



“Gulf Oil Corporation Limited Q4 FY14 Earnings Conference Call”

May 12, 2014



ANALYST: MR. PRASHANT TARWADI - VICE PRESIDENT (EQUITY RESEARCH, INDIA OIL & GAS), AXIS CAPITAL LIMITED

MANAGEMENT: MR. SUBHAS PRAMANIK - MANAGING DIRECTOR, GULF OIL CORPORATION LIMITED

MR. RAVI CHAWLA – CHIEF EXECUTIVE OFFICER, LUBRICANT DIVISION, GULF OIL CORPORATION LIMITED

MR. MANISH KUMAR GANGWAL – CHIEF FINANCIAL OFFICER, GULF OIL CORPORATION LIMITED

MR. SATYANARAYANA – COMPANY SECRETARY, GULF OIL CORPORATION LIMITED



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Moderator: Ladies and gentlemen, good day and welcome to the Gulf Oil Corporation Limited Q4 FY 2014 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 “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Tarwadi from Axis Capital. Thank you and over to you Sir!

Prashant Tarwadi: Thank you Melissa. On behalf of Axis Capital, I welcome all participants on the conference call of Gulf Oil Corporation Limited. Today, we have with us Mr. Subhas S. Pramanik, Managing Director, Mr. Manish Kumar Gangwal, CFO, Mr. Ravi Chawla – CEO of Lubricant Division, and Mr. Satyanarayana – Company Secretary. We also have other senior management of Gulf Oil on this call. They will start with overview of the performance and then probably we can go on to the question and answer session. Thanks a lot and over to you Mr. Pramanik Sir!

Subhas S. Pramanik: Good afternoon all of you. Welcome to all participants for this Q4 call. I would like to say that we have been having a good year really in spite of a very sluggish economy, especially in the sectors that we operate, but even in spite of that we have seen on quarter-on-quarter we have been holding our topline and our operating profits and we have been delivering consistently throughout the year. Our teams are really very happy to have had this opportunity to operating in a dull year basically, because it has really brought out most of their energies and their efforts and the results that we see today our culmination of those efforts.

Just to take you quickly through the figures. The Q4 turnover was roughly there was a slight uptick from Rs.303 Crores, we did Rs.312 Crores, improvement of about 3%, but on year-on-year basis, we were quite flat. We were Rs.1081 Crores last year. This year we ended with Rs.1097, but the real issue which I would like to say that is in spite of a difficult economy in all the areas of our operation.

The operating income has been very, very encouraging to all our team. Q4 was operating income was 22.38 up 9% and for the whole year we did an operating profit of Rs.75.55 Crores up 17%. So, those were the encouraging figures for all our teams here.

The PAT was in Q4 up by 6% at Rs.18.35 Crores and for the year it was up by 10% at Rs.58.34 Crores. The other thing which most of you would have noticed in these results was the consolidated P&L where the PAT was up by 49% from Rs.47 Crores to Rs.70 Crores. Now that was major change which you have seen now this time some of it has been fuelled by our sell off of the foreign subsidiary, but all our domestic subsidiaries have also done quite well, which we will get down to a bit later.



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The finance costs have been down this year and as a result you are seeing a very stronger balance sheet this year where there is no long term loans, our working capital borrowings have gone down from Rs.247 Crores to Rs.164 Crores. We have been able to do this, because of good inflows and collections that we got during the year.

The dividend as you would have noticed been declared. As an interim dividend first where we gave the normal 110% plus 15% special dividend because of the de-merger so overall we gave 125% which translates to about Rs.2.5 per share.

The other aspects are on the lubricant side in Q4, we increased our turnover from Rs.235 to Rs.255 Crores and the year for the lubricant's division was at Rs.882 Crores. Now, the EBITDA for lubricant has been quite good. It was up from Rs.26.41 Crores to Rs.28.63 Crores for the quarter and for the year it was a little flat at Rs.105 Crores or Rs.106 Crores. Evidently, the auto segment and the mining infrastructure segment which actually is the main stay for this lubricant's division was sluggish, but we have been able to do well in the diesel engine segment and the motorcycle segment.

At the same time, our B2B and OEMs have also done well. In the explosive side, I will talk about turnover for explosives as a composite between Gulf Oil and Gulf Oil Corporation one division and the IDL Explosive which is 100% subsidiary which handles all explosives of the GOCL division also. So overall with the sales moved up from Rs.271 Crores last year to Rs.305 Crores an increase of 12.5% and EBITDA moved up from Rs.9.43 Crores last year to Rs. 20.58 Crores.

Other good thing as many of you will remember in April last year we had an accident in our Detonating Cord plant. Now that plant is up from February. So we have about a month turnover the Detonating Cord section which has been added to this year's turnover.

In the Mining and Infrastructure segment or division which we have, we have during this year impaired all our fixed assets and therefore going forward they will be no impact on the P&L of GOCL.

