"GHCL Limited
Q1 FY2020 Results Conference Call

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Moderator: Ladies and gentlemen good day and welcome to the Q1 FY2020 Results Call of GHCL hosted by Emkay Global Financial Services. We have with us today, Mr. R.S. Jalan, MD and Mr. Raman Chopra, CFO and Executive Director, Finance. As the 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, 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. Rohit Sinha of Emkay Global. Thank you and over to you Sir!

Rohit Sinha: Thank you. Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to the management for their opening remarks. Over to you gentlemen's!

R.S. Jalan: Thank you very much. A very warm welcome to all of you on our today's earning call for Q1 FY2020. I am joined by Raman, our CFO, along with Sunil and Abhishek from Finance Team.

We are glad to announce that we have yet again achieved a healthy growth in our performance with 68% growth in the PAT in Q1 FY2020 over corresponding quarter last year.

However, near to the conclusion of Q1, with sign of global economic slowdown and environment of volatility has erupted. The impact is quite visible in India also in most of the businesses.

Global product market is indicating demand slowdown with price softening. Import to India is also on a rising trend. As indicated in our last call also domestic production is also expected to be higher this year which can lead to a softer oversupply situation. GHCL on its part has achieved full volume benefit of Brownfield expansion and we expect to maintain our Q1 FY2019 margins due to higher volume and operational efficiencies.

The impact of slowdown is also visible in textile segment as well. Trade war between US and China is severely impacting the spinning industry. Yarn export to China had touched to its lowest level. Even at the domestic front there is a weak yarn demand resulting in a situation of oversupply and subdued yarn pricing. Whereas International Cotton Prices had shown downward trend; however, domestic prices are still holding firm.

In the home textile exports, there has been a sluggish demand. GHCL has however, performed better due to the focus on customer realignment and operational excellence. Whereas our REKOOP range is expected to be on retail sales beginning of the next calendar year. We also are aggressively pitching our Circularity and Meditasirange that is expected to gain us volume in the coming years.

With the vision to create a sustainable organization and philosophy of inclusive growth of all our stakeholders, we have initiated our journey towards zero harm in health safety and environment; we are also expanding our community outreach with programs made around agriculture, animal husbandry, rural healthcare, education and vocational training.

Now I would like to invite Raman to take you through the quarterly financial performance. Thank you.

Raman Chopra: A very good evening to all of you and welcome to our Q1 FY2020 earning call. With Mr. Jalan's business overview, I will now take you through the financial performance of the quarter.

Revenue for the quarter is 879 Crores as compared to 757 Crores of Q1 FY2019 registering a growth of 16%. EBITDA has increased by 46% from 152 Crores in Q1 of last year to 222 Crores in Q1 of this year. Our EBITDA margin has improved to 25.2% during the quarter as compared to 20.1% in Q1 FY2019. The profit after tax increased by 68% that is 103 Crores during the quarter as compared to 62 Crores of Q1 FY2019. EPS for the quarter is 10.55 per share.

Whereas our chemical division has continued to outperform, our textile division has also delivered commendable performance during the quarter looking at the weak industry scenario. In chemicals, we have recorded a net soda ash production of 2.49 lakhs tons during the quarter as compared to 2.09 lakh tons in Q1 FY2019. The volume increase is due to full benefit of our Brownfield expansion completed last year and shutdown in the corresponding previous quarter which was not there in the case in this quarter. Consequently the sale volume has increased by 13% to 2.46 lakh tons as compared to 2.16 lakh tons of Q1 FY2019.

Revenue from this segment has increased from Rs.491 Crores in Q1 FY2019 to Rs.588 Crores during the quarter registering a growth of 20%. Increased revenue is mainly attributable to higher sales volume and realization impact. EBITDA for the quarter in soda ash has increased by 40% to Rs.188 Crores as compared to Rs.135 Crores in Q1 of last year. EBITDA margin for the segment excluding trading business improved to 36% as compared to 31% in Q1 of last year. This has been made possible due to higher volumes and improved realization and better and cost efficiencies.

