"GHCL Limited Q4 FY2016 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2016 results call of GHCL Limited hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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, Research Analyst of Emkay Global. Thank you and over to you Mr. Gupta!

Rohan Gupta: Thank you Margreth. Good evening ladies and gentlemen. Thanks a lot for first of all participating in the conference call of GHCL. From the management, we have Mr. RS Jalan - Managing Director from GHCL and Mr. Raman Chopra - CFO and Executive Director Finance from GHCL. Good evening sir both of you. Thanks a lot for giving us the opportunity for hosting this conference call. I must congratulate you on a very good set of numbers, which you have reported in the current quarter as well as for the year. Sir it will be great if you can first give us the brief about the quarterly results and also how the year went by and then we can follow it up with the Q&A session.

RS Jalan: Good evening ladies and gentlemen. On behalf of GHCL, I would welcome you all to this call. I have with me, Mr. Raman Chopra, our CFO and Executive Director Finance along with Mr. Sunil Gupta and Mr. Abhishek Chaturvedi from Finance Team.

I am glad to inform you that we have ended up yet another year of robust performance. Our net profit has increased by 40% from 183 Crores in FY2015 to 257 Crores this year. EBITDA has increase by 101 Crores from 534 Crores to 635 Crores registering a growth of around 19%. This growth has been contributed by growth in both the businesses segments inorganic chemical and textile.

In the inorganic chemical we achieved record production of 7.49 lakh metric tonnes setting a benchmark productivity of 88%, despite shutdown, which has an impact of 1.5%. This had been made possible due to the relentless efforts of our experience and motivated workforce to improve operating efficiencies.

As I already informed last time that there is softness in the market which may result in a drop in the soda ash prices, but we should sustain our margin, whereas the prices softened by around 2% during the quarter; however, we improved our margin due to strong focus on operational efficiencies and cost controls further we were supported by softer raw material prices. The expansion of 1 lakh metric tonne of soda ash shall get completed by March 2017 and we are confident to sustain our margin in FY 2017.

The textile segment reported an EBITDA of 139 Crores registering a significant growth of around 60% over last year. The margin has improved considerably to 13% compared to 9% in FY2015. This improved performance is led by increase in capacity utilization from 70% to 83% along with a realignment of customer mix and focus on cost optimization. This is despite the fact that spinning industry was not doing well since last two years.

Going forward we believe that with a higher volume of made up and stable spinning sector we shall continue our journey of margin improvement during FY2016 we have invested in wind energy and expansion of stitching facility the benefit of which will come to us in this year.

During the year we have earned the cash profit of after tax of around 360 Crores out of which we have spent 250 Crores towards capex and around 110 Crores towards the long-term debt repayment. This is in line with our strategy to continue our emphasis on deleveraging along with the growth. Also we are working towards interest rate management and believe that it should further add to the bottomline for a good year ahead.

Before I conclude my discussion I would like to emphasis on various corporate governance initiatives, which we have taken. We have rolled out dividend policy for the benefit of our investors setting the expectation of dividend payout and dividend yields. We are also appointed S R Batliboi a part of E&Y as our joint auditors to reaffirm our commitment to clear and transparent financial reporting. We have always maintained that our business approach is to watch inclusive growth, which is evident from the fact that we have approved in ESOP of 1.2% of our capital, which is distributed, to our large employee rewarding our dedicative workforce.

I just want to add that the total people we will be getting around 44 people our team will be getting in benefit of this ESOP. The threshold price of allotment shall be Rs.100 per share, apart from this we are focusing on various HR, best practices and CSR initiative towards building and organization known for its culture and value system.

With this I invite Mr. Raman Chopra to run through the financial results. Thank you.

Raman Chopra: Good afternoon everybody. Thank you very much Mr. Jalan. I welcome you all on today's call, I take this opportunity to apprize you our strong performance for the fourth quarter year ended March 31, 2016 and for full year on a standalone basis.

The revenue have grown by 7.5% from 2385 Crores last year to 2564 Crores this year for the quarter the revenues have increased from 644 Crores to 651 Crores. Our EBITDA has grown by 101 Crores from 534 Crores last year to 635 Crores this year registering a growth of 19%. For the quarter EBITDA growth is 8% from 162 Crores to 176 Crores over the same quarter of last year. Our EBITDA margin for the year has increased by 240 basis points that is from 22.4% last year to 24.8% this year.

Profit after tax has shown phenomenal growth of 40% and it is up by Rs.74 Crores from 183 Crores last year to 257 Crores this year. For the quarter our PAT has grown by 56% from Rs.50 Crores to Rs.78 Crores.

I would also like to highlight the fact that in the last two years we have more than doubled our profitability from 116 Crores PAT to 257 Crores and resultant EPS. Our EPS in the last year has improved from 18 to 25.5 this year. This remarkable performance has been contributed by both business segments.

In the inorganic chemical segment for the quarter ended March 2016 revenues have increased from 380 to 390 Crores which is mainly due to higher soda ash volumes around 6438 tonnes. The EBITDA margins have improved from 35% to 36%. For the full year the revenue has grown by 1421 Crores to 1495 Crores. The sale volume has increased by 15423 tonnes from 6.86 lakh tonnes to 7.01 lakh tonnes, which is the highest due to record productivity of 88%.

EBITDA for the year has increased from 496 Crores as compared to 446 Crores last year that is an increase of 50 Crores. The increase in EBITDA is mainly contributed by increase in EBITDA margins by 178 basis points that is from 31.4% to 33.2%, which is mainly on account of lower operating cost and higher sales.

Our textile segment has contributed significantly. The topline growth for the year is 11% from 964 Crores to 1069 Crores and for the quarter the revenues were the same as last quarter; however, we have improved our EBITDA margin from 11% to 13% over the our March 2015 quarter and for the full year from 9% to 13%.

This has been made possible due to various initiatives like our capacity optimization from 70% to 83% which has led to an incredible improvement in EBITDA growth of 59% from 87 Crores last year to 139 Crores in financial year 2016.

On a balance sheet side our overall debt has come down from Rs.1324 Crores to Rs.1248 Crores. Our total debt to equity ratio has come down from 1.72 last year to 1.27:1 this year. The return on capital employed has improved from 20% to 23% and return on equity has improved from 24% to 26%.

