



**“Gulf Oil Corporation Limited Q2 FY-15 Earnings  
Conference Call”**

**November 19, 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 JAIN – CHIEF FINANCIAL OFFICER, GULF OIL CORPORATION LIMITED**  
**MR. SATYANARAYANA – COMPANY SECRETARY, GULF OIL CORPORATION LIMITED**  
**MR. A. D. SAO – CHIEF OPERATING OFFICER, GULF OIL CORPORATION LIMITED**  
**MR. T. T. DAS – HEAD - MINING & INFRASTRUCTURE, GULF OIL CORPORATION LIMITED**



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**Moderator**

Ladies and gentlemen good day and welcome to the Gulf Oil Corporation Limited's Q2 FY15 Earnings Conference call hosted by Axis Capital Limited. As a reminder all participants' 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 hand the conference over to Mr. Prashant Tarwadi from Axis Capital. Thank you and over to you, sir.

**Prashant Tarwadi**

On behalf of Axis Capital I welcome all the participants on the conference call of Gulf Oil Corporation Limited. I thank the management for devoting for the call. We have with us Mr. Subhas Pramanik – Managing Director; Mr. Ravi Jain – Chief Financial Officer and Mr. Satyanarayana – Company Secretary. They will start with the overview of the performance for the Q2 FY15 and then we can go on to the question and answer session. Thanks a lot and over to you, Mr. Pramanik sir.

**Subhas Pramanik**

Good afternoon to all participants for this quarter two discussions. I have with me in addition to the three people I mean that is our CFO and Company Secretary I also have the Chief Operating Officer, Mr. A. D. Sao here and also the Head of Mining and Infrastructure, Mr. T. T. Das. So all of them will be available on this conference.

To start I would like to say that we have after showing a good performance in Q1 that is after demerger that is the standalone business of Gulf Oil Corporation which covers Energetics division, the mining and infrastructure division and the realty division. So in this area there is a lot of activity which has now taken place thanks to the initiatives taken by the new government. So these two divisions have been active in this quarter and we have been able to show a turnover increase of 36% over the same quarter last year. The Energetics division had a growth of about 13% that is from Rs. 18 crores to about Rs. 20.5 crores turnover increase and on the mining and infra side we were able to come back in to the game again. As I said mainly because of the new initiatives given by the government.

So logged in revenue of about Rs. 5.78 crores for this segment. The operating income has been a little flat because we have been having most of our expenses and all that is really going to start giving us results in the future quarters. So the expenses have been slightly on the higher side but the PBT has for Energetics increased nearly doubled from last year from Rs. 1.9 crores to about Rs. 3.8 crores and in mining, infra or most of you will recall that we had a loss last year in all the quarters. This year we have got a profit of Rs. 2.2 crores. So that is a major change which has happened in this division and which has also helped our results for the quarter.

The PAT in Q1 because there is no use giving you a comparison with previous year because that was prior demerger and this is after demerger so in PAT Q1 we had ended up with Rs. 8.09 crores and this quarter we have been able to close with Rs. 10.13 crores an improvement of about



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25% QoQ. So this is the overall position as we have it here. I would say this discussion will not be complete if we do not also give an indication of our total exposure to mining which also comes from our IDL Explosives Limited which is 100% subsidiary of this company. There, there has been growth of also another 18% of the turnover and together for this quarter we have been able to increase our turnover from Rs. 149 crores to Rs. 177 crores. So that is the overview of the business as we have it. They have been in positive also which our CFO will also explain a little later.

Now as in the Energetics division we are now seeing a shift in the demand pattern from the markets. We are seeing that earlier we were selling more electrics and we were selling more basic plain detonators. That has now shifted to non-electric detonators and electronic detonators. So slowly that shift is getting visible and I must tell you that we have been able to grow our businesses in both these areas quite well. There is a slight pickup in market demand overall we see about a demand increase in this quarter of about 5% to 6% and Coal India has also our major customer in this field they have also shown some increase in turnover and which has resulted in a better demand for explosive products for this quarter.

Non Coal India sector is also growing again as I said at the beginning of this discussion that is mainly due to the initiatives taken by the new government. So non Coal India areas have started again intending for detonators and explosives from our 100% subsidiary. What has happened in the metal sector is also a bit encouraging because of the changes which are coming in to the Western India markets and the Eastern India markets. Lot of mines have starting up now we have started getting enquiries which has come in for not only explosives and detonators but also for our mining services. So we are seeing a good change over there. In the infra sector our supplies of explosives, detonators are quite steady. It is slightly increased and I would not say it is too much but at the same time for our infrastructure services group this has brought in one road project and the second one is now under negotiation. So slowly we are seeing a ramp up of the business that our two divisions were doing.

Coming lastly to the property or the realty division you would have seen in our press note that we have already given that the first building which is the 40 acre development which we are doing in Yelahanka is nearly completion the glazing work has started and we are advised that this should be over by another month or five to six weeks' time. So we have started the marketing efforts have already started and we are expecting that we should be able to get a good customer demand because of the location of this project is right on the express way about 14 kilometers from the Bangalore airport towards the city. Location is very good it is feasible highly visible and it is once the metro comes up on that side which is expected in a few years' time the accessibility will increase. So with all these we expect that as we develop this project the demand the kind of rates etcetera which we will get would be certainly something which we can look forward to and it is part of the planning that we have done already.