On the property side, we are moving ahead with our Bangalore project. The Bangalore project we have been able to get our first building literally 10th floor slab is ready and brick work etc., is going on along with this that is approximately about 10.46 lakhs square feet which we are developing with a multilevel car park of 74,000 square feet in the SEZ sector.

So, this we expect it to be ready by September this year and we should be in a position to start commercial transaction from October or November.

So that is roughly the overall picture. Now, I would like to request Mr. Manish Gangwal, our CFO to take over.



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Manish K. Gangwal: Good afternoon. Most of the financial figures have been highlighted by Mr. Pramanik, but I would like to draw your attention to few things. Our profit from operation as Mr. Pramanik as mentioned has gone up from Rs.20.51 Crores to Rs.22.38 Crores and importantly the finance cost for the quarter is Rs.1.89 Crores as against Rs.6.93 Crores in the quarter-on-quarter basis and from last quarter December quarter Rs.7.56 Crores.

This is mainly due to the favorable foreign exchange movement to us at end of March. Exceptional items are minimal mainly to the extent of clearing the balance some of the left over portion of consult and with this mining consult, mining division have been fully impaired. As Mr. Pramanik mentioned no future impacts from the P&L on this account and with that our PAT for the quarter has been steady at Rs.18.35 Crores and yearly PAT is Rs.58.33 which is very impressive in the current situation when the economy has been going through a tough face.

As regards the segment, all the segments have done well in this quarter. There is an improvement in the lubricant segment from December quarter as well as from last year March quarter. For the year EBIT has been maintained for lubricant at Rs.105.46 Crores, explosive division has maintained its EBIT at Rs.6.77 Crores and we have to read this figures, considering the economic situation throughout the year, which would be impressive.

Consult mining has for the year been Rs.51.84 Crores negative which is mainly due to the impairment and one-time hits we have taken to clean up and with that if we come to balance sheet, we can notice that there is a nil long-term borrowings for the company now and we have only short-term borrowing to our working capital at Rs.164 Crores mainly pertaining to the working capital of the lubricant side.

There is no major change otherwise in the inventories and DSOs everything is well within norms, which we are following.

With that I would request Mr. Ravi to refund lubricant business and overall.

Ravi Chawla: Good afternoon gentlemen. I think Mr. Pramanik has covered the financial for the lubricant division. What I would like to share with you is that in terms of Q4 and of course the entire financial year, we have seen slow down in terms of overall demand for lubricants in volume terms mainly the degrowth has been in the commercial vehicle segment which has both seen factory fill and after market demand coming down.

We know there has been domestic fall in 20% for overall commercial vehicles close to 26% in heavy commercial vehicles. This has impacted our position because we are leaders in new generation diesel engine oils in south and of course top three position in all India, so this had an impact on our business, but we are happy to share with you that in spite of this we have retained our market share and the positive growth we have had is in the motorcycle segment where we continue to increase our distribution, our brand investments and of course come out with newer



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products for various segments, so we are happy to report that we have increased market share in motorcycle.

Retail share in diesel engine oil and as a division, the lubricant divisions has managed to grow its market share though marginally this year. We have been very clear about our investment in brand distribution and people continue to build up our brand in fact investing more in advertising in the last year and not dropping our price positioning, so domestic market share has moved up.

We are obviously waiting for the market to now respond better in terms of a lot of initiatives and hopefully the economy low mining movement of trucks and tippers because of mining issues across key states, industrial production index has come down, but we hope this will go up given that the economic and political situation will improve.

We are also happy to share with you that we have concluded a tie up with a major tractor company, which will now start delivering as returns in the bazaar. We will announce it shortly. So, given that the tractor industry is one of the two segments which has done well last year in terms of sales other being scooters which grew by 23%, tractors grew by close to 20% and we hope that this tie up will help us to further take our position up and grow our volumes and a lot of work is being done with various OEMs and that should be a positive as we go forward. Thank you.

Subhas S. Pramanik:

I would like to just quickly brief you on the explosive side. On the explosive front we have been steadily increasing our business with the non-coal India segment. This year, the Coal India was just about 35% of our business, but we expect that with the growth of other business of Coal India, we should be able to increase our market share again which was earlier at about 60%, so we should be able to move up on that.

We have done well on our explosive sales and our Detonator sales where in Q1 to Q3 we saw a good growth and good demand. Q4 was a little subdued this year mainly because of the ammonium nitrate rules which were introduced with effective from January 11, and that dampened a lot of demand along with it the election campaigns which were started restricted a lot of movements of explosive throughout the country and therefore the sales have been a little sluggish in the last quarter of this year, but otherwise we see a steady growth coming in and hopefully and if the economy picks up now and the political side stabilizers, we should be able to see a lot of growth in the mining sectors this year.

On the consult side, we have already said that we have impaired a lot of our literally all our equipment and we are absolutely lean there. There is going to be no impact in the current year on account of idling or any such thing.

