



**“GHCL LIMITED
Q3 FY2019 Earnings Conference Call”**

January 22, 2019



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Moderator: Ladies and gentlemen, good day and welcome to the GHCL Limited Q3 FY2019 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*”then”0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohan Gupta from Edelweiss Securities Limited. Thank you, and over to you, Sir!

Rohan Gupta: Thanks Stanford. Good evening ladies and gentlemen. On behalf of Edelweiss, I welcome all the participants logged in for the conference call of GHCL to discuss their Q3 FY2019 performance. From the board we have Mr. R.S. Jalan, MD of the company, Mr. Raman Chopra, CFO and also we have Mr. Sunil joining in the call. Good evening to all of you. Sir thank you very much for giving us the opportunity for hosting this conference call. I will first request you if you can just can take us through in the current quarter number and then we can follow it up with Q&A session Sir. Thank you, please go ahead.

R.S. Jalan: Thank you Rohan. Friends.. you are all welcomed on today’s earning call. I have with me Raman our CFO, Sunil and Abhishek from finance team.

Global Soda Ash Market continues to remained firm mainly due to growth in Europe and US. China’s supplies are balanced to their internal demand growth and environmental concerns, thus not putting pressure on Global markets. Owing to growth in both Glass and Detergent, Domestic Soda ash market continue to grow at around 5-6% in during first 9 months of FY19. RSPL has started commercial production from its Soda Ash facility during the quarter. Over next one year, we expect around 3-4 Lakh MT additional volumes from domestic industry, which is be absorbed partly from growth and balance will displace Imports. There has been continued pressure from rising costs, which has been passed through with gradual increase in Selling Prices. This has enable us to maintain our margins in the desired range.

As indicated during last call, due to our proactive measures, we have been able to pre-pone our brownfield expansion. This has led to increase in volumes during the quarter. We expect incremental volumes of 1 Lakh MT during this calendar year.

Whereas headwinds continue in textile segment mainly due to demand shift in US and overcapacity in Domestic suppliers. We expect the demand to grow gradually which along with a stable Rupee at current levels, will improve performance at a macro level. GHCL’s focus on coming out with Innovative offerings to our customers, which has been well received. This has resulted in volume growth along with moving up in the higher segment of textile products. We expect the spinning Industry can experience lower spread between cotton and yarn. We are happy to state that operations are improving in line with our expectations and coming year with witness both volume growth and margin improvement.



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Before Raman takes you through the financial results of this quarter, I would maintain that GHCL operates on strong principals of corporate governance and financial conduct. Our focus to stick to our core chemical business along with operational improvements in Textiles without any major capex will yield strong financial performance in terms of optimizing ROCE and ROE for our stakeholders.

Raman over to you now....

Raman Chopra:

Welcome everyone on today's quarterly earning call. With Mr. Jalan's macro insight on the business segments we operate in along with our strategy going forward, I would like to inform you on the financial performance during the quarter. The Revenue for the quarter is Rs. 875 crore as compared to Rs. 738 crore of Q3FY18 registering a growth of 18%. The EBITDA has registered a robust growth of 33% moving up from Rs. 158 crore in Q3FY18 to Rs. 210 crore during the quarter, which is ever highest for any quarter. Our EBITDA Margin improved to 24% during the quarter as compared to 21.5% in Q3 FY18. The Profit after Tax increased by 44% i.e. Rs. 102 crore during the quarter compared to Rs. 71 crore of Q3 FY18. EPS for the quarter is Rs. 10.4/share. This remarkable performance has been due to improvement in both Chemical and Textile segments. In our Inorganic Chemical segment, on the back of continuing Brownfield expansion, we achieved soda ash production of 2.52 Lakh MT during the quarter as compared to 2.43 Lakh MT in Q3FY18 and 2.42 Lakh MT of Q2FY19. The sales volumes have been maintained at 2.30 Lakh MT as compared to 2.33 Lakh MT of Q3FY18. During the quarter end, the Soda ash inventories have increased by 13000 MT which we are confident to convert to sales in the fourth quarter.

Revenue from this segment has increased by 11% from Rs. 497 crore in Q3FY18 to Rs. 551 crore during the quarter. This is due to increase in the realisations over the last one year and growth in our chemical trading and consumer product portfolio by Rs. 22 crore. EBITDA increased to Rs. 176 crore during the quarter compared to Rs. 157 crore in Q3 FY18. EBITDA Margin excluding trading business improved to 37% as compared to 35% in Q3FY18 and 33% of Q2FY19. This is mainly due to operational improvement along with higher realisations over costs.