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So with this I would like to say that this is the overview. I would like to now handover this to Mr. Ravi Jain, our CFO for more financial details.

**Ravi Jain**

Our MD has highlighted some of the financial figures further to that in Q2 we have achieved a turnover of Rs. 26.89 crores compared to same quarter last year of Rs. 19.73 crores which is 36% higher year-on-year basis. PBT level we have achieved Rs. 13.43 crores positive in Q2 compared is a loss of Rs. 2.41 crores last year. Basically we have impaired all our mining and infrastructure assets hence the depreciation cost has come down from Rs. 2.99 crores to Rs. 0.4 crores and since we have paid all our long term liability and using our CC limit very judiciously and have good control on our cash flow. The interest cost has also reduced from Rs. 3.97 crores to Rs. 0.3 crores only. Up to provision of income tax of Rs. 3.30 crores we have achieved a PAT of Rs. 10.13 crores. As you all know that we have demerged the lubricant business in February 2014 the figure of last year which I have quoted are other than lubricant business and standalone for better understanding.

Last quarter we have paid an advance tax of Rs. 1.61 crores. As regards to the segment result in energetic segment we have achieved a turnover of Rs. 20.41 crores and PBT of Rs. 3.64 crores compared to the last year of Rs. 18.06 crores and PBT of Rs. 0.96 crores. In mining and infrastructure segment this quarter we have earned revenue of Rs. 5.78 crores and PBT of Rs. 2.18 crores compared to the loss of Rs. 6.29 crores last year. The long term liability of the company is nil whereas we have further reduced the short term liability and inventory has increased by Rs. 1.51 crores this quarter and receivables by Rs. 8 crores as large export has happened in the last week of September 2014. We have added Rs. 10 crores in our shareholder's fund. No other major movement in our balance sheet figure. That is all from my end.

**Subhas Pramanik**

Well, we have taken you overall through the financials. Now I would like to ask Mr. A. D. Sao our Chief Operating Officer to give you a little background on how the markets are developing and how is the demand pattern emerging out of this market. So over to you, Mr. Sao.

**A D Sao**

During last three years value wise turnover of explosive market has grown up by 12% to 13% and this trend will continue with this coal issue being settled now and the new allocation of the coal blocks once it is settled the rate of demand for explosive will further increase. And our first six months of result is basically it is during the lean season where we sell hardly 40% of the total demand so the peak season has now come. During this peak season we expect a better performance. This is number one. Number two, there is during last two to three years there have been a substantial shift in the market with the introduction of Ammonium Nitrate which has come and Ammonium Nitrate rules have been implemented so now Ammonium Nitrate is no longer a commodity and it is almost like an exclusive item.

So the availability and the use of Ammonium Nitrate and Ammonium Nitrate-Fuel Oil (ANFO) has been now totally regulated and this has resulted in the shift of demand from Ammonium



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Nitrate explosives in acquiring in the mining and irrigation and other disorganized sector to cartridge explosives and there the demand of the explosives in the packaged form are the cartridge explosives has now is changing over. So this we are finding also an increase of the market for the cartridge explosives including in our own plants. This is number one change over which has taken place. Number two this ordinary detonators or super plain detonators and electric detonators which were we had a huge market share almost 40% of the market share.

Now the consumers are changing over from this to large diameters explosives and that is resulting in demand for non-electric system which is a value added product and we are shifting over to this value added product and gradually phasing out electric detonators and ordinary detonators to non-electric detonators which is a value added detonator and in some places to even the fifth generation that is electronic detonators. So the gradual changeover is taking place and in both Gulf Oil and IDL it is the daughter concern are the market leaders both in the electronic detonators and your **knowledge 15:11** system we have a good command. So these are the positive things which are happening in the market segment favoring us.

Then Coal India we had three years' back taken a decision not to go for the business because the prices were not very remunerative and tried to concentrate more in the non-coal sectors which has paid us a rich dividend. Now the new tender for Coal India is coming and we are hopeful that we will be quite competitive in the new tender which is due in next six months starting from December to August two new tenders will come. So these are the developments in the market which is quite favorable to us.

**Subhas Pramanik**

In our last part of the discussion I would like to request Mr. T. T. Das – Head of our Mining & Infrastructure Division to give you an over view of the business areas in his area.

**T. T. Das**

Mining started looking up. About may be just one year back even for the last about two years we were in a negative side this is the first quarter where we were able to show some plus signs in profitability. It is happening because the closed mines they are started opening gradually and you must be having regular news about what is happening in the mining sector especially in coal. We hope that in the days to come it may take about may be something like one to one-and-a-half year when you will be able to see that this about 200 plus number of coal blocks when they open up huge mining contracting opportunity will open up.

And each one of this contract will be of very large value which we were targeting earlier. There were about three, four blocks which we were targeting but unfortunately all these blocks have been snatched away but hope is that they are going to be reallocated and we are actually targeting them and for the current business what we are doing that is because actually Tata Steel has opened up. There one iron ore mine is there which we have started operating. This mine we operated long back may be about six, seven years back. So that same Tata Steel iron ore mine we have got and in the infrastructure side of course we have started in a very small way but this



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billing value in infrastructure you will be able to see in every queue it should be including. In Q3 and Q4 our this Q2 our infrastructure billing was about Rs. 2.5 crores and we will be increasing it to a Rs. 5 crores may be it may go up to Rs. 10 crores also.

