



“GHCL Limited Q4 FY2018 Earnings  
Conference Call”

April 26, 2018



**ANALYST:**

**MR. SUMANT KUMAR – MOTILAL OSWAL  
SECURITIES LIMITED**

**MANAGEMENT:**

**MR. R.S. JALAN - MANAGING DIRECTOR - GHCL  
LIMITED**  
**MR. RAMAN CHOPRA - CHIEF FINANCIAL OFFICER  
AND EXECUTIVE DIRECTOR (FINANCE) - GHCL  
LIMITED**  
**MR. SUNIL GUPTA - FINANCE - GHCL LIMITED**  
**MR. ABHISHEK CHATURVEDI - FINANCE - GHCL  
LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the GHCL Limited Q4 FY2018 Earnings Conference call, hosted by Motilal Oswal Securities. 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. Sumant Kumar from Motilal Oswal Securities. Thank you and over to you Sir!

**Sumant Kumar:** Good afternoon everyone. Welcome to 4Q FY2018 results conference call of GHCL Limited. Today, we have with us Mr. R.S. Jalan, Managing Director and Mr. Raman Chopra, CFO and Executive Director (Finance) and along with them we also have a senior management team representing the company. I hand over the call to R.S. Jalan for the opening remarks. After that we will have a Q&A session. Thank you and over to you Sir!

**R.S. Jalan:** Thank you. Good evening and welcome to all you on the today’s earning call of Q4 FY2018. I have Raman our CFO along with Sunil and Abhishek from finance team. As you change, I have covered most of my commentary in the earning call presentation and therefore we will cover more on business outlook of each segment. da ash globally remains stable with a demand growth of around 2.5%. this coupled with the Chinese lower production has absorbed most of the Turkish volume of 2 million tonnes. I believe that going forward except for any temporary disturbance demand supply will remain balanced globally.

On Indian front, we witnessed a demand growth of around 4 lakh tonnes during the year, which has been missed primarily by the domestic manufacturers. Looking at the current micro economic scenario and consumption linked growth I expect the buoyancy to continue in the current year. Despite increase in the cost of all major input we expect to maintain our margin around FY2018 level. Indian textile industries continue to face the headwinds, US market remains tight with many retailers either gone under or heading towards the bankruptcy, huge unsold inventory in the US forcing shorter order sizes and diminishing frequencies.

We remained in line with the industry performance, which is subpar. However, we are optimistic that with the new leadership and the energized marketing team and strong operational infrastructure we would see a much improved FY2019.

Our focus on product innovation has yield encouraging response to our sustainable, traceable bidding concept REKOOP. The innovative product is made by blending cotton with the recycled polyester from PET bottles, in partnership with the Reliance Industry Limited and Applies DNA Science New York for tagging of fiber. We are confident that as the world is becoming more agile to environmental concerns and with the passage of time we expect the acceptance and reach of these concepts to grow.



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Whereas we had earlier visualized that we cannot go beyond 11 lakh metric tonne soda ash capacity at current location, however, we have once again shown that we will outperform and do wonders, with possibility of another brownfield expansion of 1.25 lakh metric tonne to be completed in the next two years. Thus creating a volume growth for both FY2020 and FY2021. Our greenfield expansion plants are going as per plan and will soon reflect our commitment to become a leading chemical company. I now invite Raman to walk through this quarter's financial performance. Thank you.

**Raman Chopra:**

Mr. Jalan, thank you very much and good evening and a very warm welcome to all of you to GHCL Q4 FY2018 earnings call. The revenue for the quarter is Rs 733 Crores as compared to Rs. 826 of Q4FY18, mainly due to headwinds in textile industry. We have maintained EBITDA of 185 Crores for the current quarter, which is equivalent to the corresponding quarter despite a significant reduction in textile performance and registering a growth of over 17% over Q3 FY2018 the EBITDA was Rs.158 Crores. Our EBITDA margin during the quarter was 25.2% versus 22.4% of Q4 FY2017 and 21.5% of Q3 FY2018 margin, so this has shown a growth of almost 300 basis points over the same quarter of the last year.

We have closed the Q4 FY2018 with the profit after tax of 82 Crores as compared to 113 Crores of Q4 FY2017 and 71 Crores of Q3 FY2018. This is mainly due to higher tax incidence during the current quarter. EPS for the quarter is Rs.8.40 per share. Coming to the more detailed segmental draw down in our inorganic chemical segment we achieved a Soda Ash production of 2.43 lakh tonnes during the quarter, which is the highest for any quarter as compared to 2.24 lakh tonnes of Q4 FY2017. This has led to an increase in higher sales volume of 2.41 lakh tonnes from 2.3 lakh tonnes of Q4 FY2017 including refined bicarb sales.

Consequently, our revenue has increased to 513 Crores from Rs.466 Crores of Q4 FY2017 thus registering a growth of 10%. EBITDA for the segment has increased by 17% to 173 Crores in Q4 FY2018 versus 148 Crores of Q4 FY2017 and 10% from 157 Crores of Q3 FY2018 level. Our EBITDA margins have increased to 33.6% there is a jump of 190 basis points as compared to Q4 of FY2017 of last year and 31.6% of Q3 FY2018.

In the textile segment, industrywide headwinds continue to show its impact on business performance. As per our previous indication whereas the revenue has continue to remain under pressure we have improved our margins.

Revenue dropped to 219 Crores as compared to 360 Crores of last year whereas the margins have improved to 5.7% during the quarter as compared to 1% during the last quarter. However, stood lower as compared to 10% margin in Q4 FY2017. We believe that the coming year would be much better due to the efforts made in the past six months in strengthening the marketing and operational team in home textile segment.