I would now open the house for discussion and any questions that you may have. Thank you very much.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Good evening everybody. Sir first of all, congratulations for a very strong set of numbers. My first question is towards this the revenue budget and the capital budget has been mentioned by your outcome of the board meeting. So if you could throw some light on what is the revenue and the capital budget for the financial year 2016-2017, which you are projecting?

RS Jalan: Your question is that what is the plan for capital expenditure for 2016-2017?

Saket Kapoor: Your revenue budget and capital budget has been mentioned in your outcome of the board meeting.

RS Jalan: So far as the revenue budget is concerned I think it is the internal matter of the board and I would not like to disclose that revenue budget that is not for the public. I am sorry. So far the capex I can you give you a kind of that what kind of an investment which we are looking at for this year. At this part of the time like I mentioned last time also that expansion of soda ash of 100000 tonnes it is in the process and that will get completed by March 2017. So that is one investment which is going on and the second investment which is going on is the regular capex in all the divisions and approximately the total investment will be roughly around 300 Crores.

Saket Kapoor: For that entire capacity the 1 lakh we are putting in 300 Crores?

RS Jalan: Whatever we have already invested last year FY16 in addition to that this year the Capex will be around 300 Crores. Like you remember that in our earlier call also we have mentioned that our approximate capex will be 550 Crores and that I think our total capex in the two years will be in the same whether it is may be around 550 to 600 Crores.

Saket Kapoor: So that means the 250 Crores which you just spoke now about from the cash flow that has been invested totally in the soda ash or to be give that breakup of the 250 Crores that you have spend for this year?

RS Jalan: I can give you the numbers you remember that we spoke about the wind investment also. So the breakup of this numbers I will just give it to you. If out of this 250 approximately 100 Crores of soda ash and around 80 is on the windmill and approximately around 70 Crores in the textile both.

Saket Kapoor: Sir for the windmill what is our current capacity and how much more will be added in FY2017.

RS Jalan: No we have already completed our windmill total capacity is now 25 megawatts and now this year we do not have any plan of capital investment into windmill.

Saket Kapoor: Sir now coming to a point now it seems that the best is there in the numbers now that our margins have improved substantially both for the home textile as well as soda ash. Sir are we now in terms of the margin to be very frank to which spoken are we flattering out now in the terms of the margins that we are posted that is can it be now presume that is a best in the terms of margins are there already in the numbers or is there still scope or room for improvement going forward both in the soda ash as well as the textile segment?

RS Jalan: I think yes, there is always any scope of improvement in both the businesses and in textile last year our EBITDA margin was 13%, which we are expecting this year could be in the range of around 15%, so there is a cope and even in the inorganic chemical also there is a scope of improvement.

Saket Kapoor: So we posted with the high margins in the soda ash so are these margin not saturated enough for the soda ash or there still room to be improve on the same sir.

RS Jalan: Cost optimization is one process which will always continue and that will always lead us to always an improvement if you look at last many quarters last year also our margins were good but then we again improve this year and surely that journey will continue of course I know that the journey will become difficult and difficult going forward but still there is always a scope.

Saket Kapoor: Because now the base has grown up Sir in two years if you took the numbers now for the next year when you would be reporting numbers you are a PAT at 257 that is you have to show the growth on that 257 mark it is not 160 or 168 that it was earlier. So whatever the numbers or whatever the growth term whatever we have seen till now that would be a tough field for you to grow in that same order, am I correct on my assessment?

RS Jalan: I do not think so because you see we always believe as a management that always there is scope of improvement and we believe that still journey is there going forward and we should definitely aim for around 15% to 20% growth in the PAT level definitely going forward also.

Saket Kapoor: Sir now coming to this antidumping for the soda ash when it is going to expire? What is the date?

RS Jalan: See the total due period is by May 2017 but there is a mid-term reviews also going on, on that so we do not know right now about up to what level this antidumping duty will continue but as a final number it is May 2017.

Saket Kapoor: Have we committed our views on the continuity of the same that is the case being there on the continuity?

RS Jalan: No that depends the process will be on not immediately that process will be on.

Saket Kapoor: Our thoughts have been invited from all the players when we have been submit for company.

RS Jalan: No, time has not come right now to submit that I can say it already a mid-term review is under process and that we known may be in another three or four months time, then only we will come to know that what is shape for that.

Saket Kapoor: Sir now coming to the two other parameters first is the other expenses part, and the other is the finance part. Sir in the other expenses part if we take a view over for year also there has been a growth of around 20% or 18% to 19% in the other expenses from 404 Crores to 484 Crores, what will you attributes this rise to Sir.

RS Jalan: There are two reasons one reason you remember last time also I clarified that point that as compared to last year, this year there was a reclassification of service tax, which was earlier, was being reduced from the revenue. Now that has been added to the revenue and that has been booked as an expenditure that is a mode of a classification so that is the one reason and second reason is that in our home textile where the volume has grown there is a direct expenditure in the nature of packing expenses, selling and distribution expenses and we do our job making with the made-up outside that job work of that, that also attribute these are all of a variable nature but as per the accounting policy this has to be booked into the other expenditure and therefore it has been booked into the other expenditure.

Saket Kapoor: Coming to your debt part sir if you could provide the split up of the long-term debt between the home textile and the soda ash business, what is the total debt for the attributed to soda ash whereas attributed to home textile also?

RS Jalan: See if I take both short-term debts and the long-term debts overall inorganic chemical is 695 Crores and in textile it is 553 Crores and the total figure comes to 1248 if it only take about the long-term debt we are 459 Crores in the inorganic chemicals and 218 Crores in the textile segment and which as to 677 in a long-term 677 Crores and plus 81 Crores is the long-term debt which is due in one year and 490 Crores is the short-term debt all put together is 1248 and if I reduce that cash in the balance sheet that this number comes to is becomes 1208 Crores after net off of the cash.

Saket Kapoor: Sir coming to this utilization levels as you are spoken in the textile segment utilization levels have improved from 70% to 83% what should be we expecting for going forward for the coming year?

RS Jalan: My estimation is that it should come to the level of around 95%.

Saket Kapoor: By this year sir itself by 2017 March we would be operating at 95%?

