 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 now hand the conference over to Mr. Nitin Tiwari. Thank you and over to you sir.

Nitin Tiwari: Thanks Aman. Good day, ladies and gentlemen. On behalf of Yes Securities, I welcome everyone to Gulf Oil Lubricant India Limited second quarter Fy22 earnings call. We have the pleasure of having with us today Mr. Ravi Chawla – CEO and Mr. Manish Gangwal – CFO from Gulf Oil’s management. I will now hand over the call to Mr. Chawla for his opening remarks which shall be followed by a question-and-answer session. Over to you sir.

Ravi Chawla: Thank you Nitin. Good afternoon good day to all the participants. Welcome to this quarter earnings call for Gulf oil lubricants senior limited. Let me start by wishing all of you a very Happy New Year and season's greetings and of course we had our board meeting last week but we had Diwali break, so good to be back. Quarter 2 actually Quarter 3 what we're talking about Quarter 2 actually in terms of the financial year has been a good quarter for us. Post the ending of the second wave towards the start of the Quarter 2, business has returned back to normal levels and we are happy to share that we have delivered a 93% PAT growth over the Quarter 1 the June quarter sequentially and we are showing strong sequential recovery across segments despite a lot of challenges and cost pressures and really that's been really heartening for us as we have seen that we have been able to improve our B2C sales. There were subdued in Quarter 1 and we have continued the strong growth in the B2B segment and overall we have achieved a double digit volume growth over last year Quarter 2 and of course the rising input cost and margin challenges remains a key focus area and series of pricing actions we took in the last few months has really helped us. That is why you've seen the margins also going up to 14.5% and on a like-to-like basis close to the band we normally want to be which is 16 to 18. This has really helped the company to regain its margin per unit of volume sold to a large extent, so overall a good quarter I think the sales teams, the marketing teams, the support teams have made a good effort to take us to this level.

In terms of segment wise growth what I'd like to share with you is that we have seen very good bounce-back by the commercial vehicle oil segment and where we got a double digit growth and a lot of marketing initiatives has also taken here. A lot of new initiatives in the passenger car motor oils which opened up as urban center started showing increasing traffic that has really helped us to grow very aggressively as planned in the passenger car motor oil after many quarters. The strong growth on the industrial segment continues and we have seen new customers, current customers using more both in auto-ancillary, general engineering, metals,



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cement and construction. Really, we've also been able to penetrate new segments and happy to share that our industrial products have now received approval from one of the biggest thermo-pack manufacturers in the country.

As we saw the vaccinations going up, everybody has had their vaccinations in the company. The sales teams could also move into the market and we have seen a lot of below the line activations and other visits which have helped us to take the Gulf team out there in the market to make the growth happen. We'd also like to share with you that as an industry first initiative where Gulf has always been ahead, we undertook free vaccination of over 10,000 truckers. This was part of our Suraksha Bandhan campaign. We have done over the last 3 years and this really goes well with our protection promise which is Vachan Suraksha Ka which is our brand benefit for Gulf Superfleet which is the CVO which caters too many of the brands. It received a very good response from the trucking community from the media and this has been really one of the good things that has happened with Gulf has been able touch the truck drivers which did a sterling job of carrying the goods across when the pandemic was on. Many such campaigns investments went in similarly enough PCMO brands, Ultrasynth synthetic engine oil which has a promise of smooth drive. We came up with a new brand property which was with celebrities we had television channels like Zoom which telecast interview and shot the benefit of smooth drive.

It has been really a good quarter for us as we also inaugurated our new AdBlue section in our Chennai plant, which will cater to AdBlue requirements which are growing for our key customers and channels. We also had another section for manufacturing metalworking fluids in our Silvassa plant inaugurated. This metalworking fluid manifesting section will enable us to increase presence in this value-added segment of the industrial category. As most of you are aware our partnership with Chennai Super Kings is the longest standing brand partnership with any IPL team and brand in the history of IPL and we were so happy to see the Chennai Super Kings went and won their fourth IPL title. It just gave the brand a lot of visibility of course the consistency with which they performed has given them the results like what we've been doing consistently. We also have announced a tie-up with L&T's construction mining business division for to launch a range of genuine oils for the equipment and customers. With this I think Gulf has strengthened its position in the OEMs within the construction segment. We are sure such tie-ups will do well as India's infrastructures growth story will continue to grow at a rate over the decade.