Textile business has shown substantial improvement both in topline and EBITDA. Revenue has grown by 34% during the quarter from Rs. 241 crore in Q3 FY18 to Rs. 324 crore during the quarter. EBITDA for the quarter rose to Rs. 34 crore compared to Rs. 1 crore in Q3FY18. The EBITDA margins for the quarter stood at 10.5% as compared to 1% of the corresponding quarter last year. The performance is in line with our guidance given previously and we expect to improve gradually in the next year. Our total debt is at Rs. 1335 crore with a Debt Equity Ratio of 0.73, The ROCE for the quarter is 18% and ROE is 18%. Now the house for discussion and any questions that you may have.



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- Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kashyap Zaveri from Emkay Global. Please go ahead.
- Kashyap Zaveri:** Congratulation Sir on great set of numbers and thank you for the opportunity to ask the question. My first question is just a clarification in the opening remarks you mentioned something about 100,000 tonnes additional volumes in inorganic chemical, I just missed those comments, could you repeat that?
- R.S. Jalan:** Like we have been saying before that we had taken a Brownfield expansion and that Brownfield expansion is getting preponed because earlier our estimate was that we will be completing by March 31, 2019, but we have been able to complete some portion of that and we will be starting getting the benefits of that expansion from this quarter January-March.
- Kashyap Zaveri:** Second question is on your textile segment, there is a significant expansion in EBITDA margin of about 90 basis points, would we able to split this profitability between the spinning segment and home textile segment within the same in case you cannot quantify just some trends if you could explain and second question is on the slide #10 where you have given capacity utilization in the textile segment, which is currently about 61%, if you could split that between home textiles and spinning?
- R.S. Jalan:** In terms of the margin guidance I can only say that the home textile margin has improved previously vis-à-vis last quarters and in terms of the capacity utilization the spinning is always we are getting around 99% capacity utilization. This capacity utilization, which we are talking about only related to the home textile.
- Kashyap Zaveri:** And when you say home textile margins have grown, this business if I am not mistaken was not breaking even till sometime back right?
- R.S. Jalan:** Yes.
- Kashyap Zaveri:** And when you say margins have grown are they in line with the overall margins in textiles or it is still lower than the blended margin in textiles?
- R.S. Jalan:** Like I said the margin expansion yet to happen more than what we have been achieved till now and you will be seeing next year the margin expansion in the home textile will start happening in next year.
- Kashyap Zaveri:** Sure. Thank you very much Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.



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Saket Kapoor: Sir, firstly congratulations for a very neat tidy set of consistent numbers. This is what the investors are looking and congratulations to the team and congratulations to the team for a very comprehensive presentation for the investor base, it is comprehensive and very detailed. Sir, I would start from the point about this 210 Crores EBITDA how consistent can these numbers be and what are the variables, which can change the tendency either on the improvement side or on the lower side?

R.S. Jalan: If you look at in our inorganic chemical business, which is primarily soda ash, few things, which are positive for this business is globally the demand supply situation is on the front side because this Turkey volume, it is a new volume has come in has already been absorbed completely and we are not seeing too much of expansions happening in the globe in this soda ash. Of course in India the new players had come in, which probably will have some volume next year and we will also have another 100,000 tonnes of our production as well, so that will be roughly around 3 to 4 lakh tonnes of the extra volume will be coming in, but keeping the complete global scenario what we believe is this is going to be a positive so far as our understanding about this business is. Prices have also found in this business. The second edge we have been seeing before also the China gradually vacating the market or their export to the other part of the world that is gradually vacating the funds so that is also bringing a kind of tightness in the market, so our understanding on so far in the chemical business is concerned we are positive on that business. In terms of the raw material prices, I would say at this point in time we are seeing stability in the raw material prices. We are not seeing a major change in the raw material prices. Come to the second portion, which is the textile business like I said home textile is gradually coming to the normalcy kind of the situation, of course this quarter we have seen a margin of around 10%, which probably has a potential to grow to our earlier level of 15%, but it may take some time may be two years down the line we will be in a position to achieve those kind of a margin. We are in the right track on that number, so in terms of the positive side these are the positive side, of course on the negative side there are many volatilities as you know globally there is a volatility environment what happened to the rupee, dollar, what happened to the raw material prices and those could be the impact, which can have a negative impact on the business.

Saket Kapoor: Sir, come to the point about other expenses, Raman Sir, we find that there is a significant drop in the other expenses part even if we take on Q-on-Q numbers as well as Y-o-Y number, how do you explain this?

Raman Chopra: The major impact of this is improvement in forex because this is accounting treatment in the last quarter the exchange rate closed at 72.5 and in this quarter it is 69.7, so the impact of that is around 7 to 8 Crores whereas in the last quarter it was recorded as a forex expense, which was recorded in other expenses, whereas at this time there is a gain, so this is a reverse, so overall there is a impact of around 11 to 12 Crores and that is why you are seeing a lower other expenses in this quarter.