RS Jalan: Yes

Saket Kapoor: Sir in soda ash we were already in 86% and 88% level so debottlenecking and all the steps which we have earlier spoken what should be the outlook for the utilization level for soda ash?

RS Jalan: In terms of the volume we believe that this year we should be in the same range of the production but the expansion benefits will come next year so probably the expansion benefit will come next year.

Saket Kapoor: Sir my last question is that how has now being the market in the first quarter how has soda ash price out and the demand played out for this financial year?

RS Jalan: Markets are stable at this point of a time and even the prices are also stable in the soda ash.

Saket Kapoor: Thank you.

Moderator: Thank you. The next question is from the line of Janaki Raman from Franklin Templeton. Please go ahead.

Janaki Raman: Good evening gentlemen. If I look at the segmental numbers the soda ash segment carries a profitability which seems to be much above the competition which is also fairly largely in size compared to you so what explains this relative advantage that you enjoy over competition in terms of profitability?

RS Jalan: Few things one our efficiency is much better as compared to the competition. Second is our control on the cost the process of the cost optimization over a period of time as always made up leading player in that and the third is our control on the basic raw material these are the three fundamental reasons because of that our margins are better than the competition.

Janaki Raman: When you mentioned control over raw material this is salt in the state effect?

RS Jalan: Salt, limestone and lignite and the fourth one is briquette which basically a reuse of the waste or the fines of the coke which we are using where we have a patent also which is in terms of the cost is cheaper than the main coke.

Janaki Raman: Are you integrated backwards in terms of your requirements for salt and limestone?

RS Jalan: Not really if you look at in terms of our salt we are approximately around 50% backward integrated in limestone is only 30% and coke and briquette we are roughly around 80% and lignite we are 20%. At this point of a time our uses of lignite is lower we used to be around 50% or more than 50%, but because of the softening in the coal prices we have reduced our captive uses of the lignite which we are reserving for the future in the meantime we are using the coal.

Janaki Raman: Then if I look at the segmental profitability that we have done very well in soda ash even in last year the segmental return on capital is quite high which is actually improved this year which leads me to the question that you have been retain bulk of the deflation in the input cost especially on the energy. How has that been possible in a commodity industry like soda ash I thought look into the industry when the producer gets a benefit due to an input price deflation generally its passed on but you seem to have retain that what has helped you to do that?

RS Jalan: You see basically first of all I would like to clarify that soda ash is not a commodity. Over a period of time what we have seen that though the people believe that the soda ash is a commodity but it is not really so and the reason of that is I would like to highlight some of the reasons if you look at the last many years of the data you will find that supply always follow the demand if globally, I am talking about the globally, then there is a high logistic cost in this business if I want to ship one tonne of soda ash from my factory to the south India the cost is prohibited and that same thing applies in the global scenario that also restricts this commodity for the sake of this I am talking about this commodity this restrict the transportability of this product from our location to the another location. So that also makes it the third is generally what we have seen is this product is always being used in the producing country. If you look at globally also you will find the most of the production like in China out of that huge production of 26 million they consume more than 90% in their own country so that way this and the double turnover is also in this business is unfavorable if you look at today if you want to set up a plant the capex is very, very high and vis-à-vis your turnover is much lower all these things put together has made this business I would say that is more not like a commodity and therefore we have been able to retain this because of this reason we have been able to retain this margin.

Janaki Raman: I gather that out of here output you sell almost entirely within the country?

RS Jalan: Yes.

Janaki Raman: On capital allocation so we have two divisions one makes return on capital above 20% one is it is good for relative textiles but it is still like 10% are marginally less than that how do you arrive decisions on capital allocation given your cost of capital do you think incrementally spending committing more capital to textile do you think that is value accretive?

RS Jalan: I do not think so that the capital allocation more capital allocation to the textile is a wise thing but let us look at slightly differently that if you look at our capital allocation for the last two years also you will fund we have maximum capital allocation is more towards of our inorganic chemical, number one. Number two the growth opportunity in the textile is much bigger and the third is that even this margin which we are talking was right now is 13% is not the optimum margin in the textile our belief is that this margin on optimum level should be around in the range of around 18%. I am talking about the EBITDA margin and if I get this 18% of this EBITDA margin then our return on capital employed will be more than 20% so therefore I would definitely like to allocate the capital on both the businesses and optimum return on the capital employed I should definitely be looking at I should be getting around 18% to 20% of the return on capital employed from the textile business as well, at this point of a time our return on capital employed is lower because of the two reasons one in our spinning business as you know there is a downturn in the last two years second is we have on the home textile business we have not reached to the optimum level here, we have a journey to cross and once we cross the journey surely we will have a much better number in the textile business as well.

Janaki Raman: In your opening remarks you made very positive comments about including corporate governance by being more transparent on dividend policy and on new auditors so what is the new dividend policy Sir.

RS Jalan: Yes, dividend policy is we will 15% to 20% of our profit on a gross basis we will be distributing to the shareholders and based on that this year we have declared the dividend of 35% against last year of 32%, which translates into around 16.5% of the payout.

Janaki Raman: Two just bookkeeping question if I look at your interest expense which is now at roughly 165 Crores and back calculate the implied interest rate based on the last two year's debt level the implied cost effect comes out to be quite high so with in the interest expense is there a large banking service fee or something like that?

Raman Chopra: Yes, banking service fees is there but I will not say that it is a very large our interest cost is approximately around 11% if you look at on overall debt you will find that our interest cost is around 11% and if you take on a 1250 Crores if you take a 11% of interest and the balance is primarily on the bank charges, LC charges and those kind of a thing which are part of the business.

R.S. Jalan: Yes, that spread is around Rs.12/13 Crores out of Rs.162 Crores banking charges, processing fee, renewal charges, and LC charges they are around Rs.12 to 13 Crores and the rest is interest cost which is around 150 Crores so on 1250 this is the number comes out around 11% and we are working on to reduce this.

Janaki Raman: Lastly Sir you mentioned some number as the capex plan for the current year can you just repeat that number?

RS Jalan: Yes, I said around 300 Crores will be the capex for this year.

Janaki Raman: Would you be deleveraging this year as well?

RS Jalan: Yes, surely, we have a plan like before also we have said three things are very important for us one is continuously doing the deleveraging and we have a plan of around 100 Crores of deleveraging this year, continue to spend money on our growth and the third is also to make sure that our debt equity ratio on a total debt should be less than 1 by FY2017.