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The overall debt of the company has come down from 1431 Crores to 1314 Crores that is a reduction of 117 Crores and we have improved our debt equity ratio to 0.79 from 1.04 in March 2017. The ROCs for the quarter is 17% with ROE of 22%. I would now open the house for discussion and any questions that you may have. Thank you very much.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

**Nilesh Ghuge:** Good evening Sir. If I look at your sequential number in FY2018 per se, every quarter you are able to reduce your operating expenses, so any changes that you have made or any strategical development on your end to reduce other expenses despite of increasing your production quarter-on-quarter?

**R.S. Jalan:** You are talking about the other operating expenses?

**Nilesh Ghuge:** Yes, Sir other operating expenses.

**R.S. Jalan:** Primarily other operating expenses has a direct linkage with our home textile business, so any drop in the revenue of the home textile business leads to the direct operating expenses to be reduced.

**Nilesh Ghuge:** So, entire other expenses, I can assign to your home textile business only?

**R.S. Jalan:** Primarily.

**Nilesh Ghuge:** If you look at raw material cost despite of increase in your Soda Ash production, your raw material cost declined by about 9% sequentially in the last quarter in 3Q FY2018 and so, it was down by about 3%, so what is your take on that and going ahead how one should look at this cost?

**R.S. Jalan:** Like I said the mix of the textile and the chemical business is the major reason for this drop because as you know that in the textile the raw material percentage of the revenue is higher. Any drop in the textile revenue leads to the high reduction in the raw material cost.

**Nilesh Ghuge:** Sir, any percentage in a total raw material cost of 286 Crores in this quarter can you able to share the mix of a raw material cost in between these two businesses?

**R.S. Jalan:** No, we can share those numbers offline to you the specific number so you can get in touch with us.



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- Nilesh Ghuge:** But any percentage any ballpark number, percentage number will be fine?
- R.S. Jalan:** Our revenue or the raw material are linked with four different businesses. On one side, we have inorganic chemical. In organic chemical, we have two or three businesses, one is the trading business, the second is your CPD division, and the third is the chemical business. And we have integrated the spinning and the home textiles. If I can give you the ballpark number in terms of as you know our cost of raw material in Q4 FY2018 for the inorganic chemical is around 31% and for the textile fees as a whole cost of raw material is approximately 58%. 58% of the revenue of the textile goes to the raw material cost and 31% only of revenue goes to raw material in inorganic chemical.
- Nilesh Ghuge:** Got it Sir and just last question on the debt, going ahead what are your plans to reduce the debt from current level of more than 1000 Crores, I think in FY2019 – FY2020?
- R.S. Jalan:** If you look at, our debt equity ratio is around 0.79x, which is around 1300 Crores, it is a very healthy sign, I would say on a leveraging perspective. Now, we have to optimize between three things, one is the growth, second is your debt position and third is to reward to the shareholders. On last year as you have seen that we have rewarded the shareholders by more than 100 Crores. We have also reduced our debt by 117 Crores and we have also invested around 280 Crores into the growth. Now like I said in my speech, we have found out another growth opportunity now at Soda Ash business at the same location brownfield where we can increase our volume by another 125000 tonnes. That opportunity will lead us to a very high healthy jump into our margin as well as overall bottomline. Keeping that into mind my belief is this year we will try to invest more resources into the growth and reward to the shareholders probably will try to keep at the same level, but overall my debt equity ratio go down from 0.79 to probably may be 0.65 gradually.
- Nilesh Ghuge:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Good evening Sir. My question is on textile revenue, so in all the last four quarters you have seen sequential dip in the revenues, so do you see these Q4 revenues to be bottomed out kind of number, can we expect a recovery from next quarter onwards in terms of revenues in this segment?
- R.S. Jalan:** First of all let me tell you the major reason of the drop in the revenue. That was primarily because like I said headwinds into the business and also the restructuring of some of the customers business because of the financial tightness into the US market, they are gone under or there where the margins have become significantly negative. Keeping that into mind our focus is



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more on the bottomline into the margins. Specifically to your question yes according to me this is a bottom out number and probably the number will be improved moving forward.

**Dikshit Mittal:** So similar thing can we expect on the margins as well Sir because margins are up to 5%?

**R.S. Jalan:** Yes margins like I said the headwinds will continue, but definitely overall our profitability or our overall bottomline will be better than last year.

**Dikshit Mittal:** Can you give any rough estimate Sir for next year? What kind of growth or margins?

**R.S. Jalan:** No this business is a very volatile business. Specific numbers will not be the right thing to seek, but I can only tell you that the performance will be much better than this year.

**Dikshit Mittal:** Sir coming to soda ash in FY2019 what is the kind of volume growth you are looking at I think we are now running at full utilization for expanded capacity as well, so what kind of growth can we expect this year?

**R.S. Jalan:** First of all if you notice that last year we have expanded our capacity by 100000 tonnes and in between we have expanded by around 30000 tonnes. Out of this 130000 tonnes we got the benefit of around 20000 in the last quarter of 2016-2017 itself because we have been able to pre-pone the production or the expansion. So we were expecting approximately around 100000 tonnes of extra production. Against that we have produced 136000 tonnes of extra production and that has really increased our utilization level or efficiency level to the level of around 97% to 98%. Now going beyond 97% to 98% will be little difficult number one. Number two this year we are not adding any new capacity. The new capacity will be completed by the end of this year of FY2019. The volume growth will be year after that. In the meantime, annual shutdown, which is an annual phenomenon, has not been taken last year. Against that we were taking the annual shutdown this year. In spite of all this, we believe there will be some improvement overall in the volume.