We also launched our global electric vehicles fluids range in India, this will now available here. The EV fluids include the Gulf eLEC range of coolants, brake fluids, driveline fluids, Gulf hybrid automatic transmission fluids, also fully electric fluids that are available in our Gulf Formula 0W-20 fully synthetic engine oil. Now we are approaching OEM's and other customers who can look at these eFluids and as we have announced earlier, we'll be looking at other parts of the EV value chain which will be the future and we are working towards that.



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Just two more things I'd like to mention before handing over to Manish, overall as I mentioned the double-digit growth that happened over last year's quarter which actually was a very good quarter cost-wise and this quarter we had challenges but still did well, so this has really helped us. The revenue growth has been excellent this quarter obviously with the challenges we had and what has really been heartening is that the B2C B2B ratio was back to 60:40 in Quarter 2. This is a big improvement from Quarter 1, where of course retail demand was curtailed and this has really helped our margins to come back to normal levels. We are sure that all segments which are showing a good demand will now really kick in as the markets have opened. That's all-in terms of the highlights for this quarter I'll now hand over to Manish to take us through some of the other details what we achieved and what happened in the quarter, Manish over to you.

Manish Gangwal:

Thanks Ravi, good evening, everyone. I guess we're on that on the top-line and front we have already seen that the revenue of 533 crores has been highest ever for any quarter ever in the Gulf history and with that the profits are back to the normal levels which we have been seeing the last year Quarter 2 was a very good quarter with a lot of pent-up demand, because after the first wave there was a lot of pent-up demand in the system. But In spite of that we have achieved further 12% growth on that quarter and nearly 30% revenue growth over last year September quarter that's quite a good encouraging sign. Overall coming back to the profitability levels with EBITDA margins recovering to our normal band has been also a positive sign. Per liter EBITDA margins have also improved. We have last quarter we have highlighted in our call that a lot of price increases have been taken and it take some time to bring that price increase in the system and you must have noticed from the results that with 33,000 KL volume now delivered for the quarter. Our realizations have some sequential improvement significantly and more than the cost increases and hence per liter margins have gone up and that is also encouraging.

The only challenge has been the working capital which is you must have noticed from the cashflow that there has been an increase in the working capital, because around 40% price increase has happened overall during the last 6 to 8 months. That increases all of our overall cost in terms of both raw materials, finished goods and with liquidity in the system being slightly lower, the receivables also went up. But overall, in terms of number of days we are tracking around 120 days for gross working capital and we have continued to remain net debt free and we have continued to remain net debt positive for overall. So, these are some of the other life highlights we wanted to share with you and now we can move to the Q&A session.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Stuti Ahuja an Individual Investor.

Stuti Ahuja:

Can you please tell the advertisement expenses for the previous quarter and the tax that you see on this?



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Manish Gangwal: For Quarter 2 we had close to 3% A&T on higher revenue which has happened during the quarter, so we are spending now around 3% in the A&T.

Moderator: The next question is from the line of Arshia Keshav, an Individual Investor.

Arshia Keshav: I just want to ask, what is the current split of our sales by channel by bazaar and OEM and by consumption segment?

Manish Gangwal: For the quarter we are back to our 60:40 ratios which we used to have, so 60% is B2C and 40% is B2B. That again has been one of the key highlights as you will remember Quarter 1 was you know the retail sales were quite low and as Ravi mentioned the retail sales improved significantly during this quarter. From 47% to 60% in B2C that's a very healthy sign and that led to also a lot of margin improvement. Overall, in terms of product mix we are at for Quarter 2 our diesel engine oil was roughly around 35% and personal mobility which was low in Quarter 1 it bounces back to 21% in terms of our product mix which is our usual range 21%-22%. Industrial sales percentage came down to 15% which was high in Quarter 1 because industries we are working in Quarter 1 if you will recall and retail was more or less closed in April and May, so industrial is now at 15% which is again our usual range and others are at 29%, so that's our overall mix. Personal mobility as we highlighted is 21%, back to near normal where we were and with a 62% increase over Quarter 1. I hope it gives a clear picture of overall mix.