On the property side, I have also briefed you, the only additional information, I would like to give at this stage is that we have been able to give the assignment for the master planning



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exercise in Hyderabad to a Dubai based organization and they should be submitting their reports in another 2 to 2.5 months for our consideration. So, we are also moving on that front simultaneously. So, I think we have covered all our before we issue, so I hand it over to you Prashant for taking it forward.

Manish K. Gangwal: Prashant just a minute, before we take the Q&A, I would just like to add one more point on explosives that all the investors must have seen the consolidated result of explosives segment wherein the significant turnover from Rs.9.43 Crores to Rs.20.58 Crores this year. This is mainly due to the IDL Explosive subsidiary which has turned around somewhere lost to positive PBT which has been very significant achievement for the company. You can take Q&A now.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Pranav Tendulkar from Canara Robeco Asset Management. Please go ahead.

Pranav Tendulkar: Thanks a lot. Congrats for the good set of numbers. On lubrication side, can you give me what is the volume growth and price growth this year?

Ravi Chawla: Can you speak a little louder please?

Pranav Tendulkar: On lubrication side, can you give me the price growth and volume growth this year YOY?

Ravi Chawla: On the volume growth, overall we are close to last year, closed to less than 1% growth overall volume because of the commercial vehicle segment and I think revenues, we have reported about 6% increase which has got price built in, so obviously it means that we have taken up our price increases based on certain cost parameters and certain product mix. Of course the challenging part has been that the channel markets, the price increases have happen, but B2B wherever specific customers are there, the price increases may be plus or minus, so overall that is the scenario.

Pranav Tendulkar: On whole company basis, what is the split between the OEM and bazaar segment?

Subhas S. Pramanik: I think we are normal split between what we called as automotive channel. The channel business is about 75% which includes the few OEM products and 25% is the B2B which includes OEM factor fill, so our factory fill is roughly we talked about nearly 10% of our volumes coming from factory fill, which is OEM related and the bazaar business which is related to OEM is another 15%, 20%, so that is the breakup. Some of the core branded oils and all come into the bazaar, because it is sold through our bazaar channel which is distributor led.

Pranav Tendulkar: On a company level, can you give me the rough idea of how much percent is CV, four wheelers and scooters and two wheeler if that is possible, volumes and value wise will be enough?



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- Subhas S. Pramanik:** We have in terms of our overall mix if you see that we are close to about 12% to 15% of two-wheeler oils and 55% would be related to diesel engine oil then you have some industrial products which should be about 15% and PCMO is roughly about 6% to 7% now.
- Pranav Tendulkar:** So CV is 65 right?
- Subhas S. Pramanik:** 55%.
- Pranav Tendulkar:** Car Sir?
- Subhas S. Pramanik:** Car will be about 6% to 7%.
- Pranav Tendulkar:** There was some plan of expanding the capacity from currently, I think 75 KTL?
- Subhas S. Pramanik:** That is underway. Silvassa plant is under expansion now with new filling and tank expansion. So that will happen in the next five to six months. So that should take up our capacity of Silvassa close to 95,000 and then of course we have also planning the second plant in Chennai, which will take close to 24 months for building up the similar capacity in terms of we may go in some stages, but initially add about 50,000 capacity there.
- Pranav Tendulkar:** What is the capex for this expansion in this 75 KTL Silvassa expanding and also in Chennai expansion?
- Subhas S. Pramanik:** Silvassa would be closed to about Rs.35 to Rs.40 Crores and Chennai we are looking at the range currently at about Rs.125 Crores.
- Pranav Tendulkar:** Okay, that is complete 50 KTL?
- Subhas S. Pramanik:** We will start with 50 and of course we can ramp up more in the future, because currently we have a number of OEMs around Chennai as you know if you are looking at few export markets if we can build up some business around the region.
- Pranav Tendulkar:** Last question from my side. This tractor tie up that you mentioned, so is this our entry to tractor segment?
- Subhas S. Pramanik:** We are already presence Sir. We already have our own product range, but as you know now the OEMs are also come into bazaar market, so it will help significantly to increase both our distribution and market share in the rural area and our tie up with the major OEM has its advantages in terms of acceptance by consumers and obviously the mechanics etc., so this is going to be helping us with our share it will go up significantly be feel. As you know rural market today with all the company is focused, they also have a big market for both motorcycle



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oils and car oils and other products, so this will help us overall and it is going to be significant tie up which will be announcing shortly.

Pranav Tendulkar: Last question from my side. The Hyderabad master planning that you said about real estate it is not under SEZ, so it will be commercial total or retail property development?

Subhas S. Pramanik: The mandate, we have given is that it will be a mixed development and mainly focused more on the commercial and residential side.

Pranav Tendulkar: Sir any split between two?

Subhas S. Pramanik: No, the split is still open. We are waiting for their inputs to be able to take a decision as well as we are taking inputs from the property development groups also as to what kind of demand patterns are emerging in Hyderabad. So, the decision will be based on that.