Textile business despite challenging environment we have been able to maintain a growth in topline as well as bottomline. Revenue has grown by 10% during the quarter to Rs.292 Crores as compared to Rs.265 Crores. EBITDA for the quarter has increased by 91% to Rs.34 Crores as compared to Rs.18 Crores in Q1 of FY2019. EBITDA margin for the quarter stood at 11.6% as compared to 6.7% of the corresponding quarter last year.

Our total debt stood at Rs.1281 Crores as compared to Rs.1292 Crores in March 2019 with a debt equity ratio of 0.64. The ROCE for the quarter is 20%.

The house is now open for discussion. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

Ashish Kacholia: Good afternoon to team GHCL and congratulations on a very good set of numbers. My question is basically with respect to the indication that you have given that there is a slowdown in global demand for soda ash and there will be some pricing pressures? Can you quantify what kind of pricing pressures you are seeing versus Q1 average realization?

R.S. Jalan: In terms of the Q2 we are expecting approximately around 2% drop in the selling pricing and may be a quarter later probably another 2% so broadly we are talking about approximately around 2% plus 2%. However I just want to clarify one more point here that on the other side the raw material prices are also on the lower side, and our understanding is that probably we will be in a position to secure our margins, because of higher volume of production as well as the advantage of internal efficiencies we have building, along with the softer raw material prices

I think we will be able to maintain our margin at the same level of last year what we have achieved.

Ashish Kacholia: How are you seeing the EBITDA margins shape up for the textile business for the full year versus what you have done? You have already done a fairly good number of 11% to 12% for the first quarter? How are you seeing that for the full year?

R.S. Jalan: Basically if you look at the Q2 probably will be slightly more challenging, which is July to September and after that we are seeing again a kind of a recovery in the whole process and we approximately see this year we will get the same kind of 11% kind of a margin in the textile business, and just to clarify you must have read in the newspaper also, the spinning industry is passing through a difficulties at this point of a time. Our understanding is that when the new crop comes in the month of October, after that the margin expansion will again take place into the spinning business. Along with that home textile is reasonably doing better.

Ashish kacholia: There was a big problem in the home textile business where many of the players wherein financial difficulty the large retailers in the US and lot of the business were shifting online where were not able to get good margins. Could you care to comment on the EBITDA margins or the gross contribution that we are able to see from those businesses with online players versus doing business with the traditional retailers?

RS Jalan If I can answer this question slightly differently in terms our business model because of this repositioning ourselves on the branding like I said in my call also about the REKOOP, which we have launched, which is now seeing a kind of a placement to one of the very prestigious retailers in UK. Our understanding is that this margin expansion in the home textile will see going forward. Spinning again we are looking at the kind of an expansion and the margins beyond second quarter, mean October onwards, so we will be able to position ourselves again for this number, which I have just said we will be in a position to say that. Regarding your question on the dotcom versus this because the marketing cost in the dotcom it is also on the higher side. I would not say that the dotcom margins are significantly better as compared to the supplying when you supplying to the retailers.

Ashish Kacholia: The margins are similar doing the traditional versus online players for us after all costs?

R.S. Jalan: We, as a vendor probably yes. The margins should be in the same range. The only challenge Ashish ji on this is that in the dotcom business there are small players they can place their products without having too much of infrastructure, so the competiton in the dotcom will be higher as compared to supplying to the organized retailer or the physical stores.

Ashish Kacholia: But the point is that under whose brand name does it sell here? Does it sell under our brand name or does it sell under Amazon brand name or does it sell under some third party brand?

R.S. Jalan: So far as we are concerned we are selling in our brand name.

Ashish Kacholia: Online it sells in our own then it will be sold under the Rekoop brand?

R.S. Jalan : It is not Rekoop. Rekoop is one brand along with that also we have launched another brand onto the dotcom. They are all our brands.

Ashish Kacholia: What will be the volume growth in soda ash business for next year and next two years to come after that?.

R. S. Jalan: Yes approximately around 10% volume growth.

Ashish Kacholia: And another 10% growth next year FY2021?

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Raman Chopra: 5% next to next year and then another 5%,

R. S. Jalan: Another 4% to 5% year after that.

Ashish Kacholia: In FY2022, so 10%, 5%, 5% is what you are saying?

R. S. Jalan: Yes.

Ashish Kacholia: Volume growth?