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- Saket Kapoor:** Sir, out of this if you take quarter-on-quarter 14 Crores dip, 11 Crores is on account of rupee appreciation?
- Raman Chopra:** Correct.
- Saket Kapoor:** Sir, when we are taking this EBITDA part into consideration, which you have also taken to point that this 11 Crores is not a sustainable number, this may be a loss going forward also depending upon the depreciation in the currency?
- R.S. Jalan:** Yes, you are right on this that this accounting treatment on a quarter-to-quarter basis can make the difference; however, if you look at it year as a whole or as a business as a whole you will find that this in fact gets nullified.
- Saket Kapoor:** Sir, now coming to your home textile part, we have seen that the cotton crop has been down and even the quality has deteriorated, so what is our take on the cotton being the major raw material for home textile segment?
- R.S. Jalan:** Globally if you look at the cotton scenario because of too much of US and China trade disputes, the Egyptian cotton crop is very bumper, globally at this point of a time cotton prices are range bound, however, as you rightly said in India the total crop size is lower and lot of imports are taking place in India. We are well covered on this up to this now and we believe that like I said in my remarks also and in also in my opening speech also, that the margin between the yarn and the cotton slightly can reduce the margin, but obviously that will have an advantage to the home textile.
- Saket Kapoor:** Will that be giving blended margins would be higher than 10.5%?
- R.S. Jalan:** Like I said the guidance, which we have given is that in a two years' timeframe we will be in a position to reach to a level of 15% margin, of course this growth will happen gradually.
- Saket Kapoor:** Sir, last two points only, firstly on the soda ash inventory, we find that although the production numbers have improved, but the sales have remained flat or even negative if we take the year-on-year comparison, how will you explain this production in sales gap 20000 around inventory?
- Raman Chopra:** No, in terms of this is not a concern because this happens on day-to-day basis what the production you make one or two days delivery goes to the consumers even in the supply chain if you have a delay because as per the accounting practice you have to account for that as your inventory, so if one or two days delay to the supply of customer also that gets added to the inventory. There is nothing to concern, nothing to worry on that.
- Saket Kapoor:** For Q4 what kind of sales can we look because Q4 is the biggest quarter for the soda ash industry seasonally?



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- R.S. Jalan:** Whatever we would produce we will sell.
- Saket Kapoor:** And this inventory would also get evened out?
- R.S. Jalan:** Yes.
- Saket Kapoor:** Lastly, my point is about all efforts are being made by your team being led by you to create value at all levels, today you would definitely be smiling you are having a debt equity of lower than 1, you are doing capex, but for the investing community even your effort about buyback and dividends are not reaping the benefit beside benefit that investors might have looked into, so what is your take today at this time we just went in for an interim dividend neither we did contemplate even a buyback, your take on these two factors?
- R.S. Jalan:** I have already learned that the best thing that you need to have a patience and in business you get the patience any patience in the long run and we are a player of a long-term, obviously as an investor you people will recognize our efforts may be we have to wait for some patience and second like you said buyback surely we will do at a right time and we have already given a guidance on our dividend policy and we will continue to do that.
- Saket Kapoor:** No, on the buyback front any more dwellings that you want to give because I think the fundamentals have improved better than what the earlier buyback was and the stock prices have more or less remained the same and the cash flows have improved, so just wanted to you're your take, what factors will figure the next buyback that was my point?
- R.S. Jalan:** Only timing nothing else.
- Saket Kapoor:** Only timing. All the best to you and the team. Good job done. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Vihang Subramanian from Ambit Capital. Please go ahead.
- Vihang Subramanian:** Thanks for taking my question. Sir just wanted to touch on the global soda ash fundamentals where you think like it is economically most viable now for capacity to come in the future like which region?
- R.S. Jalan:** The capacity has to come to the region where the consumption is because this is being a heavy product you need to be closer to the raw materials and you need to be closer to the consumption, so like today if you look at India because the growth in the demand is happening in India, it is happening in China, it is happening in South East Asia and the South America, but on the other side of the raw material is also very crucial. I think all these geographies where the demand in the raw materials are there, the expansion or the new capacity has to come in that area only, like look



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at in Gujarat all the plants are coming only in Gujarat even the new players, which are coming that will also come into the Gujarat because there is glitch of raw material and major consumption of the product in that area of west and north.

Vihang Subramanian: And domestically can you tell me what kind of capex is happening in glass lines?

R.S. Jalan: If you look at glass we can segregate glass into to two portions, one is the flat glass and one is the container glass. The container glass has been struggling last I would say few quarters, but now we are seeing a clear sign up revival into the container glass and all the customers or all the players in the country in glass are showing a better result in the performance, so that is improving and obviously when their performance is improving their capacity building up is also taking place. When you come to the flat glass, almost the growth in the flat glass is around 7% to 10% and that 7% to 10% is leading towards almost like one glass plant every year kind of a situation.

Vihang Subramanian: 7% to 10% is effectively one glass line per year?