**Dikshit Mittal:** Sir which quarter you are taking this shutdown?

**R.S. Jalan:** Already taken this quarter.

**Dikshit Mittal:** Sir now coming to the new capex of Greenfield capex so will there be capex from this year onwards or how will be the trajectory for that?

**R.S. Jalan:** Capex we have started last year and this is going to be completed this year of 125000 tonnes. Another 125000 also we have started the projects and that we will get completed next year, so there will be a volume growth in 2019-2020, 2020-2021, both the years there will be a volume growth.



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- Dikshit Mittal:** Sir I am talking about the Greenfield capex of 5 lakhs?
- R.S. Jalan:** Greenfield projects we are on schedule and acquisition of land is in process and hopefully this year we will be completing the acquisition of the land and other approvals of environmental clearance and things like that and I think this will take another three years after that to execute.
- Dikshit Mittal:** Sir last question this quarter we have seen around Rs.9 Crores jump in depreciation so is there one-off or will the current run rate sustain next year also?
- R.S. Jalan:** This time it is a one off around Rs.5 Crores out of that is a one-off depreciation, so you are right the run rate will be approximately around Rs.29 Crores quarterly.
- Dikshit Mittal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor:** Good evening friends. Sir congratulations to the team for putting a very sustainable set of numbers, which will be inorganic chemical segment. Sir the very first point was about this 4% volume increase growth is what we can continue for FY2019 Sir in the soda ash business including this loss in production due to the shut down?
- R.S. Jalan:** Yes.
- Saket Kapoor:** Sir what will be the production loss due to the shut down for how many days we are going to do the shut down?
- R.S. Jalan:** Generally it takes around 15000 tonnes of the loss of production, which continues for almost around 8 to 10 days.
- Saket Kapoor:** 15000 tonnes and that is what are going to make up going forward that is your understanding?
- R.S. Jalan:** Yes.
- Saket Kapoor:** Sir about this greenfield expansion Sir what would be the total cost of the project and how are you looking to fund it and what should be the debt and equity mix of it, have you worked on that Sir?
- R.S. Jalan:** First of all as you know that this project the real capital investment or the major significant capital investment will start after two years down the line and as you know that cash resources for the cash generation out of the business is close to around Rs.500 Crores. If I take three years



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period out of that even if after the distribution of the rewards to the shareholders, still my belief is that we will be in a position to generate in three years time of roughly around Rs.1000 Crores to Rs.1200 Crores. So that resources will be internal accrual and the balance amount will be purely on the debt, but still I would say that in spite of the new capex our debt equity ratio will not cross more than 1:1.

**Saket Kapoor:** Even for the implementation for the project also we will be keeping in mind that 1:1 is not used?

**R.S. Jalan:** Yes. That discipline we will always maintain.

**Saket Kapoor:** Per tonne of soda how much do we earn?

**R.S. Jalan:** It will be slightly difficult for us may be sometime on the offline if you want we can give it to you, but I can only give you the kind of two indications here. One is in last three to four quarters there is a gradual appreciation or gradual increase into the per ton contribution and we have come closer to the numbers, which was the highest EBITDA per tonne year and year-and-a-half back.

**Saket Kapoor:** You are close to that now?

**R.S. Jalan:** Yes we are close to that.

**Saket Kapoor:** That is very much evident from your numbers operationally it is the best quarter and the numbers also are highest in terms of the continuation from the soda ash business? Sir currently what are the pain points for us in this soda ash business and where are the improvements now left wherein we can do our operations better or what are the points where more work needs to be done for soda ash in particular?

**R.S. Jalan:** Like I said growth in the volume is the first thing, which is very important for this business and if you remember our earlier discussions in the conference call we have said that this location may not have more than 11 lakh or more than 11 lakh tonnes of production, but the will gives you the way and our team has done a wonderful job. They have found out the possibility of increasing this 11 lakh tonnes to 12.5 lakh tonnes, so this 1.5 lakh tonnes, which can translate to maybe 120,000 tonnes to 130000 tonnes extra production will be possible from the same location and as you know there is a huge advantage of a brownfield expansion in terms of capex cost per tonne, the gross margin, overhead remains the same, so that is the one thing, which is a positive sign for us. The second I would say that we as a management never believe that we have reached to the point where we cannot achieve better than that though at this point of a time it looks to be 97% looks to be a healthy number, but who knows again will can give us a better way again. Probably I would say that the buoyancy of this business is visible at this point of time because the way the Chinese scenario is changing that is helping us in spite of turkey currently being 2 million there people are expecting that there is going to be a short term disturbance into the market is it gone.





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The Chinese factor can also sometime will help us on this number; however, for the antidumping duty is in force at this point of time, which we do not know whether we will be able to continue or not, but again our belief at this point of time though the market is volatile we do not know if this is what will happen, but today based on the market understanding we do not see any major impact happening even if the antidumping duty goes away.

**Saket Kapoor:**

Sir just to factoring one more point especially to the finance department. For the last two years we were able to save lot of money on the tax front also just on the tax rates because of our good work in getting the tax write back so my question is to Raman Sir do you have Sir anymore EBIT that will come out of that for this year also or are we done with? That was my question and what will be the relevant tax rate for us for this year because for the last two years we have got advantages on the tax front also the rate of tax front also? Will this continue for this year also or are we going to pay the higher tax for this year. Then I will put my next followup question?

**Raman Chopra:**

My point is there are two aspects one is accounting aspect and another one is the cash flow, so in terms of the cash flow even for the next year also our tax outgo will be at a mat level, which is around 22% whereas for the accounting perspective you have to provide the entire tax because even in the form of a current tax and the deferred tax, but from the cash flow perspective we will have a rate of around 22% and we will look at cash flow more than what we look in the accounting aspect. Although to our growth journey and our capex we will be able to save some amount even in the accounting sector.