Janaki Raman: Thank you Sir. Thanks for your time.

Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: Congratulations on a very good set of numbers Sir. I just had a question on the windmill thing when did it exactly get installed and commissioned?

RS Jalan: First of all thank you very much for your appreciation. We have done in two trenches one, we did in March 2014. I will just give you the number, and some we have done in March 2016 as well we had approximately around 8 megawatt before and then we added around 17 megawatt in last two years out of that 17 megawatt we have 12 megawatt what in the March 2015 and 12 was added during this year.

Rahul Bhangadia: Out of our 25 megawatt 8 was before so 17, out of 17 how much was March 2015 4 megawatts.

RS Jalan: Let me correct myself out of total capacity we have is around 25 megawatts out of that 8 is very old and remaining this 17 megawatts, 4 megawatts we added in March 2015 and balance we have added in during the year of March and out of that 50% we have added prior to September and balance 50% we have added between March 2016.

Rahul Bhangadia: This whole windmill installation that you have done that gets reported as a part of the textile segment.

RS Jalan: Yes.

Rahul Bhangadia: So could you help me with the contribution that the windmill segment would have done to the textile segment across quarter maybe this quarter last quarter?

RS Jalan: Yes we will. See the windmill EBTIDA contribution in financial year last year was Rs.4.69 Crores and in FY2016 the windmill EBITDA contribution was Rs.11.06 Corers for the whole year so EBITDA margins which you are saying as a part of our business EBITDA margins of home textile with wind the total is in without wind margins from 8.6% last year it has gone up to 12% for the home textiles for the textile segment as a whole and if we include a wind benefit the number is coming to 9.1% to 13%.

Rahul Bhangadia: So from 4 Crores we want to 11 Crores for the whole year we are saying?

RS Jalan: For the full benefit of this because 6 megawatt got installed only in the month of March 2016 and also the 6 megawatt which got installed prior to September 2015 the benefit of the complete benefit of that will also come in the next year so because the wind seasons start from middle of May.

Rahul Bhangadia: Just an accompanying question would be the power, fuel and water expense that you have shown in the quarter which is about 82 Crores there is a reasonable drop out there is it a function of these windmills getting installed and you utilizing them or is there general deflation in that cost itself?

RS Jalan: Both are there.

Rahul Bhangadia: Thank you very much.

Moderator: Thank you. The next question is from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.

Dixit Mittal: Good evening Sir. Sir as you mentioned you are now in soda ash you are working at around 88% utilization and your new capacity will come in by the end of this year, so will there be any volume growth for FY2017 or will there be a flattish kind of volumes this year?

RS Jalan: Volume will be there flattish kind.

Dixit Mittal: In terms of margins you mentioned you will be maintaining the EBTIDA margin that you reported this year?

RS Jalan: On a year as a whole is around 33% margin during FY2016 I think we could be in a position to maintain that mark.

Dixit Mittal: Sir on incremental 1 lakh capacity what kind of margins that we are anticipating that will be able to generate?

RS Jalan: Gross margin in that the executional margin should be in the range of around 45% to 50% and since you know that the overheads and other fixed cost will should remain same I think that incremental margin on that number should be in the range of around 45% to 50%.

Dixit Mittal: So on EBITDA level incremental volumes will be generate around 45% EBITDA margin?

RS Jalan: Yes.

Dixit Mittal: Sir you mentioned that your second phase of windmill has come in March so what is the incremental benefits that can come in FY2017 because of the 6 megawatt?

RS Jalan: Entirely depends on the wind availability but broader number which we have taken in our additional benefit will be around 1% on overall margin on the textile revenue.

Dixit Mittal: Sir can you give breakup because you are on blended basis our textile margins around 13% so on home textile what was the margin on the exit level what kind of margins have we made in Q4?

RS Jalan: If you look at we will be talking about the absolute margin on the overall basis and that margin comes to around 13% on a year as a whole basis and I think and the quarter four is 13.5%.

Dixit Mittal: Sir that includes your yarn business as well, so I was asking on the home textile what is the margin?

RS Jalan: We would like to give the number on a consolidated basis that is always good.

Dixit Mittal: Sir for the first three quarters we were growing in double digits in textile in terms of revenues and Q4 is a flat so is there any particular reason for the because if you see other textile players they have reported around 15% to 20% growth in their topline so can you throw.

Raman Chopra: I understand that but you see if you remember that we have said there are two, three things which we are doing one we are realigning the customers and that realignment of the customers sometime you need to on the shipment cycle sometime in that shipment that does not happen in the quarter-to-quarter basis, but if you look at overall year basis then we have grown significantly on our topline.

RS Jalan: Even in this also we have improved our quarter four where our margins have improved because focus was on the margin improvement also. Our margins have improved from 11% to 13% there is a margin improvement in this quarter.

Dixit Mittal: Sir can you give the volume in textile the last year how much did we sell?

RS Jalan: If you look at in terms of volume we have done overall you are looking at in terms of the volume?

Dixit Mittal: Yes sir in terms of the million meter we have around 36 million meter capacity.

RS Jalan: We have done around 30.2 million in FY2016 as against last year of 24.7 kind of capacity.

Dixit Mittal: For 30 million meters we have done in FY2016?

RS Jalan: Yes.

Dixit Mittal: Next year we are targeting around 34 if I take 95% of the utilization?

RS Jalan: Yes it would be in the range.

Dixit Mittal: So Sir will we be expanding our textile capacity further because next year will be at optimized utilization so any plans to increase the home textile capacity.

RS Jalan: We have already in the process of making it from 36 million to 40 million.

Dixit Mittal: So what kind of capex Sir that will entail?

RS Jalan: Not very marginal cost on that, because it is only debottlenecking.

Dixit Mittal: Thank you Sir.

Moderator: Thank you. The next question is from the line of G. Vivek from GS Investments. Please go ahead.

G. Vivek: Congratulations Sir on a good set of numbers. Few questions I had was the price winning size is on the very low side for us and we have mentioned about some steps which we have been taken and some concerns are on our promoters the Dalmia so what is the status of the legal cases he is facing and what about the succession plan so these already into 75, 78 range?