Pranav Tendulkar: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Alok Deshpande from HSBC. Please go ahead.

Alok Deshpande: Good evening Sir. I have two questions. Sir, one was on the raw material cost. Basically there was big uptick in the raw material cost in the last quarter. In Q4 what have you seen in terms of raw material cost in terms of I am talking about lubricant sectors are base oil or additives?

Ravi Chawla: For Q4, the base oil has been more or less flat though slightly on the downward trend because the exchange improved, but additive prices are continuously there have been price increases round the year on the regular interval. So, it is a mix actually. Base oil has been slightly flat for Q4, mainly driven by exchange, but additives have been on the up.

Alok Deshpande: What has been the trend so far in this quarter in Q1?

Ravi Chawla: The base oil is still more or less flat slightly within our upward bias, but additives as we have already mentioned is always on the upwards.

Alok Deshpande: There has been a price hike I believe you have taken about a month back, so that should get reflected in Q2 right?

Ravi Chawla: We have taken price increase, but it will take around two months to get implemented in the market, because we have stock in the channel, distributors also carry stock, so there is a delay when we announce and then finally, we will hopefully see the impact in Q2 if the costs are stagnant.



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Alok Deshpande: I had question on the market share, Mr. Chawla mentioned that the market share in four-wheelers you managed to retain and there was increased in the two wheelers, so is there a broad number that you can tell us what is the market share on an overall basis and if you can tell us on four-wheeler, two-wheeler basis?

Ravi Chawla: Let me clarify, when I said the market share has been retained in what we called the new generation diesel engine oils. You call that four-wheeler and we call it commercial vehicles, because it has more than four wheels sometimes. So, we have retained our market share there again varies in various areas, but to put an estimate it is probably about 8% overall and motorcycle is again we have 8% to 9%. There we have gained because our growth has been higher than what we estimate the market to be, so maybe we have gained about 0.5% in motorcycle, but not much change and what we have done is we have gone with our price positioning. We do not go into heavy price cutting what some of the other competitors are going to gain market share. So, we have maintained our price positioning as we want it to be at the same level at the brand investments we are doing. So hopefully in the long-term we will see that we are able to get a little more premium, but as you know it is a push and pull market for us now, it is not pull and push, so we have our competitor brand like Castrol which are highly pull, so we need to obviously balance between the two and just happy to report that at least motorcycle we have gained we know that. Commercial vehicle again because we are the slightly larger player than others we need to retain share and again not to resort to price under cutting to retain to gain volumes.

Alok Deshpande: 0.5% gain in two wheelers and would that also be around 8%, 9% or?

Ravi Chawla: It would be double-digit growth.

Alok Deshpande: Double-digit share you mean?

Ravi Chawla: Double-digit growth in terms of volumes.

Alok Deshpande: Double digit in two wheelers?

Ravi Chawla: We have slightly below the overall double figure mark in terms of overall market share in motorcycle.

Alok Deshpande: So that you are saying that would below the two digit market share?

Ravi Chawla: Most of the market share that we would refer to you would be bazaar market shares, because we do not talk about the petrol pump business and other?

Alok Deshpande: So, overall you are saying that since 55% is diesel engine oil and 12% to 15% is two wheelers, 70% of the volumes you have market share of 8% to 9% would that be a fair assessment?



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- Ravi Chawla:** That is again new generation diesel engine oils for share that is 15W40 variety not the old 20W40. So that is where you need to understand that actually our share may be slightly low than what you mentioned, because we do not take into account a lot of the lower grades. You also see now what is happening is the trend to move to 15W40 in the tractor segment. So there again you have large old diesel engine oil of course some bit of technicality is here. We are trying to grow at again with OEM tie up we hope we will get more share of that in the future.
- Alok Deshpande:** Just one question, is there number that you can give what out of this 55% diesel engine oil is the new generation and what are the older ones?
- Ravi Chawla:** Roughly it is half and half.
- Alok Deshpande:** Thanks. Thank you so much Sir. I will get back in the queue for more questions.
- Moderator:** Thank you. The next question is from the line of Rajiv Rupani from Individual Investor. Please go ahead.
- Rajiv Rupani:** Regards to the entire team. Sir my first question is regarding the Houghton stake, the 10% stake what we have what is the approximate value and in the press release you have mentioned about maximizing value. So how do you plan to maximize the value for the shareholders? Are you planning to sell the stake?
- Manish K Gangwal:** At an appropriate time definitely we will have to consider selling some stakes to take the benefit out of it, but there are no immediate plans and valuation of 10%, we have to estimate it in a way that when we bought Houghton earlier. It was 100% LBO or leverage buyout and at that point, roughly 300 million was the loan taken from the lender to part finance and out of that when we diluted 90% the entire obligation has been taken over by Gulf International which we have already announced which means if it was 100% leveraged buyout and they have taken the entire responsibility of the loan out of that Rs.300 million, so we can safely assume the valuation of this 10% without considering factors which will drive the valuation based on the performance of the target irrespective of that.
- Rajiv Rupani:** My next question is regarding the Bangalore development. The first building will be ready by September which you have informed, so now do we plan to sell the space or lease it, because there have been some changes in the SEZ policy where by the developers can sell the space could you update please?
- Subhas S. Pramanik:** We are still on the leasing model. We are still waiting for a lot of clarity on the acquisition model. At the moment we are the kind of feedbacks that we are getting from the market, aided by people like Nike Frank and Cushman & Wakefield etc., shows that we should be in the leasing model, but at the same time we are getting a lot of feelers, what you are doing about the other buildings, which is a good sign, but as of now the first building, we are still on the leasing model.