**Saket Kapoor:**

Sir whatever little I could sum up from the conversation is that for this year we are not expecting any surprises from the inorganic chemical front because we have already squeezed out most part of it, we have already taken a shutdown regarding production loss also we will mitigate that, so for a year as a whole the excitement for the investing community is going to be lukewarm and it is only the next year where our price expansion is going to kick then only we could see more visibility in the numbers. The growth numbers are not there for FY2019. Is my conclusion correct Sir?

**Raman Chopra:**

Broadly what you said is right, but the only thing is that like you said sometimes surprises can happen and those surprises could be only in the form of the way the Chinese situation develops. The Chinese situation develops, the margins could be better than what we have been achieving till now.

**Moderator:**

Thank you. The next question is from the line of Amar Mourya from Emkay Global. Please go ahead.

**Amar Mourya:**

Sir thanks a lot for the opportunity and congratulations for a very good margin numbers in the soda ash business. First thing just wanted to understand now when you said that the Chinese



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production has reduced during this particular quarter, so are you largely indicating the HOU based capacities, which are likely to shutdown in China?

**R.S. Jalan:** No, I would not say that the HOU capacities are shutting down. Overall because of the environmental concern, lot of disturbances are being seen in the Chinese production. Recently, I have been told that even the Chinese consumers are looking at import of the products, this indicates everything.

**Amar Mourya:** Because what we understand here is that there are almost 22% of the world capacity, the HOU based capacity where this is ammonium chloride is generated through the process and I believe Chinese government is quite apprehensive on that part now and there is a reason couple of capacities in China are going to shutdown. Is that the only indication or overall Solvay based capacities are also seeing a pressure?

**R.S. Jalan:** Both the capacities are seeing a pressure because of the environmental concern, also on the margin front also. So new capacities are being seen into the China at this point of a time whereas the demand growth continues not at the same pace, but the demand growth is there and they almost used to export around 2 million tonnes into the global market. That 2 million tonnes are getting renewed and that will create a kind of a better balance if I can use the right word because balance of the other global players.

**Amar Mourya:** Other than Turkey there are no large capacities coming right Sir?

**R.S. Jalan:** Yes.

**Amar Mourya:** That is good. Sir one more time probably the last part as I have asked that tax rate, so you are saying the accounting tax rate would be largely 30% right, is that the conclusion correct?

**R.S. Jalan:** Around 31%, 32% accounting debt whereas the cash tax will be approximately 22%.

**Amar Mourya:** Got that Sir and when we see about this capex going forward, so what would be a broader capex, which would be aligned to a textile as well as to the soda ash for the next two years if I see because 2019 also will have 125000 capacity coming and then 2020 also 125000 capacity coming in soda ash and followed by that now what is the outlook for textile per se on the capex front?

**R.S. Jalan:** On the soda ash capex front this year will be approximately Rs.330 Crores and next year will be closer to Rs.250 Crores to Rs.300 Crores whereas for the textile this year allocation is approximately around Rs.80 Crores to Rs.85 Crores, next year will be closer to around Rs.75 Crores to Rs.80 Crores, so there is a kind of capex spend that we are envisaging as of now.



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**Moderator:** Thank you. Mr. Mourya may I would request you to join the question queue for any followups as we have several participants waiting for their turn. Thank you. The next question is from the line of Jatin Dhamaniya from Kotak Securities. Please go ahead.

**Jatin Dhamaniya:** Sir as you have said in the presentation, a global demand supply is largely balanced, but if you look at the current shutdown that has been taken by various Chinese players in the month of March and April, which is expected that the study is likely to finish in the month of May and along with this there are couple of new capacities likely to come, for example, Janki is likely to come up with 3 lakh tonnes of new plant in the month of April I do not know whether it is announced or not. Second is likely to bring new one million tonne expansion in the month of June, so if all this capacity comes in place in current year do not we think that the soda ash prices or soda ash market will largely go to the oversupply situation?

**R.S. Jalan:** No, as I said our understanding is that on one side, there are a lot of plants on the outage and this outage will continue in the month of March, which was there in the month of April, it is there in the month of May also there is a plan, in the month of June also there is a plan this outside winning with a broader prospective view that overall the Chinese government is very seriously looking at reducing the emission and as you know this is the one industry where emission has a concern and because of that lot of plants have been asked to shift also and we know that the shifting a plant from x location to y location takes three years time. Now you know that there is a policy government of China has announced 26+ 2, 26 cities have been identified, which are highly infected from the environment. All the plants from those 26 cities are being asked to relocate and all these new expansion, which you are talking about are the new capacity, which is coming around, they have all been announced. As per our information they are all getting postponed, delayed or some of them are also even being delayed for a longer period of time. So my belief is 2018 probably I am clearly seeing a buoyancy into this business.

**Jatin Dhamaniya:** Tightness is likely to prevail in the overall global market?

**R.S. Jalan:** Yes.

**Jatin Dhamaniya:** Coming back to our business last quarter in the month of February, we had increased the soda ash prices by 2% to offset the impact of the rise in the raw material cost, but if you look at the number, the prices probably declined marginally if you look at them on the sequential basis?

**R.S. Jalan:** As I said in our business, inorganic chemical there is a mix of three teams, one is the CPD division which is a consumer product division, we are the trading division also there also we have done remarkable good job in the last quarter. However, there you will find that the prices per tonne will not be same as in the soda ash. I can give you approx material indication that in the last three, four quarters, the prices of soda ash had gone up if I can give you indication in FY2018 from Q1 to Q4, the price had gone up by around 5%.