RS Jalan: I have always maintained that our company Gujarat Heavy Chemical is professionally managed company and we run the business independently from the promoter side and so far the legal cases and concerns are they all nothing is related with the GHCL therefore we would like to restrain on those cases and on the succession planning again I would like to restrain on those because these are all promoter related issues which are not having any significant or bearing on the company.

G. Vivek: Sir and the steps which you are taking to improve the price earning and why are we not going for an asset light sort of the business because there is no dearth of spinning companies all over India and that might help us to improving our ROCEs and other issues.

RS Jalan: You see if you look at our journey we have started from the spinning and we have a foundation of the spinning and then subsequently we have followed the home textile model and we are gradually moving towards increasing the volume of home textile and therefore right now we are not allocating any significant cost or capital on this spinning and on the return on capital employed, as I said that at this point of a time we are not allocating capital on the spinning.

G. Vivek: Why has been debt on the higher side, quite high and the four steps which you are doing in reducing it, but why is at such a high side?

RS Jalan: If you look at this point of a time our debt equity ratio has moved from 1.72 to 1.27 at this point of a time and net debt to EBITDA which were use to be around 2.42 has come down to 1.9 so that may we have gradually deleveraged ourselves and I think on a debt equity ratio of1.27 it is a very healthy number and if you look at only the debt equity ratio in terms of only the long-term debt you will find it is only 0.69.

G. Vivek: Last question is on the opportunity side for both of inorganic chemicals and textile business so what is the opportunity Sir? Is it increasing, stagnating in the future?

RS Jalan: In textile we see an good opportunity going forward and that is the reason we always believe that there is an significant improvement possibility in the textile business and on the soda ash also we find an opportunity and that is the reason we are expanding the soda ash capacity by 100000 tonne in phase one and there is another possibility of another 150000 expansion at a very optimum cost which will be done after completion of this 100000 tonnes so we find opportunity in both the businesses.

G. Vivek: The opportunity more in the building glass levels or in the container glass or a about sodium bicarbonate Sir?

RS Jalan: Sodium bicarbonate also we are present and of course our numbers are at this point of time is only we are producing something around 24000, 25000 tonnes and there is an opportunity there also but at this point of a time we are focusing more on soda ash and the growth is in all sectors growth in glass is growing, your detergents is also growing and therefore if you look at last many years of data you will find that on an average there is a growth of around 5% overall growth in the soda ash demand and that the glass is slightly higher than the detergent but the way the rural population inspiration is going up we believe to that there is an opportunity even in the detergent also growing faster.

G. Vivek: Sir what about FMCG business newly started by this?

RS Jalan: See FMCG business is very small platform for us. Of course this business is with us for a long period of time and two years back we have launched a new brand called i-FLO and there we have launched herbal salt and this has been a huge success into southern market. We are not talking about big on that on those numbers but there is a good potential in that number. We are not allocating any capital on that business but gradually we are building that business. We have recently launched honey on that business take that brand with by the brand recognition and second we are also launching our product into the Maharashtra and the Goa market as well. So gradually we are ramping up this business without any capex, without any major capital allocation on that business.

G. Vivek: Thank you.

Moderator: Thank you. The next question is from the line of Abdul Karim from HDFC Securities. Please go ahead.

Abdul Karim: Thanks for taking my question and congrats for stellar set of numbers. You are focusing on the improvement on the process and the cost optimization so what are the strategy you are implementing for the cost optimization and betterment of the cost and second one question is what are you doing for the brand tie-up and terabit level in textile business?

RS Jalan: Thank you for your appreciation. There are many processes which we are doing on the cost optimization as well as on engaging the people because we believe first of all is the people make the difference and therefore our focus is how do we engage all our stakeholders into the business and therefore we are doing lot of work on our people management, our people development, lot of HR initiatives we are doing. The second thing we are doing also again society is also I am slightly taking this question slightly be more bigger manner because this is the one thing which I believe is the sustainability of the business we need to do this it is not a question of only improving the margin for sustaining the business we need to work on that and we are continuously working for last two three years on this so that is the one thing we are doing on engaging all our stakeholders and the ESOP is one of the thing which we have done along with the other processes which we are doing. The second is we have a very defined system of engaging all the people into the cost and for that we call that process as a cost reduction process which is a like Six Sigma or you can say your quality circle those kind of process which are part of that where we identify in the beginning of the year which are the areas where there is enough scope of improvement then we create a team of the people and the people work on those cost and there is a continuous process of review and support to those people to achieve that objective. The third is that we are also working on how do we make our organization a process driven organization and in that lot of investments or lot of thoughts are going into making that organization on a process where the data can be collected, data can be annualized and the decision can be made on that basis and automation. How do we make our business on auto mode where we by the new technology what we have right now where these things can be done by the system itself instead of a manual intervention then in addition to that we have certain processes of on the raw material coverage we do the raw material coverage like in the textile or in the chemical like coal we spend a lot of time on coverage of those raw materials and that also helps us in this and in the last I would say that everything depends on the mindset and over a period of time our team had been able to develop that mindset of looking at ever cost by magnifying lot and finding out the opportunity in that segment. The mindset of the passion of the team is that nothing is the best always we need to do better and better and better and I think that is the story which helps to be ahead of the in the business with the other competition.

Abdul Karim: We are in the final stage of GST approval. I think the GST will help you to reduce the logistic cost so what how it will add the margin?

RS Jalan: We are not been able to yet work on that what is the improvement with the margin will be there but surely like you rightly said GST will definitely ultimately help us overall in our business but in terms of the number I do not have any number to give you a guidance.

Abdul Karim: Thank you.

Moderator: Thank you. The next question is from the line of Sharad Tripathi from Edelweiss. Please go ahead.

Sharad Tripathi: Congratulations on good set of numbers. My question was what would drive our margins in home care textile business from 13% you mentioned right to 18%?

RS Jalan: Yes, there are three things, which will drive our margin. One is the optimization of our customer mix, which we are continuously working on. The second is like we have made an investment into our windmill and that will add to 1% of our EBITDA margin and the third will be better utilization or better capacity utilization of our home textile and the fourth again very important reach the culture which I just said in the previous question about the cost optimization and that journey is still continuing into the textile and this all full put together will improve our margin.

Sharad Tripathi: This windmill what is the total capex till date we have done?