R.S. Jalan: Yes, probably.

Vihang Subramanian: And one glass line requires how many kg of soda ash?

R.S. Jalan: Approximately around 60000 tonnes.

Vihang Subramanian: Right now whatever tightness you are seeing in the domestic market that is driven by flat glass or container glass?

R.S. Jalan: Both, like I said earlier the flat glass the growth is 7% to 10% remains and whereas the bottle glass the dullness has been gone and now the improvement you are seeing because all the improvements of not usage of the plastics they are all leading to the bottle glass improvement. There also we are seeing an improvement even in the detergent we are seeing a good improvement, which is again a very high consumption of our product.

Vihang Subramanian: Sir thanks a lot. Just one last question, on the Greenfield expansion, do you think that it could happen earlier than what you have indicated because of the tightness in the market?

R.S. Jalan: Not really.

Vihang Subramanian: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.



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Jatin Damania: Good afternoon, Sir. Just wanted to get a data point on the global as you already stated that the China is vacating more of the export market it will be great if you can help us with the export numbers from China, what was it last year and what was in 2018?

R.S. Jalan: See, if you look at slightly longer term period they had around 2 million tonnes of the export, which gradually started coming down and I think most likely it was around 1.5 million tonnes last year, which is gradually now coming down and maybe this year the numbers could be, the real number has not yet come, but I think this will be in the range of around 1.2 and probably next year this would further go down.

Jatin Damania: Next year means 2019?

R.S. Jalan: Yes, 2019 it will further go down.

Jatin Damania: Sir, coming to the domestic market now till October–November we had seen that the prices were increasing every two months and post that we have seen the prices have flatten up at near about 21000 to 22000 range, now that is largely because of the RSPL supply coming in, now with this incremental 3 to 4 lakh tonnes of supply coming in from RSPL Ghari and Nirma, do we expect some amount of oversupply in the domestic market or probably we might see some price increase in the near term as well?

R.S. Jalan: Total today in India 23% of the total demand is met by the import, so if the extra production is coming that is naturally your expansion is that if you can eliminate the import or you can reduce the import. So, even if the 4 lakh tonnes of the extra volume is coming out of that the natural growth is around 250000 lakh tonnes, balance 150000 tonnes to 200000 tonnes you need to vacate the import and second even if you have to do the export the natural market like your Bangladesh or the Sri Lanka or Nepal, these are the markets where you can always export.

Jatin Damania: Sir, how was the realization in the export market?

R.S. Jalan: It is not going to be very significantly different, but yes it will be slightly lower than the number of the domestic market, but first quality for the industry will be to reduce the import.

Jatin Damania: But when you said that will be reducing the import, but the import that is on the soda ash import is happening in the domestic market is more into southern and the eastern part, so if we are focusing more into the substituting import is it that the EBITDA margin that we are making of around 30% to 31% in the recent past can go down by 100 BPS to 200 BPS?

R.S. Jalan: My understanding is no and history can only repeat in a sense that our margin on the soda has been very consistent even if the same worry was there when the Turkey plant was coming everybody has to concern about that the realization will go down 2.5 million tonnes of the production, which



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is coming in nothing of that sort has happened. Similarly for the antidumping duty lot of concerns industry had on that if the duty goes away what will happen, all your China, US or Europe all duty has gone already, but no impact has been seen, so barring some unforeseen circumstances I would say that the margin should be in the position, we will be able to maintain this margins.

Jatin Damania: And the realization will also remain in the same level of 21 to 22?

R.S. Jalan: Obviously, if you maintain your margin obviously selling price has to be on the same level.

Jatin Damania: Sir, for this financial as you have guided the incremental volume of 1 lakh tonne how do we see for FY2020?

R.S. Jalan: I said this is calendar year of 2019, 100000 tonne, some benefit of that 100000 tonne will come in this financial year, which is January-March, 9000 has already come in, in the last quarter, another some quantity will be coming in this quarter, balance will come in the next year.

Jatin Damania: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Sagar Shah from KSA Securities. Please go ahead.

Sagar Shah: Good evening Sir. My first question is regarding the soda ash business actually, as we know that you are going for a Greenfield as well as a Brownfield capex for FY2021 actually estimated I think the capex outlay is something like I think 300 Crores, correct me if I am wrong, so I wanted to know that how are we actually going to fund this capital expansion?

R.S. Jalan: Our total cash generation from the business is around 500 Crores and that 500 Crores is enough to take care of this Brownfield expansion, which you are talking about, which will happen in the next two years, 50000 tonnes per year and for that we have a sufficient resource to fund it.

Sagar Shah: And for the Greenfield expansion, Sir?

R.S. Jalan: Greenfield expansion at this point of a time for the next two years we are not having a very high capex on that project because we have to only do the preliminary work on the land and other approvals, which takes around two years' time, so that will be approximately around only 100 Crores and that 100 Crores will also be taken care by the cash what we have.