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- Jatin Dhamaniya:** How are the things looking going forward in FY2019 and FY2020?
- R.S. Jalan:** Like the chemical business the points as I said the growth in the numbers of the volume growth will be in the range of around 4% and overall the margin, which we achieved in Q4 FY2018 I think we will be able to maintain that margin.
- Jatin Dhamaniya:** Basically on the overall number because since you have already operated 96% utilization in FY2018 and we are not seeing any significant volume growth in FY2019 probably it will be in the range of 2% to 3% what is the estimate of the revenue growth can one expect in FY2019 as compared to FY2018?
- R.S. Jalan:** Revenue growth will only come by the two ways either if you come by the volume growth or it will come by the realization per tonne. Since we are maintaining the same margin, so at this point of a time what I am saying is even if the prices remains at the same level if the raw material prices remains at the same level then probably the volume growth of 4% will lead to the turnover growth, but if I take a price increase of around 2% to 3% because if the raw material margin that is probably 6% to 7% kind of a growth in the volume
- Jatin Dhamaniya:** Revenue that we made in FY2018 on the consolidation, which includes organic as well as the textile segment approximately around Rs.2943 Crores so on that can we expect the company to grow at double digit or probably we will be lower than double digit?
- R.S. Jalan:** My understanding is that it should be around double digit.
- Jatin Dhamaniya:** How is the margin profile going to be because from FY2017 to FY2018 we have changed the substantial drop in margin appreciate that it is largely due to the textile segment, but how do we see in FY2019, FY2020?
- R.S. Jalan:** It will be better than FY2018.
- Jatin Dhamaniya:** It will be better than FY2018?
- R.S. Jalan:** Yes.
- Jatin Dhamaniya:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Sagar Shah from KSA Shares & Securities. Please go ahead.
- Sagar Shah:** Good evening Sir. I had just two, three questions. Actually the first question is regarding to the inorganic chemical segment. I just wanted to know that I was looking at your segmental revenue



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in spite of something like in the volume we have 5% volume growth your YOY in this quarter, but we are something like the realizations we have almost same or may be Rs.7 Crores decline it means Rs.510 Crores versus Rs.517 Crores so something like I wanted to know that the realization per tonne for the inorganic segment has gone down?

**R.S. Jalan:** No, if you look at our quarterly performance, you will see that because of this accounting regulation real excise duty was being seen as a part of cost and now the GST has come. Now the GST has to be reduced from the revenue itself, so this is a disparity because of this accounting, but if you look at a like-to-like comparison in inorganic chemical Q4 FY2017 our revenue was Rs.466 Crores and this quarter Q4 FY2018 our revenue is Rs.513 Crores. There is a growth of around 10% in the revenue of inorganic chemicals.

**Sagar Shah:** So that is the GST adjustment?

**R.S. Jalan:** Yes.

**Sagar Shah:** The second question in that segment was regarding to the sodium bicarbonate plant, which you had just doubled your capacity, so my question was regarding that are we using the sodium bicarbonate as a raw material to produce soda ash?

**R.S. Jalan:** It is other way around. We are using the soda ash to produce sodium bicarbonate and the benefit of that expansion of sodium bicarbonate from 30000 to 60000 tonnes will be in this year 2018-2019.

**Sagar Shah:** Now my question is regarding to the textile division. I wanted breakup of how much the revenue is from domestic and export actually, any ballpark figure or may be any figure you can something like throw on?

**R.S. Jalan:** We can give you offline this number, but the home textile is primarily on export business, some volume of the spinning we are selling to the domestic market.

**Sagar Shah:** Spinning in the domestic market?

**R.S. Jalan:** Roughly you can say 40% in the domestic volume or the domestic revenue and 60% is the export revenue.

**Sagar Shah:** So 40% is domestic?

**R.S. Jalan:** Yes.



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**Sagar Shah:** So in spite of that 40% domestic, can you explain Sir that in the last four quarters why are we witnessing EBIT loss actually in the textile segment basically, are we facing problems in the domestic economy also in spite of in the last quarter you have been saying about the problems that are there in the US market, we completely understand that, but about the domestic front are we facing the same problems?

**R.S. Jalan:** Two things. Last year, there was two impact onto the domestic market as well, one was the GST implementation at that time lot of disturbance was there and prior to that there was a demonetisation so definitely because of these two things had an impact into the domestic business as well, but now that has been subsided and this year that will definitely help us to improve our margins.

**Sagar Shah:** Are we expecting an EBIT profit in FY2019 in the textile segment?

**R.S. Jalan:** Yes.

**Sagar Shah:** The last question was regarding actually that there is completely something like because of such a good performance in the inorganic chemicals, but the performance in textile segment is actually subsidizing your company's performance actually, so something like why do not you demerge your company actually, something like from inorganic chemicals with textiles division, so that the shareholders can get the maximum benefit actually?

**R.S. Jalan:** This point we have discussed in the past calls as well and I have always maintained that at a right time this decision will be taken, but let me give you some numbers, last four, five years, barring the last year our revenue growth in the textiles used to be around 20% and even our EBITDA growth. If you look at the EBITDA growth if I can give you a number of textile in 16 years period from 2002 to 2018 16 years our EBITDA growth is 41% CAGR growth, but like I said in last two, three years there was an impact in this business, so we understand your concern and we will address this concern in appropriate time, but one year down performance does not lead to just taking some kind of a hasty decision.

**Sagar Shah:** Yes completely agree with you Sir, but actually it is almost like it is the vision is on you actually what kind of vision that you are envisaging for the company or as the textile segment actually, it is beneficial for both the promoters as well as the shareholders that was just my point here?