RS Jalan: This year we have made an investment of 81 Crores and total amount is 110 Crores in two years.

Sharad Tripathi: For 25 megawatt right.

RS Jalan: No for 17 megawatt.

Sharad Tripathi: This is all this is internally consumed right?

RS Jalan: Yes, internally consumed, yes. I can only tell you that our experience on the windmill which we put 8 megawatt few years back has been very good and this 17 megawatt which we have put till now our experience is good in that.

Sharad Tripathi: Thank you.

Moderator: Thank you. The next question is from the line of Nimish Desai from Kitara Capital. Please go ahead.

Nimish Desai: Congratulations on good set of numbers. Sir could you throw some light on the competition that at current capacity what is your market share and you are adding 1 lakh tonne in this year so is there any other additional capacities coming from your competition in the coming year or two?

RS Jalan: There are three capacities which is coming in next few years one is our competition Nirma is brining a 200000 tonnes of the additional capacity, we are coming up with the 100000 capacity and there is a new entrant Ghari they are coming up with a 500000 capacity which will take another three years time. In the next four to five years, four years I would say that the total capacity is coming to around 800000 tonnes and in terms of the demand there is a growth of if I take a 5% growth which is of last ten years of the growth that requires around 1.5 to 1.75 lakh tonnes additional requirement every year if I add this four years to the data this total production or the increase in the production will be duly consumed in the market like I said before also the demand the supply always follow the demand and in this case also the same thing will happen.

Nimish Desai: Sir I believe Ghari was your customer now they are putting up a backward integration plant for the soda ash right.

RS Jalan: Yes.

Nimish Desai: So then how much so once their capacity comes in they will still buy from outside parties or from you in that manner?

RS Jalan: Depends on the how much they have been able to produce in few years because it takes time to stabilize the plant for three four years based on our past experience of our competition so if there is a some shortfall yes they will require the product from us or from our competition but in the meantime there will be demand growth also in all the consuming customers and therefore this supply will get distributed to either to the Ghari or to Hindustan Unilever or to some other players, some other consumers, so I do not believe or I do not think that in terms of there is a shortage of demand which can make our plant lower capacity I do not think so.

Nimish Desai: So the last part on this is that so once you have own 100000 capacity installation is completed after how many years you will again begin for the additional capacity because you said that every year 1.5 or to 1.7 will be required by the industry?

RS Jalan: See like I said in the current plant we have opportunity of 150000 tonnes of further expansion and beyond that in that plant there is no scope of further expansion and after that if we have to go we will be going on a new location and that at this point of a time we are not nothing is on our board but yes 1.5 lakh tonnes we will be looking at soon.

Nimish Desai: Thank you very much.

Moderator: Thank you. The next question is from the line of Gaurav Punjabi from East India Securities. Please go ahead.

Gaurav Punjabi: I just wanted to understand a few things, so wanted to understand what is the CFO of the company for 2016, cash flow some operation?

Raman Chopra: See this year our total operating cash flow is around Rs.460 Crores and of which we Rs.100 Crores was paid towards the tax pay, Rs.250 Crores was paid towards the gross capex and 110 Crores for the loan reduction.

Gaurav Punjabi: So the CFO net of taxes is about 350 Crores?

Raman Chopra: It is 360 Crores.

Gaurav Punjabi: Sir I wanted to understand in details of fourth quarter number because if I see the topline has increased by 1.5% whereas the PAT has grown approximately 54% but if I adjust for the exceptional items the actual PAT has increased by 15% which corresponds the EBITDA because your EBITDA has grown by 12% so on the EBITDA improvement part what is the EBTIDA for the soda ash business because textile is about 13% so what would be the EBTIDA for soda ash?

RS Jalan: EBITDA for soda ash this quarter fourth quarter?

Gaurav Punjabi: Yes.

RS Jalan: EBITDA for the soda ash for the fourth quarter was Rs.141 Crores and for textile 35 so total EBITDA is Rs.176 Crores.

Gaurav Punjabi: Sir in terms of percent EBITDA margin.

RS Jalan: In terms of the soda ash EBITDA 36.1% this quarter.

Gaurav Punjabi: So as I understand we were trying to bid for a few limestone mines to increase our captive consumptions so that for the incremental capacity, which is coming on-stream, you are trying to bid for the limestone mines any update on that?

RS Jalan: See government has not yet notified any block of mines for the bidding and which we are waiting for that to happen and that moment it happens we will definitely bid for that.

Gaurav Punjabi: Because if I understand if you start buying limestone's from outside this would impact the EBITDA of approximately 1.5% because the cost would be up about Rs.250 more if we start buying limestone from outside as compared to own production, so would that effect the EBITDA going forward like the margins?

RS Jalan: I do not think so.

Gaurav Punjabi: Also one more thing how do we procure power like are we buying power from the energy exchanges or we buy from the grid?

RS Jalan: When we look at our chemical business we have a captive generation of the power and we do not buy anything from outside if you look at our textile business in our home textile business which is in Gujarat we buy from the grid and if you look at in Tamil Nadu we have our own source of wind energy then we are buying from the group captive source and small quantity we buy from the grid.

Gaurav Punjabi: Sir in fourth quarter the raw material cost as a percent declined to 37% as compared to 39.4% in the previous year so what was the major contribution for this.

RS Jalan: This year it is 37.8% and last year was 39.9%, you are looking at the whole thing as a combined.

Gaurav Punjabi: I am adding cost to materials, purchase and stock consumed and change in inventory so that is coming to 37% as compared to 39.4%?

RS Jalan: We can give you a broader picture on that. There are three reasons. One is when you look at chemical business, the various raw materials. It is approximately around 1% drop in organic chemical and there is approximately around 5% drop into the textile segment. If I add these two that leads to around 2% and the reason of that in the inorganic chemical is basically the raw material softness of the coal and other commodity because of our hedging of that commodity and in the textile it is primarily of the better efficiency of our product where we reduce the wastages and the cotton cost and things like that.

Gaurav Punjabi: Sir where do we procure cotton for the spinning business like which part of the country?

RS Jalan: Mostly we buy from Gujarat and MP and Andhra and we import some of the cotton also from the premium quality like from US also we are importing some cotton.

Gaurav Punjabi: So when we say we procure from Gujarat do we buy Shankar-6 quality or any other quality?