Sagar Shah: So, this all will be met by internal accruals only?

R.S. Jalan: Yes.

Sagar Shah: My another question was regarding to the same business soda ash, but it has been answered actually, so I will come to the home textile business, as I can see in the business of home textiles



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you have clocked an EBITDA of above 10.5% to precise in this quarter, my question was regarding the number that you have reported in the segmental results, in the segmental results as we can see it is something like in the EBIT margin for home textile is showing is the same one for quarter-on-quarter for this quarter as far as for the September quarter for the home textiles around 6%, so can you explain that are we seeing an improvement actually because on the EBITDA you have clocked a much higher that is why?

R.S. Jalan: No, you have to look at two ways, if you look at corresponding quarter of the last year our EBITDA was 1 Crore, I am giving the absolute number and this quarter it is 34 Crores and Q2 of 2019 the EBITDA was 31 Crores, so from 31 Crores we have moved to 34 Crores and from 1 Crore to 34 Crores this is the one journey and if you look at our EBIT our last quarter if you move to FY2019 we were at EBITDA of 6.4% and in this quarter the EBITDA moved to 6.9%, so from there also there is a growth, last year Q3 of FY2018, the EBIT was negative of minus 3.3%. I hope this answers your question. There is an improvement and this is in line with our guidance earlier.

Sagar Shah: But are you satisfied with this margin because the thing is I think in the last couple of quarters back you have said that you are facing a deep problem actually in the US business for home textiles, so is it resolved actually I wanted an overview on the US business for home textile, how is the situation over there?

R.S. Jalan: First of all in terms of the happiness we are never happy a lot, we always inspired to be better than what we had been before, and that drives us always to have a better result. Now, in terms of your question on the US market like I said though in the industry the headwind continues; however, we are gradually improving and that gradual improvement is primarily because of the repositioning of our business in terms of banding, in terms of right customer mix and internal efficiency as well and that has given us improvement over last year and our journey will continue till we reach to our number, which we have previously achieved of around 15%.

Sagar Shah: You are basically doing some customer mix, you are derisking your business in the home textiles can we configure that by your speech?

R.S. Jalan: It is not the question of risk, it is a question of to whom you are selling because there are many customers where you have better realization, there are many customers where you have a lower realization, so the right customer and right products, right products you get from innovation or positioning of your brand and your right customer means you are supplying to the customers who gives you the price.

Sagar Shah: So, something like we are spending 100 Crores on this one also right for the technology purpose also right?



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- R.S. Jalan:** No, 100 Crores, we are not spending any money on technology. It is only a part of the business we are expanding the capacity and that is primarily into the spinning site, we are not spending any capex on the home textile, we are first trying to establish our margin in the business and then only we will be looking at the capital allocation to the business.
- Sagar Shah:** So, my last question is regarding to the rekoop business, any updates on that, how can we expect some, how is the partnership going and how the production is going on?
- R.S. Jalan:** Rekoop has been well received by the customer at large and we are launching this on the dot com very soon may be march or April first week and this product will be available in the US on the dot com platform.
- Sagar Shah:** So, it is based on the recycle pet bottles right?
- R.S. Jalan:** Yes.
- Sagar Shah:** So, any guidance you would like to give for rekoop for FY2020?
- R.S. Jalan:** No, we do not give guidance on the brand wise, we give guidance of the business not on the brand wise.
- Sagar Shah:** Thank you Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Sir, congratulations on good numbers. Sir, my question is on soda ash sale volumes, so I remember in first quarter we had some shutdown, so that is why I think for the nine months we have only 2% growth, so can we expect full year to be at 5% to 6% growth for the full year because now your Brownfield is also on stream?
- R.S. Jalan:** If you look at 100000 tonnes of the new capacity, which is coming in, which is almost around 10%, so if you take a calendar year of 2019, my guess will be should be around 9% to 10% growth in this number, not 5% to 6%. Current quarter definitely you will have some volume growth, but not very significantly because it will be something around my understanding is around 255 to 260 kind of a number, approximately all put together including bicarbonate also, some benefit will be coming in the next year and some benefit has already come in the last quarter, some benefit will be coming in this quarter and full benefit of this 100000 will come next year.
- R S Jalan:** For the full year as a whole probably you will hit around 3% approximately volume growth compared to last year.