So as I said mining is looking up so we hope that in the next cues to come we should be able to give better results. Lot of enquiries have started pouring in as Mr. Sao and our MD has also told mines like say Sesa Goa they are also opening up mines from this Birla Group they are also sending lot of enquiries then in the metal sector it has started looking up. And we hope that in the next about something like say three months or six months' time lot of new tenders also will be coming up and what we are happy about is that looks like the current government is going to create a kind of a level playing field and a clean field for the good operators and sensible techno savvy operators like us to operate. That is our hope.

Any question after this we can answer.

**Subhas Pramanik**

So Prashant, we can take up the questions which the participants may have.

**Moderator**

Sure certainly, sir. Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Umang Shah who is an individual investor. Please go ahead.

**Umang Shah**

Sir, I have just started tagging the company and I have a few questions. First of all you have 10% stake Houghton International. Could you just provide me with the revenue, EBITDA, and PAT numbers for the last two years?

**Subhas Pramanik**

Well, on this particular item I am sorry we have not got the updates up to now. So we are just one of the investors as I have said in the last con call that we had that we are holding 10% of the equity. What we understand is that they are planning to consolidate their holdings along with some of the other subsidiaries etcetera which they have. So at the moment I am sorry I will not be able to provide this detail. But all I can say is that it is a good valuation coming up and we expect that may be in Q4 we should be in a position to give you more details because the year is ending on December. So we should be able to help you out with these figures at that time.

**Umang Shah**

Next question will be on the Bangalore property size. Sir, the company's latest presentation shows a revenue plan for the Bangalore property being in excess of Rs. 100 crores for the next couple of years and as far as I recall barring the marketing expenses and Tax expenses everything should flow to the bottom-line. Am I correct in my interpretation?

**Subhas Pramanik**

Yes, that is correct. The only thing is that there are some marketing costs that we have to incur so that quantum it is now being worked out we are in discussions with Cushman, the Richard Ellis, CBRE and all that and Knight Frank. So we have not fixed any one of them as our main marketing agents but we are not talking to all of them because now we are seeing that there is a



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completion possible in another five to six weeks. So all the working have started presentations have also been started on how the market absorption rates the clusters in Bangalore the micro clusters are working. So all that is going on just now and I think we should be in a position to give good details when we discuss again in Q3.

**Umang Shah** Sir, and what sort of like quantum of marketing expense do you expect for the Bangalore property could you just give me an idea rough figure ballpark figure?

**Subhas Pramanik** See there are two types are here. One is marketing figure we expect about 2% to 3% and then there are property taxes and all that and there will be an increase as we understand in the property taxes because the development is taken place roads express ways have now been widened. There is a lot of acquisition of land going on both the sides of the main road so it is going to get wider with the service roads coming up. So we expect some changes there.

**Umang Shah** On the property taxes side?

**Subhas Pramanik** Yes that in fact will happen. That figure is still not available to us. In fact for this year itself the property tax has been increased so how it is going to appear in the next year we have to calculate yet.

**Umang Shah** Then how much property tax have you paid for at this year?

**Subhas Pramanik** We have paid about with the new increase coming in I think it should be about Rs. 7 lakhs to Rs. 8 lakhs.

**Umang Shah** And sir, the marketing expense you said in the range of Rs. 2 crores to Rs. 3 crores is that right?

**Subhas Pramanik** No, 2% to 3%.

**Umang Shah** 2% to 3% of the revenue and that is Rs. 100 crores?

**Subhas Pramanik** That is right.

**Umang Shah** And sir, for FY2016 the presentation shows the revenue being Rs. 106 crores out of which like Rs. 36 crores is expecting from the sale of commercial offices and hotel properties. Sir, so are you expecting the construction to be completed in the next six to eight months?

**Subhas Pramanik** See as I said the first building along with the multi-level car parks the first corner is being readied and we as I said in five to six weeks we will be in a position to actually show the customers and start booking. So that is the start up. This is what we call in this project Building #3 serially. So now 2A to 2B already excavation and everything foundation work has been started and after that simultaneously depending on the demand pattern we will be starting up



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Building #4. So today if we are talking about buildings this 3A, 3B which is 10.46 lakhs square foot being available and Block 2 it will be very similar marginally less about 10.13 or so. And Block 4 will be about 5 lakhs square foot.

**Umang Shah**

Sir, and that Block 2 is the commercial office and the hotel property?

**Subhas Pramanik**

No, all these developments are taking place in the SEZ zone so it is an IT SEZ so it will be basically IT and BPO, ITES as we call it. These are the two types of customers who would be targeting this space.

**Umang Shah**

Sir, then the presentation shows that Rs. 36 crores is from sale of commercial offices and hotel properties so what building is that?

**Subhas Pramanik**

That is in the non-SEZ area which is 10 acres but that we may have to hold up a bit because at the moment the demand pattern is not very strong in that area. I mean for such services.

**Umang Shah**

Sir, have you leased out any of your property in the Building #3?

**Subhas Pramanik**

No, that is what I told you that already marketing work has started we are getting a lot of enquiries we are getting a lot of people making presentations to us about the clientele that they can get us. So that is all.

**Umang Shah**

So we should expect some revenue flowing in Q4 is that correct?