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- Rajiv Rupani:** Work on the second building does it start after September any idea?
- Subhas S. Pramanik:** We are planning to brick ground there in next two months. All the designs everything is ready. The tenders have floated. So that is on schedule actually.
- Rajiv Rupani:** My next question is regarding the Hyderabad property, are all the approvals in place to start development?
- Subhas S. Pramanik:** No, as I said we have given the master planning exercise to a Dubai organization and after we get all that then we will be applying for all the building permission.
- Rajiv Rupani:** My last question is I would request a management to issue a press release before de-merger, just like you issue press release before after every results. The point is the market participants are not aware of our landholding and thus it would help in better price discovery post the demerger honestly. So, if that could be done it could be nice.
- Subhas S. Pramanik:** I think we have disclosed all our positions during the AGM. At every AGM we are really updating all the shareholders. Anyway we will think this over. Now that you made special mention of it.
- Rajiv Rupani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Naresh Kataria from an Individual Investor. Please go ahead.
- Naresh Kataria:** Good afternoon everyone. My question is on deployment of cash. I think there is a lot which we will get in the course of next few years out of lease rentals or may be we may sell some stake in Bangalore, sell some property there or even out of value unlocking of Houghton any broad plants how we plan to deploy that cash which will come?
- Manish K Gangwal:** You will observe that we have reorganized all the businesses and we are now getting quite focused on each of our areas like lubricant has been segregated. This side Gulf Oil Corporation will continue to focus on properties, property development basically and also continue with explosive. So, the focuses are very clear. What we plan to do is basically consolidate our positions in our GOCL and therefore these funds which will be coming in will certainly help us to either focus more on our segments or basically strengthen the balance sheet further and give more shareholder value. So as of now the cash flows we are expecting from the property side would start flowing in from next year. This year we expect some token amounts to come in from end of Q3, but then the deployment etc., will always be in a such way that the focus is on these two businesses and growing the business and strengthening the balance sheet for shareholder value.



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- Naresh Kataria:** One more question is on, the demerger and listing of our two companies. By when would be think all this will get complete listing?
- Manish K. Gangwal:** I will put it to Mr. Satyanarayana our Company Secretary.
- Satyanarayana:** We have received the certified order of the High Court last week. We will have to file the same with the ROC first, then we will be announcing the record date. From there it will take roughly about two months and a little longer for the resultant company listing process.
- Naresh Kataria:** In about three months from now we could expect both of them do we expect. Thank you Mr. Satyanarayana. Last question for on the lubricant side, we had an actual amount of Rs.57 Crores last year that is for FY 2013, what is the trend overall FY 2014 or 2015 is it kind of on the growth has been in terms of our investments in brand building?
- Ravi Chawla:** Can you repeat your question Rs. 55 Crores?
- Naresh Kataria:** We had an ad spend of about Rs.57 Crores last year. I believe most of it or almost everything should be on lub side. So this was FY 2013. What is the trend in terms of growth in ad spend for FY 2014 and also plants for FY 2015 in terms of brand building?
- Ravi Chawla:** We have spent roughly 6.5% last year. This year that is increased to 7% and we want to be around that range.
- Naresh Kataria:** 7% of our sale is our brand building investments?
- Ravi Chawla:** This also depends on what competition does. As you know we track competition in terms of share of voice and share of expense, so based on that that is the kind of ballpark figure 6% to 7%, is where we are, but it has gone up this year just to answer your question.
- Naresh Kataria:** Thanks Mr. Chawla. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Nitin Tiwari from Religare Capital Markets. Please go ahead.
- Nitin Tiwari:** Good evening. Sir, my question is related to the volume growth that is expected in the lubricant market in coming years, so what are your sense in that direction and also at what rate Gulf Oil is look into grow vis-à-vis market?
- Ravi Chawla:** The situation is as I covered in my earlier part, commercial vehicle segment still as to pick up. So we are expecting segments like probably light commercial vehicle, two-wheeler and tractor to be positive, so it all depends on the economic scenario, if we look at this year, but we have always tried to look at least double the growth of the market which today seems to be flat. So if the



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market overall volume growth is about 3% to 4% which we hope we can get in the next year. We will at least try to double our volume growth not only that we are looking at new areas like tractors where we have the OEMs and other such businesses which will come, so our growth plans are to get more market share in certain specific segments. There are also building our business in the B2B segment. Just to share with you we have gain a number of customers who are doing in infrastructure projects, but again we hope that we are able to get good growth in that with reasonable amount of margin and in terms of credit days. So, overall we are looking at positive growth next year and this financial year, but again another couple of months to go before we start seeing demand on the ground going up.