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- Dikshit Mittal:** Sir, secondly in spite of this new capacity coming in you are mentioning that this per tonne EBITDA margin seems sustainable at the current levels?
- Raman Chopra:** Annualized basis what you are saying is right because quarter-to-quarter as you know there are variations because of the seasonality involved particularly June – September quarter and April, so the best quarters are Q3 and Q4, so in terms if you look at the annual average margin we will be able to maintain this.
- Dikshit Mittal:** Because if I see nine months we have seen Rs.400 per tonne kind of expansion, so that kind of expansion on an annualized basis you can expect?
- R.S. Jalan:** Yes.
- Dikshit Mittal:** Sir, on this home textile can you give the breakup between spinning and home textile?
- R.S. Jalan:** See, usually we do not, we consider this as a combined business only, so it will be very difficult to really segregate because there is lot of overlap of that, so probably we will have to look at the numbers on a totality basis, which is from 1 Crore to 34 Crores journey, so if you see at the beginning of the year we have clearly given a guidance, so our effort will be to achieve a double digit EBITDA margin, so probably we are quite nearer to that on a nine month basis.
- Second like I said in my earlier question that if you look at in terms of the trend you will find that in this quarter vis-à-vis the last quarter the home textile has done significantly better than the last quarter.
- Dikshit Mittal:** Second quarter to third quarter the home textile has done well?
- R.S. Jalan:** Yes, in the third quarter the home textile has done much better than spinning, frankly speaking slightly reduction in the margin in the spinning.
- Dikshit Mittal:** So, sequentially from your own we can expect gradual improvement?
- R.S. Jalan:** Yes, should happen, correct.
- Dikshit Mittal:** So, FY2019 you are guiding around 15% margin in this segment at least?
- R.S. Jalan:** Yes, we are trying.
- Dikshit Mittal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.



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- Dhiral Shah:** Good evening Sir. Congratulations for the good set of numbers. Sir, my question is pertaining to the textile segment, so you said that the spread between yarn and cotton is going to come down, so what was the spread in Q3?
- R.S. Jalan:** See, we can only give a guidance like I have given specific numbers, we are not looking at the specific numbers of the spinning separately and the home textile separately, we have just given you guidance that because of the cotton prices on the higher side as compared to last year and the yarn is slightly on the lower side the spinning margin can be slightly lower than what we have been achieving before; however, that will add some benefit to the home textile business, but we will be in a position to improve upon the margin next year.
- Dhiral Shah:** Sir, this spread was higher in Q3 as compared to now?
- R.S. Jalan:** Margin in November – December was lower like I said the spinning margin was lower for Q2, so obviously the impact of that lower margin has started feeling in the third quarter itself.
- Dhiral Shah:** So, you mean to say that the yarn prices in not catching up as cotton price is going up?
- R.S. Jalan:** Yes, basically in this business of the spinning I would say particularly spinning, this kind of volatility do happen on a quarter-to-quarter basis.
- Dhiral Shah:** Sir, what is the reason of not catching of yarn prices, is it import a concern or what are the reasons?
- R.S. Jalan:** I would say demand supply.
- Dhiral Shah:** And secondly my question is regarding this you are talking about US market, so whatever growth you have seen in Q3 it is all due to reorganization of customer mix, but do you see pickup in US market as well as restocking of textile product?
- R.S. Jalan:** Yes, we are surely seeing a gradual improvement.
- Dhiral Shah:** And this competition between offline and online is it fading out and you know again offline player is seeing a good demand?
- R.S. Jalan:** Growth in the online business is very significant, and we have also aligned our focus on the online business and this will continue, of course the base of the online business is low at this point of time, but this business will continue to grow in a much faster pace.
- Dhiral Shah:** And Sir what is the growth outlook for textile division for next year?
- R.S. Jalan:** In the next two years gradually we will be improving upon our margin.



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- Dhiral Shah:** Sir, this is about margin, but I am talking about the topline, so what kind of growth do you expect?
- R.S. Jalan:** Topline will also grow, topline should also grow.
- Dhiral Shah:** Double digit?
- R.S. Jalan:** I think so.
- Dhiral Shah:** That is it from my side. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Amar Maurya from Emkay Global. Please go ahead.
- Amar Maurya:** Sir thanks a lot for the opportunity and congratulations for a very good set of numbers. Sir, first question is if you can give me what is the gross debt and the cash position for the nine months ended?
- R.S. Jalan:** Our total debt all put together is around 1335 Crores. Total cash generation was 342 Crores for the nine month period.
- Amar Maurya:** 342 Crores and what was the operating cash flow?
- R.S. Jalan:** I am talking about the operating cash flow only 342 Crores.
- Amar Maurya:** Now given this the capacity expansion of one lakh, which is going to hit in the fourth quarter, right and one lakh will come in the end of fourth quarter of financial year 2020, correct Sir?
- R.S. Jalan:** No, total volume growth will be 100000 tonnes in a year out of that some has already come in third quarter and some will be coming in this quarter and the balance will be coming in next year, so that means you can say on an annualized basis the overall capacity growth will be around 100000 tonnes, which is around 10%. We will be doing another 50000 tonne expansion during next year, the benefit of that will come into 2020-2021 and another 50000 in 2020-2021 for which the benefit will come in 2021-2022.
- Amar Maurya:** So, basically one lakh in this year then 50000 for the next two years?
- R.S. Jalan:** Yes, correct.
- Amar Maurya:** And what would be the large ballpark capex for these three rounds of expansion?