**R.S. Jalan:** We are there for creating a value for the shareholders and all the stakeholders. As a management that is our responsibility and if you look at last five years we have given a return of around 24% CAGR growth in the bottomline. Therefore, the future is also to maintain that and to take a right decision, but what I am only trying to say is do not take a hasty decision, change the decision at a right time, so that the values does not get destroyed, but I remember two years back people were very bullish on the textile business. The scenario changes like I remember three months back



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every advisor used to tell me dollar will become 62, 61, now everybody started giving a advice that the dollar will be 68. You understand what I am trying to say, any decision when you take, take flatly on a matured manner and take at a right time because that will create a value positive. That point of demerger of that is always in our mind and we will definitely take the decision at a right time.


**Sagar Shah:** Thank you Sir. That is all from my side.

**Moderator:** Thank you. The next question is from the line of Sneha Bahety from Kredent Capital. Please go ahead.

**Sneha Bahety:** As we know Indian textile companies are already market leaders in the US home textile market, so the fact that India is not having FTA with the European Union, which markets do you see incremental growth coming from?

**R.S. Jalan:** The moment this FTA comes there will be huge opportunity for the Indian producers into the Europe and that will be across Europe, UK, Germany, all those locations because 17% of the total volume of the Europe is being set by the India whereas more than 44% goes from other competitive country like Pakistan, so this shift will definitely happen towards India and everybody will get an advantage out of that.

**Sneha Bahety:** No Sir my question is the fact that we do not have an FTA right now, if we do not consider the FTA happening with the European Union, which other markets do you see incremental growth coming from?

**R.S. Jalan:** At this point of time I do not see really that is a very big growth happening to the Indian producers from the other market unless the product basket gets added to because the saturation is there in terms of Europe, the , Pakistan is much more competitive than India, Bangladesh is becoming more competitive in that market, I do not see any major growth into the incremental revenue from Europe without the FTA being addressed.

**Sneha Bahety:** Sir the fact that brick and mortar retail in the US market for example Target and J. C. Penney are going for slowdown right now, so what scope is there for us in the US?

**R.S. Jalan:** We have taken this online as a very aggressive business plan and we have hired a new team also for this dot-com business and definitely that is one of the focus areas for us in the US market.

**Sneha Bahety:** Right Sir.

**Moderator:** Thank you. The next question is from the line of Omkar Kshirsagar from Axis Bank. Please go ahead.



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- Omkar Kshirsagar:** Good evening Sir. My question is what is the capex plan already executed till now in terms of rupees and for soda ash and textile segment and going forward what are the capex plans in the next two years?
- R.S. Jalan:** This year we spent around Rs.280 Crores of which soda ash was approximately Rs.160 Crores and the remaining was towards textile. Next year we planned capex spend of approximately Rs.415 Crores of which 330 will be towards soda ash and the rest would be towards the textile segment and the year next again will be spending closer to Rs.250 to Rs.275 in soda ash and approximately Rs.75 Crores towards the textile.
- Omkar Kshirsagar:** Thank you Sir.
- R.S. Jalan:** This 2019-2020 I have not considered the greenfield numbers, which will be taking out separately, this is about the greenfield number for 2019-2020.
- Omkar Kshirsagar:** Okay.
- Moderator:** Thank you. The next question is from the line of Giriraj Daga from K M Visaria Family Trust. Please go ahead.
- Giriraj Daga:** Just wanted to understand last monthly run rate or quarterly run rate in terms of their export of soda ash from china?
- R.S. Jalan:** The export to India?
- Giriraj Daga:** No, global market?
- R.S. Jalan:** It is like I said two million used to be the number, now that number has gone down drastically and it will be closer to around 1.2, 1.3 million tonnes.
- Giriraj Daga:** Okay, there is a million tonne reduction in their broadly?
- R.S. Jalan:** Yes.
- Giriraj Daga:** My second question is related to your EBITDA per tonne in the chemical segment, so like this quarter it is like higher than last six quarters and do you believe that kind of EBITDA per tonne is sustainable going forward or was there any one-off in Q4 in terms of EBITDA per tonne?
- R.S. Jalan:** No my understanding this will continue, on quarter-to-quarter some difference can happen because of the seasonality, but overall year as a whole in 2018-2019...





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- Giriraj Daga:** So roughly we did about 7200 EBITDA per tonne in the fourth quarter compared to 6640 for the full year, so numbers can stay at about 7200 for FY2019 also?
- R.S. Jalan:** Yes.
- Giriraj Daga:** Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Thanks for taking my question. Sir we have envisaged capex for textiles in the range of FY2018 120 Crores next year about 80, 85 Crores for a couple of years, what is the kind of asset turnover are we looking at because if I look at last three, four years performance we have done close to about 1000 odd Crores barring FY2017 where we had done close to about Rs.1250 Crores, so the incremental capex, what is the kind of asset turnover we are looking at?
- R.S. Jalan:** You are talking about this chemical business?
- Rohit Nagraj:** Textile business.
- R.S. Jalan:** In the textile the asset turnover should be in the range of if I look at all including the working capital it should be around 1:1, if I look at the complete integration of textile business it will be 1:1, but today we are around molecular with the turnover and the capital deployment is also in the same range.
- Rohit Nagraj:** So effectively it means that if we are spending close to about Rs.80, Rs.90 Crores we are looking at similar kind of revenues in the subsequent year, would that be right?
- R.S. Jalan:** Yes.
- Rohit Nagraj:** And Sir you said that for the greenfield expansion we will be able to generate close to about 1000, 1200 Crores of capex, this will be post FY2020 because for the next two years we have already provided the capex plan of close to about 400 and another 350 Crores?
- R.S. Jalan:** Yes basically as we mentioned the maximum spend towards the greenfield will happen towards the last two years, so we believe that post 2019-2020 the major spend will happen, for which we will have a sufficient internal resources, which we have mentioned, probably generate closer to 500 Crores cash profit every year, so the larger spend of that will happen towards the last two years.