Moderator: The next question is from the line of Rohit Kadam from Entrust Family Office.

Rohit Kadam: Could you give some color on the details on what parts of the value chain in EV's we are looking at and how much can be the capital commitment here over the next 2-3 years and is this going to be purely organic foray or it will be via partnerships?

Ravi Chawla: We have invested in our charging company globally call Indra Renewable. This is a UK based company with its good share in home charging market. This is our initial investment we have made, even the Gulf Oil India entity lubricants India has made the investment. We are looking at the charging area and India obviously the value chain is right from the vantage points for us are our brand and distribution and definitely we are looking at the two-wheeler space. We're looking at the car-space for charging and there are other places we also have as you know the traditional batteries; we are doing the VRLA batteries for motorcycles. So many parts of the value chain have been looked and once we are clear about the other investments, we will make a move and announce and share with you but so far, we have tested the Indra chargers in India. The testing is on now as a pilot and we are also talking to other people who want to leverage our distribution touch points. So, at the moment we can share this but definitely it will be both, organic and inorganic. More inorganic because there's a knowledge base here which is required, so there are a number of proposals, Manish you want to add?



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- Manish Gangwal:** This stage we can say that there is lot of work happening in that space and we are looking at every part of the value chain where Gulf with our strength of brand, OEM relationship and distribution we can play. I think at this moment but as soon as we finalize more things we will announce.
- Ravi Chawla:** EV fluids anyway we have announced, we have launched them. EV fluids we are now approaching the OEMs, the two-wheeler of course similar fluid but mainly the car OEMs which require specific fluid for the EV cars.
- Hemal:** One more follow up. Globally, are we already suppling EV fluids to any of the OEMs?
- Ravi Chawla:** So, currently we have launched it in Europe where the western world is there, so we are in talks with various OEMs.
- Moderator:** The next question is from the line of Hemal as an Individual Investor.
- Hemal:** I just have quick question on the base oil. The base oil prices stagnated, are they moving up or? If you can throw some light on that would appreciate it. Oil prices keeping on moving up, that's one of the key concerns, I am sure you also share?
- Manish Gangwal:** Base oil is quite stabilized at this moment. And in spite of this recent crude rally which has happened from \$70 to now really around \$84-85, this time the base oil has not reflected. Of course, it takes sometimes 2-3 months to reflect but what we are reckoning is that this period was an unusual period where base oil moved up quite sharply when crude was also stable for the entire 7-8 months earlier. So, the reaction of this crude rallies this time may not be reflected fully on the base oil. Rather we have seen some downward trend in base oil over the last 1-1.5 months. So that's a positive for us and we hope that with that we will be able to stabilize the margins.
- Hemal:** In terms of demand for the Q2 as you said you did 33,000 kilo tons. Do you see demand further improving in this quarter of October-November-December or is it like a more similar to Q2 numbers and working volume?
- Ravi Chawla:** While we have seen the last 18 months has been quiet, last year Quarter 2 was a lot of pent-up demand. This year we are seeing more stable demand, we are seeing most of the segments. We mentioned CV or commercial vehicle, car growth was there. We see stable demand conditions. I think that is good for the industry overall, industry sees a good demand across segments. The only thing which came down obviously was the OEM factory fill which is also picking up now. I would say all segments are doing well, infrastructure is doing well, industrial B2B is doing well, even in the retail, yes, you see festival season is just over so generally October-November-December also is a good quarter in terms of overall consumption. I think that's urban centers are opening up so good stable demand is what I would summarize it.