RS Jalan: Shankar-6 quality.

Gaurav Punjabi: So, what is your long-term view on cotton because the prices in the last month have increased?

RS Jalan: If you look at our long-term it will be more of a stable nature because China has a large inventory and they have gradually liquidating that inventory, so globally we believe the prices should be stable in the cotton. This last one or two months the increase is primarily because the crop this year in India has been lower than last year and in the fag end of the season some increase is there, but now I do not think the prices should go up beyond this.

Gaurav Punjabi: Sir, just one last question on the ESOP. What is the vesting period for the ESOP?

RS Jalan: It is one year.

Gaurav Punjabi: The strike rate is about Rs.100?

RS Jalan: Yes, after that we are vesting in two tranches.

Gaurav Punjabi: The price would be Rs.100, right.

RS Jalan: Price would be Rs.100.

Gaurav Punjabi: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Suyash Kapoor from Mapple Vyapar Private Limited. Please go ahead.

Suyash Kapoor: Good evening. My first question is that is it possible to have a debt reduction policy for the company. Like you have proposed a dividend policy and ESOP policy so is it possible to have a debt reduction policy of the company because the company the hard work that the entire team is giving is reducing its debt. It gives you a confidence to the investing community that is can a company have a debt reduction policy also?

RS Jalan: I have already mentioned this before that our ultimate objective is that our debt equity should go down to below 1 and we should always maintain that debt equity ratio of less than 1. Now beyond that I do not think we should go for a zero debt kind of a concept at this point of time till we have a capital allocation where the return on the capital is in a reasonable level, we should definitely invest the money into the business to reward our shareholder's if the capital allocation or the return on capital allocation is better than the interest cost which we are paying. The spread should not be less than 6% to 7%.

Suyash Kapoor: Sir, lastly when we had a conversation, this question was raised and I am again raising it. Sir, is there any plan for demerger since you have categorically stated earlier also that there is no link between soda ash business and textile business. So is there any plan for demerger of this segment because the company's balance sheet is now looking very solid and now if in the market condition keeping into account the market condition, I am referring to the capital market it is very sound. Now if you go for a demerger you can get a fair value of the efforts, which the company had given for the past so many years. So is there any concrete plan on the part of the management to go for a demerger of these two businesses?

RS Jalan: We are discussing the possibility; however, currently there is no concrete action plan or timeline we have worked out till now. We will update you at the appropriate time.

Suyash Kapoor: Sir, balance sheet is strong, is there any plan for QIP or preferential allotment to any PE investor or large investor?

RS Jalan: No. We are not in the market for raising any resource or the capital at this point of time. We are not.

Suyash Kapoor: Sir, even earlier people have also raised the question, I am also raising that promoter holding is very low. Sir can you say how much is it currently shareholding of the promoter group?

RS Jalan: Promoter holding remains at 18% to 18.5% and only thing what promoter has done out of this 18.5% there used to be around 9%, which they have repaid and they have replaced this now 18.5% is fully under their control.

Suyash Kapoor: Do the promoter have a plan because a company having such a low promoter holding this brings great confidence to the investing community Sir. That is why this question has been raised?

RS Jalan: I would like to refrain from this.

Suyash Kapoor: Please raise it to the board next time if it is possible, please raise it to the board before the board this was also one of the question. As we have raised regarding dividend policy categorically we should appreciate that in a very short span of time you have come in with a concrete policy, so if you can raise this issue before the promoter may be they can come in with a better plan.

RS Jalan: Surely we will raise this issue.

Suyash Kapoor: Sir, is there any buyback policy of the company?

RS Jalan: No.

Suyash Kapoor: Because your earnings per share is Rs.25. This is steadily increasing and you have come with a great purchase as far as ESOP is concerned that you are coming for a collective efforts by the concerned management is something investing directly into the company, so is it possible for a buyback policy also?

RS Jalan: At this point of a time, we do not have any policy; if we come with some policies definitely we will update you.

Suyash Kapoor: Sir, what is our rational of diversifying into top three segments you have launched recently a salt product under your brand name you have recently launched a product. So what is the rational of going behind this FMCG business?

RS Jalan: We are in the FMCG business not from today. We are in the FMCG business for many years and there is a very small segment of our business and we are there in this business for almost more than a decade now. Gradually what we are doing is without any capital allocation to this business gradually we are improving this business and like I said from the resources what the small division is generating the team has been able to do a very good job on making our brand, one new brand of i-FLO as one of the most prominent brand in Southern India and gradually they are expanding that and there is no capital allocation on that and we are not talking about the big plan for that.

Suyash Kapoor: Sir regarding textile business if you can please explain what is the plan of management going forward as far as tax is concerned and if you can compare with your peers which are in the industry, peers Indocom, versus your product if you compare with other textile companies, if you can please explain and if you can give what is the expansion plan of the company as far as the textile segment is concerned. You have mentioned about soda ash that the limitation which the company is facing or which will face if it goes for further expansion after certain period of time, please explain about textile business to have a general information about textile?

RS Jalan: We always compare our performance with all. We definitely do our benchmarking with everyone in the business based on that we always look at the improvement processes in our business and set a benchmark for us to improve on that. In terms of like I said already we have expanded from 36 million to 40 million and we are working on the customer optimization as well and therefore first our objective at this point of time is how do we reach to a respectable margin into the textile business which is our objective of around 18% and beyond that then we will be looking at a major expansion.

Suyash Kapoor: Sir can you please tell about the product if you can compare what your peers what they are manufacturing, and what you are manufacturing because Indocom industry we are seeing their profitability has risen and so for GHCL profitability seems **(inaudible) 1.09.25?**

RS Jalan: We are always working towards an objective of improving our profitability and we will continue to do that in terms of the product, our product lines are the same as our competition.

Moderator: Thank you. The next question is from the line of Neel Behel from Individual Investor. Please go ahead.

Neel Behel: Congratulations on a good set of numbers. Sir, I have question on the antidumping duty, which is going to expire next year you have any sense on what will happen next year and if it goes what will the price of our commodity?

RS Jalan: First of all Mr Neel it is not commodity. Soda ash is not a commodity and after the antidumping duty goes there can we some softness in the prices how much it will be it is very difficult to talk about at this point at time, but my belief is that should not be very significantly lower.