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- Rohit Nagraj:** One just last question if I can squeeze in, the brownfield expansion that we talked about like 125000 tonnes per year for the next two years, so effect of that will be envisaged in FY2020 and 2021 wherein another 125000 tonnes can be added in terms of volume growth, am I right in that assumption?
- R.S. Jalan:** Yes because one expansion will be over by March 2019 the benefit of that will be there in 2019-2020, another one in 2020 the benefit will be there in 2021.
- Rohit Nagraj:** Thank you Sir. Best of luck Sir.
- Moderator:** Thank you. The next question is from the line of Amar Mourya from Emkay Global. Please go ahead.
- Amar Mourya:** Few last ones if I can, so in this particular quarter I think you had answered that, just a minute, debt equity ratio, so Sir I just wanted to understand like if I see the breakup of the current margin all this benefit has come because of a price hike which we had took in this particular year for the soda ash business?
- R.S. Jalan:** Not really, one is the price hike and another is efficiency as well, both.
- Amar Mourya:** Okay, efficiency as well, so is there some breakup we have like how much percentage of the price hike has actually flown to the EBITDA margin and how much it is primarily because of the operational efficiency?
- R.S. Jalan:** Very difficult to give the exact number, but basically very difficult to give this number separately because both has an interlinking effect.
- Amar Mourya:** Any figure like 5%, the whole year 5% price hike, so that we can understand that what is sustainable and let us say if the price declines what can shave off from the margin?
- R.S. Jalan:** We need to work out this and let you know.
- Amar Mourya:** Got that Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of C. Shreehari from PCS Securities. Please go ahead.
- C. Shreehari:** Thanks for the opportunity. Firstly if you can divulge any numbers for the consumer product division and what is the outlook for the same and if you can provide some kind of guidance for Rekoop and thirdly for the Greenfield project that you have I mean have you thought about some other products apart from soda ash?



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**R.S. Jalan:** In terms of the consumer products division this year we have a very aggressive plan on the topline. We are almost talking about the doubling our topline, which are consumer products. We have launched spices in that portfolio and we are going to expand this spices portfolio.

**C. Shreehari:** What would be the base for FY2018?

**R.S. Jalan:** It will be from Rs.60 Crores approximately around Rs.100 Crores kind of number. We feel that may be from Rs.50 Crores and Rs.90 Crores that kind of a target we have and in terms of Rekoop, Rekoop we are launched in the market in US. Initially, we have got a very good response from many of the retailers. As you know that in the US market the decisions of replacing one program into retails it takes sometime. So we have taken some target for the last six months of the year; however, the original benefits of this could be visible in next year as the big growth into this number if this become successful this can have a big growth in 2019-2020.

**C. Shreehari:** And how does it look margin wise?

**R.S. Jalan:** Obviously the margin will be better because the moment you make branding of any business, I do not know whether you people have seen of branding video and I would send the link, is that gone to all of you, you will see the video, you will realize that the potential of this business because of this millennium customers accepting operates in the environment friendly contributions from their side. This has advantage of environment friendly switch.

**C. Shreehari:** I was also talking about on the raw material side I mean since you have recycles PET bottle how will that aid in margin expansion?

**R.S. Jalan:** Raw materials recycled, Reliance is our partner in that and recycled poliester is not cheaper than virgin fibers. It is only current in fact in the environment where based on our survey the consumer in the US are willing to pay extra dollars to contribute to other environment overall that should give us better margin as compared to the other commodities products.

**C. Shreehari:** So for fiscal 2019 at least can you give some kind of guidance if not in absolute more at least volume?

**R.S. Jalan:** See volumes would be good, but it is difficult to as it point of time to talk about next years, volume growth, but our expectations are at best very big number into this product. If this being cashed by any being retailer, which is what we have working on.

**C. Shreehari:** It could be around Rs.100 Crores?

**R.S. Jalan:** It should be, but let us see how this numbers stand out. It all depends on which retailers fix up this product.



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- C. Shreehari:** Okay final one on Greenfield I mean?
- R.S. Jalan:** Greenfield your point is valid and in our plan we are not looking at only soda ash the products into that location. We are looking at two things into that in addition to the soda ash some other associated chemical into that along with that we are also looking at least for next 20-30 years of a Brownfield expansion opportunity remains with us. If that keeps on building the benefit, which we have, been seeing the benefit into the current location for a longer term prospective into that field.
- C. Shreehari:** Even it can become one billion tonne facility down the line?
- R.S. Jalan:** Million tonne.
- C. Shreehari:** Okay.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Sir just a small clarification so for the next year margin expectation in the soda ash you mentioned that Q4 margins will be sustained for the full year note FY2018 margins right?
- R.S. Jalan:** No I said FY2018 margin.
- Dikshit Mittal:** Okay so FY2018 margins were around Rs.6640 per tonne so that kind of margin would prevail?
- R.S. Jalan:** I am saying some sort of percentage if you look at our percentage of EBITDA margin we should be in the same range.
- Dikshit Mittal:** So 32% that you close?
- R.S. Jalan:** I think so.
- Dikshit Mittal:** Sir secondly in the textile, you mentioned Rs.80 Crores capex so there will it be spent is it in spinning or home textiles?
- R.S. Jalan:** It is spinning, primarily in the spinning.
- Dikshit Mittal:** Okay and Sir lastly this improvement that we have seen in home textile in this quarter is it domestic or home textile?
- R.S. Jalan:** It is mixed.