**Subhas Pramanik**

Yes, that is what we are planning here.

**Umang Shah**

And sir, the last question is regarding the Hyderabad project have you received all the approvals?

**Subhas Pramanik**

We have the approval for the development. The plans are now being made as we have said in the what we call our press release we are making it sector wise we are dividing this space in to about 5, 6 sectors and we will be now giving the plans per sector. So that is what we are now our architects are working on that and we hope that in another month or so we should be in a position to submit the first sector drawings.

**Umang Shah**

So sir, the construction should start by January-February?

**Subhas Pramanik**

No, it would not be so fast because when the tender processes once it is done then all the BOQs and all that will be done. So I expect that it should start up by about April-May we should be there.





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**Umang Shah** And sir, just one last question. Sir, last con call you also mentioned QoQ growth of 25% like in the bottom-line but the other income was a major reason for you achieving the same. Sir, so what was the reason for you not achieving some growth in operating profit?

**Subhas Pramanik** Well, operating profit will not move up so sharply. The 25% which I have told you is basically taking factoring in the income which will come in from the realty side. So this quarter of course we have a situation where you have more other income but then those are normal ones which were already in the pipeline which is now being shown up. So Q3 mostly probably will be having some other income but that will be lower. Our operating income will start increasing now slowly because as Mr. Sao, our COO, said that the markets have started moving I mean the demand patters are slightly strengthening and therefore that should help us to increase our operating profit here. And in any case the operating profit will be with the realty side we will be getting in future.

**Umang Shah** Sir, what were the components of other income if you could just elaborate on that?

**Ravi Jain** In our other income basically consist the guarantee fee from our various subsidiaries and management service fee we are provide to our other organization and the interest income from the ICD and the fixed deposits and some preference dividends we have received. It was all mainly consists around Rs. 9 crores. That is the other income.

**Moderator** Thank you. We have the next question from the line of Naresh Kataria from Money Power Investments. Please go ahead.

**Naresh Kataria** Congratulations on the very successful demerger and also both the stocks doing well I mean Gulf Oil Corporation is trading at the same market cap as the combined company was last year and we have the baby which is lying so thanks for all the good work.

My question sir is on the Bangalore property. I was passing by the property Yelahanka some months back or rather less than a month back and I find that the level of work is still did not seem like it will start generating revenue may be there is work going on inside but I still found the work not to be a building which where people will come in and start occupying and giving us rental and I also saw in our note that we have said Q3 and Q4 revenue stream should start. So Q3 already half is over so are we serious about this Q3 and Q4 kind of revenue stream or is it just a kind of a typo carry forward from the previous press statement?

**Subhas Pramanik** Okay, let me take this question a little bit in a slow perspective. The number one is that what we are going to deliver our Warm Shell product that is it will have the full outer shell in position inside all the utilities will be provided like lifts, your gensets, the cooling systems, air-conditioning, etc., water, toilets all that. All the common area will be provided. Now those are all in place.



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- Naresh Kataria** So fit out will be done by the tenant whoever takes out they will do the fit out and start using?
- Subhas Pramanik** That is correct. And you might have noticed when you were passing that we have already put up a sign saying that ready for fit outs.
- Naresh Kataria** True, I saw that.
- Subhas Pramanik** So basically we are now at a stage where if a client comes in and says that he wants so much space he can tell us to any modifications he wants in the shell structure to which we can do as of now. So to that extent we are ready for buyers. The finish is what I said a little earlier was that the glazing and all that is coming up now and should be ready. In fact the road side is where we have started first putting up the glazing. The glazing is I mean I think as far as I have seen it was about 70% complete on the front side and the other sides have started up. So that is basically a cladding exercise it does not take so much time as the construction activity.
- The multi-level car parks the three basement parks all are ready. The lobby is now what is getting ready now. So the lobby all designs everything has been finalized, material everything received. So it is a question of only the fitting of all that items that we have procured. So as of now the developer has given us saying that we should be able to finish in about five to six weeks. So this is the basis in which I am making this statement.
- Naresh Kataria** And do we have any client sir, who will start taking it from let us say December or so because we are still sticking to Q3, Q4 so do we have signed up clients who will start occupying its own?
- Subhas Pramanik** They have signed up for the simple reason that there are some clients which are wanting a floor or they want a section of it, etc., so I think what our marketing group is doing is trying to take all that see how the pattern is emerging and then start settling with the parties. But as I said a little earlier we are getting good enquiries and we have put in all the four major firms on this job. We have CBRE, we have Cushman & Wakefield, we have Knight Frank, and there was another group which came in. So about four groups are really working with us on clientele. The provisional advantage is really what is standing out today amongst all the clients and they feel that once the I am talking a little bit in the future once the first non-SEZ section comes up that is a hotel, the service apartments and all that then the infrastructure there would be conducive to people who are flying in and out of Bangalore for software work and it is a plus point over any other what you call IT park that is there in the Bangalore sector. So to that extent this is how the marketing groups have put up our advantages and I am just sharing it with you.
- Naresh Kataria** My next question is on the Consult side I see the note that the impaired Rs. 160 crores worth of equipment is now being put to use. Two questions there, sir. One is all of it in use or is it incrementally coming and are we planning to invest anything more on such assets for our mining consol division?