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- Hemal:** Do you believe the price rises that you have taken in the last 7-8-9 months? Have they all been reflected in this quarter or do we expect more in the next coming quarter also to be reflected so that we have better margins going forward?
- Manish Gangwal:** You see most of the price increases were taken till June, month of June and over a period of time, we have had full realizations of price increases. Of course, the formula link price increase in the B2B and OEM segment will keep changing every quarter depending on how the base oil and the global indices move. But in terms of retail there has been a good improvement in the realization and we have taken sufficient price increases to recover the cost.
- Hemal:** You would say that pretty much all price increases are reflective in this quarter itself, right? We shouldn't expect any more due to price increases in the because due to the lag time you had explained last time that some would reflect in September and some would come in October-November. That's the reason I am asking the question.
- Manish Gangwal:** It depends also on the product mix, what, where we are selling and how, what is the sale and from which quarters it is coming. So, it's a combination of overall things but yes on the overall realization basis we are almost there. Few percentage points here and there but overall, we are already realized what is the maximum, announcement of price increases which has been done.
- Hemal:** So, in battery this quarter, how much was the revenue from the battery business and what do we expect this year to close now with the battery. We were EBITDA positive is I remember. Is this now getting towards more like a certain degree of objective-based margins that you may have?
- Manish Gangwal:** Overall we continue in this quarter also we are EBITDA positive in the battery segment. There have been some supply related challenges during the quarter and as we have been highlighting that we are acting very vigorously on localizing the production of batteries for us. But there has been some disruption in the supply chain in this quarter and that is why but with the impact of that also we have remained overall in the positive territory on the EBITDA side of our battery business.
- Hemal:** The sale number for the quarter?
- Manish Gangwal:** That is roughly around 18 crores.
- Moderator:** The next question is from the line of Amber Shukla, as an Individual Investor.
- Amber Shukla:** I just have one question; I mean continuing on the previous one. You just mentioned that we have already taken price hikes to the most of the extent but do we see any impact on the volumes in this quarter?



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- Manish Gangwal:** Your question is not clear. Impact on volume from what? Ravi just highlighted. This is a stable demand we are seeing right now.
- Amber Shukla:** As you mentioned that most part of the price hike you have already taken and despite being there the demand was already stable. So, any kind of impact from the volume just because of the price hike perspective, I am asking although demand was stable but if we take any such price hike in future in the coming quarters; will we see any such impact on the volumes?
- Manish Gangwal:** Currently we are not anticipating any further price increases because as I mentioned the base oil has stabilized and rather showing some downward trend.
- Moderator:** The next question is from the line of Debarati Banerjee as an Individual Investor.
- Debarati Banerjee:** My question is on the battery segment again. So maybe a kind of a range percent of gross margin that we do on battery segment. Will you be able to share that?
- Manish Gangwal:** No, it's such a small segment as of now for us in the overall scheme of things that sharing a gross margin and all of these are not likely to be beneficial to the overall interest of the business but as I mentioned overall, we are EBITDA positive. After creating a fantastic distribution at PAN India distribution in the battery segment which we are going to leverage once we have the supply related issues sorted out; as well as when we start having a local production setup. So, these will give us a good boost because our brand is very well established and our distribution network is in place.
- Debarati Banerjee:** In terms of CAPEX. So, what do we foresee in the next quarter in terms of CAPEX spend investments and?
- Manish Gangwal:** Our usual CAPEX is in the range of around 10 to 15 crores and we will be within that overall, for the full year.
- Moderator:** The next question is from the line of Hemal, as an Individual Investor.
- Hemal:** I just have one more quick question and a suggestion maybe is since last quarterly earnings call you had mentioned that we don't see the lubricant market still existing for the next decade as electric vehicles pick up and still going there for a long term. Have we done any analysis to show us our hypothesis is accurate or correct or something that you can share with investors in the next earnings call? Is that something that is feasible?
- Ravi Chawla:** Hemal, there is a company called Kline, they do research all over the world. They are quite an authority on this so if you read their reports is available in terms of the growth of the market so they have made reports recently when the EV vehicles, the discussion started. It is that it is also



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that which tells us not only our own analysis shows that the penetration of vehicles per se in India are going to grow with the automobile industry growth. If a percentage of them do shift into EV, yes, the growth what is going to go on for many years. We still believe 10 to 15 years there will be positive growth and that is going to continue because the penetration of vehicles all across segments, equipments, is going to go up in India and as you know most of the lubricant players and refineries and other people are adding capacities both for the oil products and base oils and lubricants. There is obviously the growth which is predicted to happen in India. India is today the third largest market and continues to grow over all when the economy grows. Every segment whether you take automotive, industrial, infrastructure the consumption for lubricants is going to be required for the growth that is happening. Of course, electric vehicles will have an impact in certain segments, three-wheelers two-wheelers, buses and that is also factored in but our studies clearly show that, indicate that the growth will continue for the next 10 to 15 years.