Nitin Tiwari: As you said that the sales have been flat in this year, so 65 million liters would be the right number to look around?

Ravi Chawla: 64 to 65 is where we are currently.

Nitin Tiwari: Now I have related question on the brand building side. You said that you are looking to grow the market share. My question was around how and what strategy is being followed to grab into the market share and aggressive ad expense like one of them as you said that 6% to 7% is what ad expense has been, so where else we are looking to garner the market share?

Ravi Chawla: Specifically we have been looking at obviously investing in the brand and based on the segments which will give us growth. So if you take a five year horizon, we continue to invest in our focused segments, but tactically we may have to look around what segment is going to give us a response, so this basically a combination of ATL, BTL, so you have above the line which is media and brand and then this is below the line which is sales promotion. So, I think we have some sort of flexibility as of now it is literally half-half that we invest, but as we see various segments responding, we would not like to completely share game plan, because obviously we would like to you something where competition is not aware, so we will have a balanced approach and we have done it successfully in the past. So we see that and in fact as we grow up business and our media presence we find that we have a lot of innovative options coming both in terms of market share and of course brand building where the consumers can differentiate a product and look at why he should buy. Just to give you an example last year we tied up with Dhoom-3 which was a big blockbluster. It helped our motorcycle sales and actually you can see the growth that has been delivered, so we will have a mix of both above the line, below the line and strategically we remain committed to investing in all our key segments, even B2B you can see we had sponsored a show in CNN-IBN, so we clearly looked at how we can position the brand as we have been leaders in pioneering long drain oils, so those kind of innovative areas we would obviously unfold and share with you also at appropriate times.

Nitin Tiwari: When we list the lubricant segment separately, so are we also looking at sort of margin expansion in the lubricant's business vis-à-vis like where the current entity margin stand and what would be the key drivers for those margin expansion if at all?



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- Ravi Chawla:** We are currently balancing our market share growth which we have grown quite rapidly over the last five to six years. So when we look at various volumes coming in there is sometimes balance between we cannot commit margin growths because if we supposing get opportunity to grow our business through an OEM tie up for an example, then obviously the margins are not going to be that in terms of overall margins growing up. So there would be a trade of I would say, but at the moment is a positive trade of, because overall we are looking at a strategic plan.
- Nitin Tiwari:** My next question would be related to your Houghton debt actually. You have mentioned as it has been countered guaranteed by the international entity and the principle and the interest payment would be taken up by the international entities, so my right on that?
- Manish K. Gangwal:** Basically the debt case on the GOCL side after demerger, because the land is secured from there and yes you are right, the entire obligation is on them.
- Nitin Tiwari:** So, the lubricant division which will be listed will have no liability whatsoever towards this debt? Correct if I am wrong, but the India business would also be contributed to the international revenue, so what it does indirect liability still be on the Indian business?
- Ravi Chawla:** Sorry, we could not understand how India business will be contributing?
- Nitin Tiwari:** Basically please forgive my ignorance on this issue, but is not it like international revenue completely is it segregated from the India revenue or India revenue forms of a part of the international business revenue?
- Ravi Chawla:** It forms only 15% to 20% part of overall Gulf Oil International Group.
- Nitin Tiwari:** That is end of my question. Thanks a lot for answering them.
- Moderator:** Thank you. The next question is from the line of Parin Gala from Gandhi Securities. Please go ahead.
- Parin Gala:** My question as far as real estate business is concerned, I think the entire arrangement is with Hinduja Realty so what is the kind of share that we have out of the JV?
- Subhas S. Pramanik:** We have already announced this. The first of all the understanding is there will be no expenses incurred by GOCL on both the properties, property development. All the expenditure will be done by the developers, so the sharing of revenue will be in Bangalore it is 30% to Gulf Oil and in Hyderabad will be 35% to Gulf Oil.
- Parin Gala:** As far as Bangalore property is concerned, now that we start the operation in October, November, so have you signed any lease agreements with any companies or something and at what rate could that if you can share?