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**Subhas Pramanik**

See as of now, our objective is to first put into use all the equipment that we have, that is the first. We have now put into use approximately about 50% of the equipment. So the balance is ready. Since the equipment mostly is in the Eastern sector, we are waiting for some clearances with the Jharkhand and the Orissa governments are now expected to give for restarting of some of the mines which are in contact with us. So once that starts up, then first of all we will put this to use and then we are also expecting Coal India and all to again start up the large projects and followed by MDOs which we are expecting. So once that comes in, MDOs will give us a boost because up to now although we were doing large projects for Singareni Collieries and for Coal India and all that, the focus was 2 to 3 years only, the contract period. So the life of an equipment is about 5 to 7 years. There was a mismatch between these two figures, but once we can get into the MDOs which we expect should open up, then we get a matching because the MDOs are for 10-15 years. So two cycles of equipment will be able to the whole project. So that would be a great year and that we expect that at that point of time, we will really look at bringing a new equipment.

**Naresh Kataria**

And even the existing equipment, other 50% once they become productive, I reckon the revenue should be very high margin revenue because all our equipment has been depreciated, impaired, does not it?

**Subhas Pramanik**

Yes, that is okay, but if you see up to now in this mining infra projects, the returns are approximately at about 10-12%. So we have to stay with that parameter maybe as of now, but what we are hearing is that with this MDOs, they may be in a position to give better returns.

**Naresh Kataria**

Sure. Alright sir. My last question is on the Hyderabad property. I am seeing that lot of other developers Brigade, Godrej, Mantri, Puravankara, all have started and are doing good amount of work in Hyderabad. They are even buying lands other than like we are just wanting to use our land. So I am just wanting to understand is there any hesitancy or are we more cautious than the market or are the other market people reckless that they are even spending money on the land and going ahead while we are still on the drawing board for last couple of years.

**Subhas Pramanik**

I think the answer maybe, if you get into a little more depth on the subject about Hyderabad absorption versus demand patterns, absorption has unfortunately not been too much. Demand is also flat, but supply side is quite good and except for certain pockets where the demand and absorption is moving more or less together, all other areas have really not picked up much. We were expecting a major change to take place once the Telangana government comes in and the environment is clear as to what kind of development that the government would support or help in creating infrastructure for it that unfortunately still delayed. The only thing that we see is that the government has now announced certain sectoral allocations which they have expect like they are planning to put up specific IT clusters, they are talking about a foundry park area, solar energy, cinema city, and medical area with like AIMS type of organization coming in. So these are some of the policies which they have said, but it is too early to really say that okay, things



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have changed. Now what you say is right that there are so many large organizations going in for real estate development in Hyderabad, but I think if you look and get into the details, they have got a lot of unsold in inventory, and that is not at this point of time going to help in creating more supply side economics.

**Naresh Kataria**

But they have been buying land while we are holding land. So obviously our margins are going to be better and we are in a better position. So others are just building and grabbing the market share while what I am seeing is that we are still kind of on the drawing board. So...

**Subhas Pramanik**

I do not think so. These were all old inventories which they are continuing to support and build. In fact we see that opportunities are coming up in Vizag block and in fact we have made our first move in trying to acquire some properties there so that we have a presence in Vizag as it is coming up.

**Naresh Kataria**

Is there anything you are planning for the Vizag property sir? We also have this real estate in Vizag. Anything planned there?

**Subhas Pramanik**

No, we have taken over a residential plot of about half acre and let us see, we are just trying to gauge the demand pattern there, and what kind of real estate would really give us good return. So we have just taken it over in this last two quarters and we are working on that. Let us see how it works out, but we have started footprint there.

**Naresh Kataria**

On the mining, you were using something called MDO. What is that stand for?

**Subhas Pramanik**

MDO means Mine Developer-Cum-Operator means all this power generation companies, they will be having some linked coal mines. Even the steel plants also, they will be having coal mines. So they will be looking for some contractor. That contractor will come and develop the mine and produce coal as it is required. That is what is MDO and these MDO contracts are going to be usually for the lifetime of the mine. Usually this open cast coal mines, their lives will be about 10 to 30 years depending on the deposit. So we expect this MDO contracts as actually it was going to happen for the earlier set of allottee. In the same way, this opportunity also will remain open for the mining contractors.

**Moderator:**

Thank you. We have next question from the line of Rajiv Vipani, an individual investor. Please go ahead.

**Rajiv Vipani**

Sir, my first question is regarding the Bangalore SEZ development. Sir, our group company, HGS is into IT BPO services. So sir my question is have we considered or had discussion with HGS for placement in our SEZ area. It seems that they have a ready customer at home within the group, could you clarify?