Hemal: The reason I ask is because engine oil obviously is an important component that you sell. If that's withdrawn from the electric space and you on an average per vehicle, do you see like half of the volume is reduced or is there a math to that, if electric versus non-electric?

Ravi Chawla: The conversion ratios, the conversion ratio of electric versus IC engines that is what will tell you the story how it's going to unfold.

Manish Gangwal: Right now, there are various suggestions by various people across various categories of vehicles in terms of penetration of electric vehicle. It will be anybody's guess how that in the actual scenario that will pan out but we have made our own assumptions based on certain hypotheses and of course based on certain international expert authorities in the lubricant field. We believe that the lubricant market is going to continue to grow; also because of the two main factors which we have highlighted in the previous call as well that the diesel engine oil which is around 45% of the market in terms of overall lubricant consumption plus the industrial segment which is around 20%-25% of the market, both of these markets are more or less insulated from the electric vehicle thing. And in addition to that, the gear oil greases and coolants etc. which form another 20% of the market are also going to be used transmission oils in EV space, EV vehicles as well as in EV fluids they will also come in as a certain percentage of the market. So, overall, except certain segments which are like buses etc., the overall market demand is going to remain there and in the personal mobility space also, the convergence, speed of conversion will decide how much of that market is going to shift to EV and when. So overall 80%-85% of the market is still more or less away from the EV hypothesis. That's what we have been highlighting in our call, that's what we would continue to highlight that we have to really be watchful but we believe that for the next 10 to 15 years the lubricant overall market will continue to grow; specially the manufacturing push which government is now giving with lot of PLI in various sectors. The manufacturing sector in India will outperform over the next decade. That will be a good demand booster for lubricant further.



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- Hemal:** This quarter do you believe, any data on market share that you can share? I think the only thing we got from your other competitor was a last 2-year CAGR comparison till 2019 and '21. They had observed a pretty large double-digit growth in the volumes and so what would be your understanding of your market share in this quarter? Would it be higher than 7.5 or like?
- Manish Gangwal:** We have grown 12% overall in terms of YOY for the quarter and the certain market has not grown 12%.
- Ravi Chawla:** Definitely we have got market share. We have been growing 2 to 3 times the industry growth rate for many years now, over a decade. So, our market share gain continues whether the market is growing, de-growing, we have been growing ahead of the industry. If industry was (-5) we have probably grown at a positive. This has been the trend, we maintain it. Of course, we have still growth, we almost also see growth for us as a brand and as a distribution in all the segments we are in so that is obviously been our endeavor to try to get that growth. Minimum 2X to 3X the market growth.
- Moderator:** The next question is a follow-up question from the line of Debarati Banerjee, as an Individual Investor.
- Debarati Banerjee:** My question was on the market share and that answered so one quick question. You said the revenue from the battery segment for the quarter was 18 crores, right? 18, did I hear that right?
- Manish Gangwal:** Yes please.
- Moderator:** Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for their closing comments. Thank you and over to you sir.
- Ravi Chawla:** Yes, thank you. I think we are happy to report the results and of course we continue to strive to look at how Gulf Oil as a brand can grow and thank you all for your support. I think as closing remarks I would like to say that the market conditions are stable. The retail segment is now open and we expect these demand conditions to remain stable. And as Manish explained the stability in input costs are now visible. With the pricing actions in place, we hope that the margin levels will remain stable and definitely looking at segments and our product mix improvements, this is where the endeavor will be as a team. Again, thank you very much for your support and have a safe and prosperous season ahead. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Yes Securities India Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.