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- Subhas S. Pramanik:** No we have not signed, we are still in discussion. I think it will take a few more weeks to really get down to finalizing the rates, because there is a still bit fluid and situation all over the country I think everybody is waiting for a few weeks more before taking any final decision.
- Parin Gala:** The first building which is ready what square footage would that be?
- Subhas S. Pramanik:** That is Rs.10.46 lakhs square feet along with multilevel car park.
- Parin Gala:** Thank you.
- Moderator:** Thank you. The next question is follow up from the line of Pranav Tendulkar from Canara Robeco Asset Management. Please go ahead.
- Pranav Tendulkar:** Can you little bit clarify on the stake sell 10% stake on Houghton, how much equity value should we assume from that?
- Manish K Gangwal:** I have already answered in the earlier question.
- Pranav Tendulkar:** Can you please repeat? I missed.
- Manish K Gangwal:** Basically today this is on listed entities. So to put a value exactly underlying below this is slightly tricky, but we have to go back to the history when we acquired this to find out some indications. As I mentioned that it was 100% leverage buyout with 300 million loan taken in SPV-I of GOCL earlier to part from the acquisition and later on 90% dilution of that happened with full liability taken over by Gulf International. So this 10% today is free of any debt, so which gives a minimum indication that the liability of 300 million was taken over and 10% is free, so it gives a minimum benchmarking subject to of course the financial performance of the target which was acquired how they will perform going forward.
- Pranav Tendulkar:** Just on CV side, around 55% of your sales is CV. Can you tell me what the yearly growth was or degrowth for that revenue which is coming from CV? Also out of that 55% of revenue how much is OEM and or business and how much is bazaar? That will be helpful.
- Manish K Gangwal:** It is a bit complicated to explain that but basically 55% of DEO that means that is new generation DEO which we called 15W40 oils and old generation. That is more for an internal classification. So that is roughly 50% off this 55, 60:40 towards 15W40. Now we have 10% of our volumes has OEM factory fill and 15% of our volumes has OEM cobranded oils which are also 15W40, so that is the way is the mix and as we mentioned that this is one segment which is overall been degrown in the industry because of commercial vehicle movement. We have also single digit degrowth in this segment, because of OEM factory fill and after market.



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- Pranav Tendulkar:** Can you just give me brief percent cost in terms of base oil and additives that will be helpful? Out of percent of total material cost, how much is base oil and how much is additives?
- Manish K Gangwal:** Roughly it will be 70% base oil, 30% additives in terms of value.
- Pranav Tendulkar:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sumit Pokharna from Kotak Securities. Please go ahead.
- Sumit Pokharna:** My question more relates to real estate business. As you mentioned that first building is around 10.64 square feet, can you give me more details about the remaining project? I request you to be as comprehensive as possible?
- Subhas S. Pramanik:** At the moment our total development is about 5.5 million square feet and the next building is, I think coming up at about 7.4 million square feet, but the final figures are not with us yet, we are taking one building immediately left of the first building we developed and on the right both will be coming up, so I have not got the full data, but I think it is somewhere around 7.4 lakhs square feet and the first MLCP that is the multilevel carpark that we have developed, will be actually also supporting these two buildings. That is how the planning is going, but I do not have any specific figures just as of now.
- Sumit Pokharna:** After second there will be third or it will be just exhausted?
- Subhas S. Pramanik:** There are seven buildings coming up and there is first portion that is about 10 acres is being non-SEZ area which will be a commercial hospitality retail kind of an area. So, in the SEZ site, we will have about seven buildings.
- Sumit Pokharna:** What will be the phase or duration if you can give me some guideline by when we will be commissioning?
- Subhas S. Pramanik:** We are expecting that this whole development should take another three to four years, about four years you can take.
- Sumit Pokharna:** You are talking about 5.5 million square feet?
- Manish K. Gangwal:** That is right.
- Sumit Pokharna:** Any other plans or more details and how much will be commercial and how much will be residential or it will be 100%?



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- Manish K. Gangwal:** For the non-SEZ section? That is still on the drawing board, because there are some SEZ rules which have changed now. So there could be a little bit of realignment not much, but can be something. At the moment, I really cannot give you any specific figures for the non-SEZ section. It can be a little bit more or so that is what we feel.
- Sumit Pokharna:** What about SEZ area Sir?
- Manish K. Gangwal:** SEZ is 30, but since we are allowed certain, some changes have come in, we are studying that to see whether it would make a difference if we did a little bit of reorganizing of our bond reliance.
- Sumit Pokharna:** So, I believe there will be no capex from your side?
- Manish K. Gangwal:** Nothing.
- Sumit Pokharna:** Whatever revenues will come in that 30% for the Bangalore and 35% for the Hyderabad project?
- Manish K. Gangwal:** 35% for Hyderabad. The developer is spending approximately Rs.1350 Crores on this development. That is the figures we have and this is totally tied up with bank loans and all that. So, everything is in a position there. It is only that we are slowly as we are developing we are trying to understand the market and develop accordingly and not keep our investment idle.
- Sumit Pokharna:** Right, so marketing will be done by them only?
- Manish K. Gangwal:** Yes, the full thing is with them, but we have the option to do our own marketing of our own areas.
- Sumit Pokharna:** Any internal benchmark, how much you are going to sell and how much you are going to retain for the lease purpose?
- Manish K. Gangwal:** As far as the SEZ portion is concerned, we are still on the lease model as I said little earlier, but on the non-SEZ side, it will be mix of lease.
- Sumit Pokharna:** Any ratio on that, how much?
- Manish K. Gangwal:** I do not have anything just now, because you see we had earmarked a lot on hospitality side, but that market is still going very weak just now. So, we are not really able to firm up our figures on hospitality, therefore the distinction between the various sections are not clear as well.
- Sumit Pokharna:** 30% straight of the topline right?
- Manish K. Gangwal:** Yes definitely yes, except for any marketing or sales expenses, which we may have.
- Sumit Pokharna:** But you said that will be done by these guys?