Neel Behel: Sir, any all parts figure, like if it goes how much could it go lower by?

RS Jalan: May be 3%.

Neel Behel: 3% okay. The next question both your business are completely unrelated in my view does the company have any plans for a demerger go to unlock value over the long-term?

RS Jalan: We are discussing adjusted just before. We are discussing on that, but there is no concrete plan at this point of a time. As soon as we have some plan we will definitely come back and report you Sir.

Neel Behel: I know you already set no on the buyback plan you know you should seriously discuss this because your stock is really cheap. I do not understand why should not we go in for a buyback at least discuss buyback internally?

RS Jalan: Surely Sir, we will do that.

Neel Behel: Thank you so much.

Moderator: Ladies and gentlemen due to time constraints that was the last question. I would now like hand floor over to Mr. Rohan Gupta for closing comments.

Rohan Gupta: Thank you Margaret. Sir that was a very interesting and long discussion which we had I think that many questions have been answered to the investors, but I still have a couple of questions, if I am allowed to asked? First is on that the impact of the global soda ash prices, Sir we are seeing that global even you have also mentioned is your presentation that globally the natural soda ash is likely to remain in focus over next three to five years, the synthetic soda ash cost of production is concretely going to rise also we have seen that global fall in transportation or shipping cost in a intercountries have fallen significantly with lower crude prices so as a long as we see that crude prices remain here probably the logistics cost in globally are going to remain very competitive that is edge over two natural soda ash. So in that kind of scenario also we see that Turkey in all probably is going come up with a some capacity is going forward over next to two five years. Sir, do you see that the natural soda ash because of the cost advantage which they have over synthetic there is a long-term pressure on a margin of synthetic soda ash players?

RS Jalan: I would like to address this. If you look at the natural soda ash at this part of a time, US is a major procedure of natural soda ash and the after that the African countries are Magadi is second and Turkey is third. Turkey of course is coming in the next three years. They are coming up with 3 million and the first target will be Europe because they are much near to that place and in terms of logistic and overall the European producer’s costs are also higher as compared to the Asian countries. So their first target will be that and after that they will some quantity which can definitely, can make some inroads into the Asian countries as well, but in the meantime if will look at China, China has reduced or they are not going with any expansion and even if I take approximately around 3% to 4% of the global growth and that 3% to 4% global growth will lead to something around we need around 2 million times of extra requirement every year so that 3 million over the period of time will get job because of this demand growth.

Rohan Gupta: Sir, I believe 3% to 4% global growth itself is a very aggressive number because if you get the worldwide timing except US probably every country and Asian markets everywhere slow down sort of condition, which we are seeing, European definitely not growing and the US may only see some sort of growth.

RS Jalan: North America and South America is growing, India is growing. China is not against the 10% because they are almost around 50% of the total demand they may not grow with the same speed up 12%, but they will be definitely growing to 2% to 4%. If I take everything put together, our guess is the world global demand should grow by 3% to 4% and even if I for a minute if I take this number comes to 2% still you need million and million and half tonne or 3 million will get absorbed in two year's time and still they need around three years time to come to capacity. I personally believe that if you look at the last many years of the data of the GHCL you will find the historically also the margin in this business has been quite consistent on that. If I go with a past experience 5% believe that this would not be two much of a concern about that the margin on the EBITDA.

Rohan Gupta: Sir, the new facility, which we are putting what is date, when you expecting to commission and what are the initial challenges, which are you are expected to face?

RS Jalan: In terms of period it is March 17, we will the completing that and the hopefully we do not see any challenge because they adding a few equipments in that and personally, I do not think this would be any challenge of that.

Rohan Gupta: So you believe that by first quarter of FY2018 you should be able to establish this new facility?

RS Jalan: Surely.

Rohan Gupta: Our utilization level within first quarter itself should go up to 90% of the additional facility or it will take sometime?

RS Jalan: No, you can say in the range of around 80% to 85%.

Rohan Gupta: It will reach up to that level.

RS Jalan: Yes.

Rohan Gupta: Just third thing, on the salt prices of this quarter have been pretty on lower side because I think that salt production was pretty good because of the extreme summer if there is expectation of very good monsoon though I think in large it is beneficial to the country, but it is opposite to our company so if there is huge rain or monsoon then do you see that there will be shortage of salt and which we can have a impact on a margin of the company?

RS Jalan: I do not think so that we will have a major impact on the margins, but we have salt prices can if the season is good because last year there was a good production of salt.

Rohan Gupta: At least from last two years we are seeing that monsoon has been weak that actually have been in favour of our company?

RS Jalan: Yes, but I do not think there was a major impact because of this margins.

Rohan Gupta: Okay, but they came some impact?

RS Jalan: Yes some impact can be there.

Rohan Gupta: Sir, just last thing and then we can wind up the call. On the tax rate, I think this year we have provided roughly 31% tax compared to last year 26% while our wind capacities have increased this year so what actually going forward our effective tax rate according to you should be?

RS Jalan: I can give you kind for 2016-2017 you should be in the range of around 25%.

Raman Chopra: See cash tax Rohan this year was around 100 Crores and the rest is deferred tax around 23 crores.

Rohan Gupta: I am talking about including deferred tax also the tax rate this year was 31% which is high?

Raman Chopra: My point is see when you are earning even if from deferment is there you will have to take the full rate. What we are working at on the cash tax, our target for the cash tax this year is around 100 Crores only despite improved probability we are looking at the same amount of taxation.

Rohan Gupta: Including the deferment of tax so it means we will fall in the same 30% category if I include it in the deferred tax also.

Raman Chopra: Probably yes around 29% to 30%.

Rohan Gupta: That answers all our questions. Thank you very much for giving us your valuable time. It was a very interactive session with you and I hope that company is going to deliver what you have just promised going forward. Thanks a lot Sir and thank you very much.

RS Jalan: Definitely we will work to us have a better results going forward.

Rohan Gupta: Thank you Sir. On behalf of Emkay Global, I also thank all the participants who have logged in for the conference call. Once again a special thanks to the management for giving us their opportunity to host this call. Thank you everyone.

RS Jalan: Thank you.

Moderator: Thank you very much. On behalf of Emkay Global Financial Services that concludes this conference. Thank you joining us. You may now disconnect your lines.