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- Subhas Pramanik** Yes. We have HGSL, you are right on that, but they are on the Hosur block. They are exactly on the opposite side right on the eastern side of the city, quite far and they have got enough area with them already. So they are not planning to come to this side at least as of now. Now if may be when we set up our seventh building or sixth building if they show any, we will certainly grab them.
- Rajiv Vipani** Sir, my next question is a follow up question. Sir in the AGM presentation, you have indicated a rental income of about 32.69 crores. Sir could you please clarify us how this possible because as of now only building No. 3, I block 3 is ready. So we would generate rental income for the entire from the block 3 only. So how are we arriving at this figure sir?
- Subhas Pramanik** Sorry, I am not able to get your figure because this 32 we have not said. What we have said in this year is 14.
- Rajiv Vipani** Right. No, for the next year 2015-2016, you have indicated rental income of 32.69. So I would like to understand sir, how is that possible because for the next year, whole year only block 3 will be available to us, block 2 is not even started. So how have we arrived at this figure?
- Subhas Pramanik** No, block 2 and block 4, we have told that should be in a position to come into at least one of the building should be available to us by end of the 2015-2016.
- Rajiv Vipani** So then how are we going to get the rental income of 32.69 when only block 3 is ready, that is what I would like to understand sir?
- Subhas Pramanik** Actually, we are now focusing on this current year and getting block 3 under our control. So basically I am sorry, I am not ready to give the details on that just now.
- Rajiv Vipani** Because that is what you had indicated in the AGM presentation. So I wanted some clarification, anyway.
- Subhas Pramanik** I think we will have to answer you a bit later on this. You are long-term investor, so I think we can hold for the next quarter. We will come back to you on that. But as of now, I am really focusing on this year results.
- Rajiv Vipani** Sir, next question is regarding the Hyderabad land which we have surrendered to GHMC. Any update, when are we going to receive that 100 crores approximately? Will it be 100 crores cash paid to us or will it be adjusted in terms of higher FSI, please clarify?
- Subhas Pramanik** Yes. See the first step to getting this finalized is the survey work. So the survey work has been now completed by the government and they are putting up the papers, whatever internal notes they are required to give to GHMC. So that stage has just been reached. As you rightly pointed out, this will not come directly, it will be available to the developer really because the plans will



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be submitted by the developer and they will be given a credit for this amount. So that credit will be passed on to us. That is how it is. This is the question of impact fee. So the impact fee which would have been payable by them for the higher flows will now not be necessary as per the approvals that we have.

**Rajiv Vipani**

So sir any idea if we are going to get this amount within this financial year?

**Subhas Pramanik**

Still we are trying. We should be able to make some headway. As of now as I said, the first part has started because the road got completed in just 3 months ago and traffic has started on that road. So now this is becoming public property. There is some flow movement here because maybe because of the new government taking over and all that. So let us see, we are trying to use all our contacts to help us on this.

**Rajiv Vipani**

Sir my next question is regarding the Bhiwandi 80 acres. Sir, can you give us an update what is the plan and when do we plan to start the work?

**Subhas Pramanik**

Well as of now, we are now trying to get the whole area properly linked. Reason being that when we had a factory there, we had only one entry point for control purposes and now that we are planning to develop it for other work. We are actually working on another entrance, so that is the work going on as of now. We have taken up this matter with our architects and we have not first received the first plans as yet. So I believe that this should come only in 2016 most probably. We should be able to start work on it in 2016, by which time we do expect that the Mumbai markets would also start picking up. It is now quite flat.

**Rajiv Vipani**

And this development will be done by ourselves right?

**Subhas Pramanik**

Well, let us see. We are planning to do something by ourselves. Let us see. We have not really zeroed down on this idea, but work has started in this direction. We are really trying to build our own construction groups.

**Rajiv Vipani**

And sir my last would be a suggestion. Can we have a change in the name of the company to avoid confusion and to project a better picture and since we are no longer dealing in lubricants too may be let us say Gulf Realty and Infrastructure.

**Subhas Pramanik**

Well, we are working on that. We have said this in our AGM also that we are looking at a change of name. So yes, we are working on it and we should be able to announce it may be by the end of this year.

**Rajiv Vipani**

And sir my last question, sir our competitor Solar Industry is investing 150 crores to cater to the defense sector. So what steps are we taking to cater to the defense sector and what is the size of opportunity for us?



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**Subhas Pramanik**

As far as the defense sector is concerned, there are three-four areas which really would be available to our private players. One is the propellant sector. Second is the high energy material and the third is pyrotechnics and fuses. Now we are already in the pyrotechnic fuses area and we have developed a lot of products, they are all tested by the defense institutes. We are working very closely with some of the like DRDO organization. But the volume is still very low, although we have approved products, but the volume is low. Now the point coming up here is that the government needs to now take a decision on what should be the role of ordinance factories. Now that is directly in our line. Unlike some of our competitors who have gone in for high energy material and propellants, our focus has been as I said on fuses and pyrotechnics products. So we are doing quite okay there. The only thing is that unless the government really defines the role of the ordinance factories, we do not see a major buildup in demand pattern there, although we are getting a lot of enquiries from there, but this NOC from the OFB before we get the tender cleared is not happening. So it is a little bit of a bottleneck, but I think the new government should be able to address very shortly.

**Rajiv Vipani**

Okay sir. I would just like to end. I just hope that the Hyderabad work starts as soon as possible and I would also like to see 100 crores of net profit coming from core operations and not from other income. Actually the current quarter entire profit is from other income, there is nothing in the results.

**Subhas Pramanik**

No, that is because there is no realty income in this quarter because that is operating income for us.

**Moderator**

Thank you. We have question from the line of Vinod Chari from IL&FS. Please go ahead.

**Vinod Chari**

I wanted to understand your thoughts on the outlook for the explosives business? Where do you see this business and in the industry also going in the next 3 years and what are the likely driver for the industry over the next 3 years?