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- Manish K. Gangwal:** No, no that is the construction side, but once I guess my get GOCL share we can do whatever we want with it. That they may not have any say in it.
- Sumit Pokharna:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Equity Capital. Please go ahead.
- Vipul Shah:** Good afternoon all. I was looking at your consolidated numbers. I think we have around Rs.1250 Crores of long-term borrowing at consolidated level and I guess one of our subsidiaries has given medium amount of loan to our associate company. So I guess with the new companies are coming in will that not be prohibited or you will need to reverse in the due time?
- Manish K. Gangwal:** These are the loans in our may be UK SPV which was for the purpose of Houghton and as of now whatever understanding we have there is no impact on this.
- Vipul Shah:** But then what are the benefits to the minority shareholders because your loans of our subsidiaries and you have given loan to associate companies, so the risk reward ratio is not for minority, can you throw some light on that?
- Manish K. Gangwal:** We have already mentioned that this loan is not to be serviced by GOCL or out of GOCL cash flows. So standalone entity has nothing to lose and on top of it there is a 10% share in the target or acquired entity which is free of any debt, so that 10% state is a gain for the company and therefore to all the shareholders.
- Vipul Shah:** You said that the loan eventually be repaid by the associated company?
- Manish K. Gangwal:** Yes, the loan will be repaid out of the cash flows of Gulf International and no cash outflow is being planned from GOCL standalone entity in India.
- Vipul Shah:** There is no counter guarantee by Standalone Company also?
- Manish K. Gangwal:** No, as of now, current part of the land in Hyderabad is secured for this debt for which we are receiving guarantee commission also from them, but in the event of any security being encashed by the lenders which is highly unlikely, there is a complete counter guarantee by Gulf International, so no impact.
- Vipul Shah:** Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Sumit Pokharna from Kotak Securities. Please go ahead.



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- Sumit Pokharna:** Just followup question on real estate side, can you give me some broad indications of the realizations you are looking from these projects?
- Subhas S. Pramanik:** This was worked out roughly about a year ago, so the figures still stand as this year we expect something around about Rs.14 to Rs.16 Crores and next year we do expect that it will be over a Rs.100 Crores.
- Sumit Pokharna:** What is the average realization you are looking for more than mix if you can give me little bit on that?
- Subhas S. Pramanik:** All this is under revision that is why I mentioned to you that this was done about a year ago, so we are still staying with those projections. They are highly conservative and I am sorry you may have to wait for the next concall to update you.
- Sumit Pokharna:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Prashant Tarwadi for closing comments. Please go ahead.
- Prashant Tarwadi:** Thanks a lot everyone for participating in the conference call. My special thanks to Gulf Oil Management for devoting time for the discussion. Now, let me hand over the conference back to Mr. Pramanik for his final closing comments. Over to you Pramanik sir!
- Subhas S. Pramanik:** Thank you Prashant. What we have tried to tell all the participants in this conference is that we have held our business very steady throughout the year in spite of a very weak market trends and we have had good cash flows this year. We have also in the mean time developed niche markets where we expect that where growth will be coming as the economy really grows. The second point which we made was that on, we have reorganized our businesses. We have really made the businesses quite focused as against diversified model that we had up to now. We had a drag on the mining and infrastructure division that we have and we have impaired all the assets there during the year. In the years going forward, we will be really focusing on the property development sector and you should be seeing a lot of growth and cash flows in the company. The lubricant's division will certainly continue to grow and add value to the investor portfolio. On the other side, we have ensured that the balance sheet becomes stronger. We are trying to even focus on the working capital which we are really deploying. As you have seen that we have already reduced our working capital exposure from just Rs.164 Crores from Rs.247 Crores and we expect that these kinds of trends would continue with the restructured businesses that we have. As far as shareholder value creation is concerned, we will continue to do that. We expect very healthy cash flow on both the sides of the business and the lubricant's business which is being spun off as a separate company called Gulf Oil Lubricants India Limited should in our view be listed by July 15 and therefore all shareholders should be really getting good advantage for having being with us all along. Thank you very much.



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Moderator: Thank you gentleman of the management. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.