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- R.S. Jalan:** This year like we said current year our total capex will be approximately around on the soda ash side 260 Crores and the next two years on the soda ash purely on the Brownfield expansion will be another Rs.350 Crores for 100000 tonne expansion.
- Amar Maurya:** And till today how much of the capex has been already invested?
- R.S. Jalan:** See this year up to 9 months we have done for the company as a whole around 212 Crores, 167 is on account of soda ash Brownfield, mostly Brownfield only.
- Amar Maurya:** And how much we have invested in spinning, how much of the capacity we have expanded in spinning?
- R.S. Jalan:** The spinning outflow will be approximately in the vicinity of around Rs.75 Crores and for our next two years we are working on the plants for broadly you can say between Rs.75 to 100 Crores will be the capex spend, which we will keep on doing because that business offers a good growth opportunity they are reasonably good.
- Amar Maurya:** And how the outlook for a capex for the home textile business?
- R.S. Jalan:** As Jalan mentioned at this point in time we are not looking at any major capex.
- Amar Maurya:** Great and lastly Sir just 342 Crores you mentioned about operating cash that is pre-tax or post-tax?
- R.S. Jalan:** That is post-tax.
- Amar Maurya:** Post-tax, so this is basically cash flow from operations post-tax for nine months?
- R.S. Jalan:** Correct.
- Amar Maurya:** Thank you Sir. That is all.
- Moderator:** Thank you. The next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.
- Resham Jain:** Congratulations on good set of numbers. Sir, I have two questions, one is on the soda ash business, what I remember from the previous calls is that this incremental capacity, which has come in from last quarter partially, so the cost for the same want to go up in the same ratio, so should one expect higher EBITDA margin from the incremental capacity given the current capacity demand situation?
- R.S. Jalan:** It will happen, obviously it will happen and even in this quarter some benefit has come because of that also.



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- Resham Jain:** That is my first question, secondly I think you have already mentioned about improvement in the textile division overall, but given the context the way we were spending last year beginning where the rupee dollar was around 63, 64 and cotton prices also were quite high, and now the scenario from both perspective from cotton it is now almost trading below NSE and rupee dollar is already like 71 and forward will be like Rs.74 to 75 given this improvement both the raw material and the realization perspective should one expect like you already said improvement will be there, but can the improvement be much better than what we have seen this year and this year is the year when we saw loss to profit in a way significant turnaround should one expect much better year in the textile division next year?
- R.S. Jalan:** Yes, we are trying rhythm on that side to make the numbers relevant and the number which you people feel happy about it and we are definitely trying, but on the other side please understand the cotton prices are higher than the last year compared to last year had gone up because of the minimum price announced by the government, so that on the negative side, but on the positive side as you rightly said the dollar rupee benefit has come. So somewhere this are balancing the two ends, definitely something will be left, so we are trying our best to improve upon the margin.
- Resham Jain:** Fine Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Kashyap Zaveri from Emkay Global. Please go ahead. As there is no response, we take the next question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor:** Thank you Sir for the opportunity. If you could please give the breakup of bicarbonate sales for the quarter and for the nine months?
- R.S. Jalan:** Bicarbonate as we know that we have expanded the capacity from 30000 to 60000 tonnes and approximately this numbers will be in the range of roughly around 15000 tonnes for three months basis.
- Saket Kapoor:** For this quarter 15000?
- R.S. Jalan:** It is roughly around 12000 and 9 months is around 35000 tonnes.
- Saket Kapoor:** Nine months is around 35000?
- R.S. Jalan:** Yes.
- Saket Kapoor:** Sir, that is on the lower side, this expanded capacity has come up when, when it have been doubled to 60000?