**Subhas Pramanik**

I think I will give this for a more detailed answer to our COO, Mr. Sao, because there is a growing trend in the market. We are working on several new products and he would be in a better position to really explain this to you.

**A D Sao**

As I have already mentioned, that the explosive industry is growing by 12-13% as of now value wise and the outlook appears to be very good, but only problem with the explosive industry that we are in a industry which the dominant player is Coal India Limited which is almost enjoying 65% of the market. Now they being dominant and the other buyers who are there are mostly in the PSU and balance say 10-15% market is in the dealer segment. This is how the market is and it is highly competitive in the price sensitive market. So today the third and fourth generation explosives which have now more or less become like a commodity product and where the price is the only way in which we can compete in the market. Now we as a company being an old company which has started operations in the year 1960, we have a legacy, we have a high cost



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structure, we have a high manpower cost. So we have to prioritize and make our market according to our requirement because only if it is a price, we are not able to compete with FSIs and this is the L1 market. So we have taken a different strategy. We are not going for tender driven L1 market where there is no premium for the service sales or for the quality which is normally happening in the public sector. So we are mainly concentrating in the market where there is a premium for the product, there is a premium for the services. In addition to that, we are trying to generate our income at least 10-15% from the new R&D developed product during last 4-5 years and developing the market like electronic detonators is one which we have developed during last 4-5 years and the market is gradually shifting and it is a value-added product, it is a highly precision product. This is one. Then, we have got another product, our R&D has developed. So these are all new R&D products which has a premium, which has a new feature and which customer is ready to buy at a price without too much of competition on L1 business, there we are trying to concentrate and we have adopted a different model from our main competitor in the industry. We are not going to sell the product as a commodity product. This is how it is. Overall scenario, as the mining is a basic industry for the growth of the economy, the mining scenario is very good and so is the explosives because explosives are the cheapest source of energy available for mining. So long-term, future of the market is very good.

**Vinod Chari**

If I understand correctly what you said you are just focusing on the 10-15% dealer segment because you said you are not going for the tender based business. So which would preclude Coal India as well as the other PSUs.

**A D Sao**

No, absolutely not. Dealer segment is more price sensitive and we are mainly concentrating on the private mines which are coming like Reliance, like Jindals, like Tatas. These are the mines which pay premium for the services, for the quality. These are the mines we have and there is a natural preference for companies like us.

**Vinod Chari**

So do you see a maybe a phase of, maybe a couple of quarters of sluggish kind of a growth because there is no new mining policy in place and most of the coal blocks have been taken off and they are going to be rebid and then given out. So would there be a time lag where there would not be much activity and then suddenly activity picks up in the industry.

**A D Sao**

You are saying a time lag because of this coal.....

**Vinod Chari**

Yes, the whole coal issue that is happening currently, the mining issue that is taking place in the country.

**A D Sao**

No, there is not because I will tell you. This during last 2-3 years, we had earlier 50-60% of the market in Coal India and PSUs and 30-40% in the private coal and private mining. Now we have reversed the trend. We have a 70% market share, in fact the Coal India business is only 30%. So we are well in place in these places. It is only a matter of time that these things are regularized.





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**Vinod Chari** I agree that your revenue mix is that way, I am just asking from industry perspective because I think by March I think the government will come with new guidelines on coal block allocation and then coal block allocation will happen to private players, then probably mining activity would pick-up in a bigger way than what it is...

**A D Sao** Exactly that is what I am saying. The mining is growing at a 7-8% and coal being the basic requirement of our overall growth, coal has to grow and coal is a basic energy and that is why the mining industry, nobody can stop if they are looking out for the future of the country. So the 7-8% growth has to be there. What exactly is happening is they are trying to regularize whatever has happened through the auction process. So the mining activity of the production will not be affected. People will bid, people will pay money and take the existing mines and continue to operate.

**Vinod Chari** But you are confident they will be able to do everything before 31<sup>st</sup> March because till 31<sup>st</sup> March, I think existing players can mine whatever they have currently, but from April they have to give it back to the government.

**A D Sao** We will be surprised to know that it is so profitable industry that those who are already operating, they have already paid the penalty also. It is a very profitable industry for the mine operators. So it is a too lucrative business. I do not think such a lucrative business is there rather than IT or something you can say. So mining is there and people have paid and people will grab that all those things which they have developed barring those who have been implicated under CBI cases or criminal cases. Barring those, rest all others will get back their mines and they are confident to get back and the things will continue. In fact it will get expedited because more people will come through the auction process and more coal blocks will be allocated. What we are finding is it is the PSUs who are defaulting in progress. PSUs like NTPC and all I think, they are slowing down. There are companies like Reliance, JP, they have been much ahead in development of the mine. Their land acquisition, their environmental clearance was much faster than company like Steel Authorities and NTPC. This is an irony, but it is a fact.

**Vinod Chari** And another question on the industry I had sir is if I understand the explosive industry correct, I think the key raw material for you is ammonium nitrate.

**A D Sao** Yes sir.

**Vinod Chari** And ammonium nitrate is essentially a by-product of the fertilizer industry.

**A D Sao** Yes.

**Vinod Chari** And so the supply of raw material is never an issue in this industry? So what would prevent new player from coming into the business? What would be the entry barrier for a new person who wants to get into the explosive business?