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- Dikshit Mittal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Coming to the point about rewarding the shareholder, which you were telling that last year we distributed around 114 including the buyback and the dividend part. This year we are coming up, we have already announced the dividend of around Rs.59 Crores, Rs.60 Crores so this year the amount would be lower or we are planning to reward the shareholders in the equivalent amount as they have been for the last year?
- Raman Chopra:** See that decision has been taken for the board but definitely we are going to recommend to the board and let us see how the decision is being taken by the board.
- Saket Kapoor:** Right Sir and just carve out what benefits have you derived and whatever buyback decision was taken, how do you feel that this benefit we can think about it and this has happened, if the benefit has not happened now, what are you expecting from this number, meaning a 2%-3% dilution happened and then we are going within ESOP issue of 2% to 3% again, so equity will go back to what its original level was so what is the message you are trying to give us?
- Raman Chopra:** See we are trying to give message for the different stakeholders. One the people who perform they need to be rewarded and their rewards should be linked with that final reward to the stakeholders and therefore ESOP helps us to achieve that objective of rewarding the stakeholders, but ultimately the organization and the management who work who created value to the shareholders, also to linked with that reward so that if shareholder rewards are there, they are also shareholders and they will also be similar reward. So that is ESOP part of. Now coming back to the buyback see our belief is that in this business there is a substantial value and probably to create a value for the stakeholders we need to look at the buyback, which as per my understanding any successful company, which we have noticed globally there have given handsome reward to get the shareholders when they are continued to with us buyback so probably my understanding is subject to board approval we do that; however, the second is the cause of equity. As you know overall the cost of equity is high as compared to the debt. So that also helps us in terms of creating value for our shareholders.
- Saket Kapoor:** Sir currently what is the cost per tonne to put the Greenfield project just to evaluate what is the current intrinsic value for our company?
- R.S. Jalan:** If you look at 1.1 million tonne, if you want to set up the similar kind of facility today it will be something around Rs.7000 Crores.



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- R.S. Jalan:** If we take sodium bicarbonate and all. All things put together we can say something around Rs.7000 Crores approximately.
- Saket Kapoor:** Okay and just that the one, which you are coming up with, will cost Rs.55000 to Rs.60000 per tonne for the Greenfield projects, which we are envisaging?
- R.S. Jalan:** Around Rs.60000 per tonne.
- Saket Kapoor:** Rs.60000 per tonne?
- R.S. Jalan:** Rs.60000 per tonne multiplied by Rs.11 lakh, it comes to Rs.6600 then in addition we had associated in the midnight months, everything put together, 70000.
- Saket Kapoor:** Just to conclude as the people were talking about the demerger part so we are seen this cycle from home textile segment though home sector, just started to pickup, it peaked out somewhat in FY2017 and now we saw what figure are you waiting so that this figure if it is there, we can consider the buyback, just wanted to understand you told you are waiting for the right time. We saw the credit, what will preserve if so ever for the demerger to be a reality in the near future?
- R.S. Jalan:** As for my understanding only one thing that whenever you do this thing if you do not find any opportunity in the long-term perspective, can you do number one? Number two do it in a position where the business can standalone otherwise you will be to strand the value of the shareholders ultimately shareholder values are being there in that business as well. So both these things are important.
- Moderator:** Thank you. The next question is from the line of Nitin Shah as Individual Investor. Please go ahead.
- Nitin Shah:** Sir continuing on the question of the previous investor, you said that we have had around 40% CAGR per EBIT over the last 16 years, but if I look at the data of last four years our capital employed has gone up from Rs.1000 Crores to Rs.1500 Crores in the textile business so on the absolute term it may look like the EBITDA is going up or PBIT is going up but in terms of percentage the maximum percentage that we have received in terms of ROCE for textile business in last four years is 10.72 that was last year so that by any parameter does not look very attractive from the perspective of good business why are we putting in more and more even the business is not generating in enough returns?
- R.S. Jalan:** First let me I say that your concerned is very valid, but let us see give me slightly a different perspective and probably you will appreciate that. In our chemical business, the cycle of investment is very large. The turnover capital ratio is very unfavorable like we want to grow into Greenfield project it is going to take five to six years. Now based on my understanding of last 15



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years into textile business, if I exclude the bad part of the period, which has happened last year. Approximately my return and for a minute if I take the spinning business my return on the return on capital employed is in the range of around 13% and your cost of capital is across 9% even if I take a debt equity ratio of 1:1, we are talking about roughly around 15%-16% of the return on equity. Now for any standard 15%, 16% of the equity returns of any business, which can be gradually increased. We do not have such a large capital into it, you can gradually put Rs.70 Crores, you can put Rs.80 Crores you can put depending upon the resources, you can put and you can grow. My understanding is not bad business per se; however, like I said the moment you include these two years, which is a headwind of this business, you always see this business as you negative business. Having said all these things rest assured on one thing, we are very clear that we will be in the business to make money and reasonable money. If we are not in that reasonable money we are not making, we will restrain ourselves like you have seen this year, we are talking of a very small investment into the textile business and that to only in the spinning business. We are not making a capital into my home, textile business at this point of time. We will be prudent on our investment.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you!

**R S Jalan:** I would like to thank everyone who has participated and asked the questions because your questions always helps us to introspect our thought process, give us guidance and also me and my team on always on toes to create the value for my stakeholders. We at the management are committed to contribute to this value creation, which we have been doing for the last four years and we will continue to have this value creation going forward. We will do everything on the corporate governance, on sustainability, lot of even new initiatives we are taking, which will always give us a sustainable growth into this business. Thank you for participating.

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