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- R.S. Jalan:** It has happened almost around 9 months before, almost one year.
- Saket Kapoor:** Sir, we would not be doing 100% utilization level for bicarbonate so that is what my understanding is?
- R.S. Jalan:** No, we will be, gradually we are building that market because in this business some of the new players are also coming as if like other competition is also coming for the new capacity and gradually this volume will be penetrated in the market.
- Saket Kapoor:** But we find that the Tata Chemical is having a land share of 44% to 45% from your graphics only visible, so what is our long-term projection for this and are we going to scale up this going forward also, so this is the optimum level we will maintain for say two years?
- R.S. Jalan:** No, we will definitely look at more growth into this business, but depending upon the demand supply situation we will grow in this business gradually so that we do not disturb the demand supply situation into the market.
- Saket Kapoor:** What is the basic difference between this soda ash and bicarbonate part in the terms of pricing and in the manufacturing part also, how are they priced because I think these are for the food grade on the bicarbonates, which are required?
- R.S. Jalan:** There are various segments of this and here the margin percent will be almost similar what is in the soda ash, however, absolute margins are better because you can consume only 67% of the soda ash, so your margin in the soda ash is more of a value addition to the soda ash, so the pattern of margin on soda ash improves.
- Saket Kapoor:** Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.
- Prerna Jhunjhunwala:** Thank you for the opportunity and congratulations for good set of results, Sir. My questions are pertaining to textile industry, wanted to understand the improvement in home textile segment for you will it be largely volume driven or price driven and how much would be volume and price driven and if we are increasing our volumes largely then there should be someone who must be losing market share because as a country you are not increasing market share in the last 9 months of reported data that is available on the US, which is the larger consumer of bed sheet, so just wanted some clarity upon where we are gaining market share or where we are gaining strength in the business and all?



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R.S. Jalan: Very valid question Prerna. In terms of our market positioning we are looking at a price driven strategy instead of a volume drive strategy that is why I said repositioning, right customer , right product, innovative product, that gives you a mileage on to the margin expansion.

Prerna Jhunjunwala: What will be the price increase that average realization improvement that we would have seen because of the strategy and how much potential do we see in this strategy to improve our realization going forward?

R.S. Jalan: See, this business is not a very simple business that like soda ash where you have a one tonne and you produce one tonne and that you say that the particular price, you have a different SKUs in this. I am just trying to be a little technical on this. You sell a product of a 2000 count, the prices of this every product is different, here what you look at is you are more on a margin side, your gross margin, your net margin and that margin expansion only happens when you are going to the innovative product as you know that when something is new the customer is willing to pay you slightly better price and leads you to the better margin and even acceptability of the consumers to buy a product, so the important is the margin and important is where are you positioning yourself into the market segment, so earlier we were more on the commodity side gradually we are moving towards the branding side, we have launched many brands, we have launched rekoop, we have launched circularity, now Health And Wellness is the theme, which we are going to the next market week in the March we are going with the Health And Wellness as a concept and we are launching some brand in that also so we are creating it, positioning for the call for us, which is innovative and new product in the offering.

Prerna Jhunjunwala: Sir, these brands are largely that you market yourself or is it that you are just outright selling to the large retailers and they sell it on some terms basis?

R.S. Jalan: No, we are in the B2B business so far is the home textile is concerned, of course the dot com business, which we have a big plan on the dot com business that will have a B2C business where we will be selling directly to the consumer, but we will have the mix of both, we will have retailer and we will also have a B2C as well.

Prerna Jhunjunwala: So, your rekoop brand for example can be sold to even Wal-Mart or Bed Bath & Beyond it can be accepted across the retails and no one would have any rights of selling one of the brands right?

R.S. Jalan: Yes, you are right.

Prerna Jhunjunwala: And that has helped you to improve your margin, how much percentage of your total home textile sales would be innovative products?



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R.S. Jalan: At this point of time, I would not say that we are too much high percentage on this innovative product, but this had made our positioning in the market better and the result of that will only be seen going forward.

Prerna Jhunjunwala: Sir, how much of the spinning business would have seen growth because of volume or price if you can just share some numbers?

R.S. Jalan: Like I always been telling that we are not segregating these numbers separately, but the spinning volume growth is there in this 9 months because we have invested into the spinning that added our volume growth and even other volume also and broadly this numbers are if the spinning growth you talk about is more on double digit growth may be on the higher end of the double digit growth.

Prerna Jhunjunwala: High end of double digit and margin improvement also seen in spinning because of improving yarn spreads till last quarter or is it because of?

R.S. Jalan: Last quarter versus the second quarter, but yes, quarter-on-quarter basis and on year-on-year basis, yes margin improvement has taken place.

Prerna Jhunjunwala: In the spinning business?

R.S. Jalan: Q3 of 2018 versus Q3 of 2019 there is a margin expansion and in the 9 months also the margin expansion has taken place.

Prerna Jhunjunwala: Be on account of lower cost inventory or is it on account of improving spreads or any product mix change there as well?

R.S. Jalan: No in the spinning is more on volume, more on control on your efficiencies or better efficiency something like that.

Prerna Jhunjunwala: Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Rohan Gupta from Edelweiss Securities for closing comments.

Rohan Gupta: Thanks Stanford. Thank you Sir. I think we had a detailed discussion on the company strategy in between quarter hardly any question from my side. Thank you very much for giving us the opportunity for hosting this conference call and wish you all the best for the coming quarters. Thanks for all the participations who also logged in for conference call of GHCL. Thank you everyone.

R.S. Jalan: Thank you everyone. Thank you Rohan. We will continue to do our best.



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Moderator: Thank you very much. Ladies and gentlemen, on behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.