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**A D Sao**

As on date we have around 50-60% of the ammonium nitrate is being fed by the domestic companies like GNFC, RCF, and Deepak. In fact Deepak has got much more capacity unutilized and rest 40% we are importing from Russian country. So those balances are there. Only problem what happens is this RCF and GNFC once in a while, they take a shutdown and moreover ammonium nitrate is this by-product and their priority is urea and fertilizers. So we face this hiccup once in a while. For that, we take care by making imports. So ammonium nitrate is definitely a barrier as an input because now it has been regulated. It is a barrier for use as well as even for the industry people also because so much of regulations have been made. It is more stringent than even transaction of explosives.

**Vinod Chari**

So do you have any special license to source ammonium nitrate either from India or abroad?

**A D Sao**

You have an international trading with various agencies and the prices are always declared in the international market and you keep on trading, but the thing is we buy when the prices are economical for us. At any time, you can buy ammonium nitrate, you have a license, you must have a license, and as a manufacturer, we have those licenses. But then the consideration for buying for import is mainly the economy whether they are cost effective compared to domestic. This is how it is. (Inaudible-1.4.4) barrier much. Second thing, what I was trying to say probably, you got confused about that. The use of ammonium nitrate in the mining industry has an end form, ammonium nitrate fuel oil, now that has been banned. So that product which was earlier freely being used by all this contractor, this well sinker, this road maker, your quarry operator. Now it has become a barrier for them. So they in turn now are switching over the package type of explosives.

**Vinod Chari**

So essentially they will now have to source mostly from the organized players in the explosives business?

**A D Sao**

Yes, in packaged form.

**Vinod Chari**

Why should the industry be a price sensitive industry because what I understand from the industry dynamics is I think almost 80% of the market is controlled by the big 4, 5 players right, you, Solar, and India Explosives.

**A D Sao**

Every company has got its own priority. So there are some companies who want to take over the entire country, the entire market. So their pricing strategy is like that. So number one and then there is a CVC guidelines is very clear about the PSUs purchase. That early L1 price has to prevail and others have to meet those prices. Now being newer company, the cost structure of these companies are relatively low, hardly 10 to 15 years their labor cost, their wage cost, their infrastructure cost, they are lower than us and even Rs. 1 matters in a tender market. So knowing that being an old company, we have a different type of cost structure, we have spending lot of money on the R&D, we have huge your properties and your factories to look after and then our manpower and so much of this thing and then we have lot of R&D and application services, we



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have devised that different marketing strategy based on **niche 1.6.6** products and high margin products. We are not going for low margin and high margin marketing. That is how we are differing and unfortunately or fortunately this being a low capital intensive industry, the thought that I can kill the entire industry by just grabbing all the order it does not seem to be very practical idea because it is a low industry. The companies will lie low for one year and next year they will come back. So that type of strategy has not worked in past and will not work in future also.

**Vinod Chari**

And what about the CAPEX plans in the explosive business? You also plan to open new locations because what I understand is I think you have to be within a 50 km radius of the mines because you cannot transport bulk explosives.

**A D Sao**

We are doing. Today the government of India's policy is to encourage more of non-packaged site-mixed bulk explosives near to the mines. So we are tying up with various mines and getting the land allocated and putting the CAPEX, trying to put silos, they are now known as BMP support plants are silos they call it. So we have many CAPEX plan and we are continuously doing it. In addition to that also, on the BMT vehicles we are putting that is a delivery system we are putting and those CAPEX are being done on need basis based on the new orders which are getting received and it is a continuous process going on.

**Moderator**

Thank you. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand over the floor back to the management for their closing remarks. Over to you sir.

**Subhas Pramanik**

Well, this has been after long time a very detailed discussion on our various divisions and their operations and I think it would help most of our investors to really appreciating the kind of business that we are in because as long as we had lubricants that was major segment and therefore the business clarity on the other segments were not available. But now I think as we go along and we discuss, clarity would emerge. As it has been said today, the busy season for this business is just starting up and Q3-Q4 should be much better from operating profit side, 60% of the business really of the year gets transacted in Q3-Q4. There are several mining opportunities now which are coming up and we expect that we should be in a position to put to use all our extra equipments that we have with us. We feel that as the government announces further details, we should be in a position to get on board these mines very fast. Coming to properties, the development in Bangalore is more or less moving as per plan. There is a slight delay which has happened mainly because of the kind of planning and the first building always takes a little more time as we are getting used to the contractors, the architects, the quality assurance, the testing procedures, all that. So that is taking a little bit of extra time, but I think this position will pass. As far as Hyderabad is concerned, we are working on the architectural plans sector wise and we expect the first sector drawings and plans to be submitted for approval in the next 2 months or so. The overall situation that we see in this company is that it is after quite some time the mining projects, the property development projects, etc. are now just taking off. So we see a good



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growth prospects in the next year or so. Long term of course as we have been explaining, there is a good opportunity in mining and infra. There is also a very good opportunity to grow the energetics and the explosives businesses mainly because of the not only the growth in mining but also the fact that we have built our strategy around certain areas which we feel that is now giving us dividends. So taking all this into account, I think we should be in a growth path right from this year onwards. So thank you very much for joining and I hope we have been able to answer all your queries and give the clarifications that you requested. Over to you Prashant.

**Moderator**

Thank you very much sir. Ladies and gentlemen on behalf of Axis Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.