R. S. Jalan: Yes.

Ashish Kacholia: When do we hope to have our first production from the new Greenfield that we have been talking about, can you give us on that?

Raman Chopra: Yes FY2022 to FY2023probably.

Ashish Kacholia: Great Sir. Thank you so much. All the very best.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity. Please go ahead.

Madhav Marda: Good evening. I just joined the call. My question might be repetitive. Just wanted to understand your outlook on the soda ash margins? In the presentation you have highlighted that it could be a bit challenging because of slowdown in demand and capacity is still coming through so just the outlook on the margin for the coming year?

R. S. Jalan: Our margin is that we will be able to achieve the same margin what we have achieved last year, year as a whole and on one side though we will have what you call prices are being getting softened; however, on the other side because of our higher volume and as well as our advantage of the internal efficiency as well as the raw material prices being softened we will be able to maintain the similar margin that we have achieved last year.

Madhav Marda: So the EBITDA per ton should broadly be similar to what we achieve in FY2019 and FY2020?

R. S. Jalan: I think so.

Madhav Marda: How much of a price correction have we seen in our key markets for our products?

R. S. Jalan: At the end of July we have taken a price correction of approximately around 2% and we see a further 2% drop may be in Q3.

Madhav Marda: This is mainly on the auto side is it? The auto glass is what is facing the demand growth pressure?

R. S. Jalan: There are two reasons. On one side the automobile industry is not doing good and on the other side even the detergent side also some softness we are watching at this point of time and the third is slightly the oversupply situation because the new volume has come in to the supply. This is both put together.

Madhav Marda: Sir what is the new capacities, which are expected to come in FY2020 and FY2021 globally in this soda ash space?

R. S. Jalan: Globally, we do not see too much of regional capacity coming in the global arena because all these Turkey plant, which have already came last year may be some volume growth will happen because of their better efficiency or better utilization, but otherwise we are not seeing any major new capacity coming in future.

Madhav Marda: So the new supply is basically the China capacity, which has restarted it that is the one?

R. S. Jalan: Yes little bit of China and slightly Turkey also, but on the other side we have got advantage also because Pakistan used to come approximately around 50000 tons of the volume, which at this point of time has been stopped because of the duty differences because the government had put 200% duty on the Pakistan product so there will be advantage of 50000 tons not coming from Pakistan. On the other side Turkey as well as China some volume will be coming; however, in the domestic supplies because we know that RSPL the plant, which has been commissioned last year there will be approximately around 200000 tons of volume coming in from RSPL. Along with that we have also expanded last year so that 100000 tons of extra volume will be coming, so that put together is around 3 lakh ton to 3.5 lakh ton of the volume will be coming.

Madhav Marda: Got it and on the textile business margins have improved. Any outlook for the coming year for the remaining three quarters what is the expectation?

R. S. Jalan: We believe that this year overall our EBITDA will be better than last year. It should be significantly better than last year; however, second quarter July to September there could because the spinning as you must have noticed in all the spinning businesses because of China export of yarn to the China has been slowdown probably that will have an impact on the second quarter, but overall the year as a whole we do not see any major drop in the overall. Absolute EBITDA will be better than last year.

Madhav Marda: Thank you Sir.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Thank you Sir. Good evening to all. Firstly, I would like to refer to page number five of the presentation wherein you have mentioned and you have already explained, but more light on it global economic slowdown is impacting soda ash, lower demand growth and increased supplies are putting pressure on pricing, so Sir on this front do you think a larger amount of import and export is going to hit this year meaning that gap is going to be more skewed towards the import that is going to dampen the industry more?

R. S. Jalan: Like Saket Ji just now I had mentioned that what our understanding at this point of a time is some oversupply situation because of the domestic production being on the higher side and slightly improvement into the import there will be some pressure on the pricing, but I have also given an indication what kind of a drop in the realization we are visualizing. Taking that into account and because of the benefit of other benefits we are giving guidance that we will be able to maintain our margin as we have achieved last year.

Saket Kapoor: For the utilization levels Sir considering what the environment today is will it be feasible for us to maintain those 95 levels, which we maintained last year or it will be a tough task?

R. S. Jalan: We have to achieve it. No question on that. We will achieve it.

Saket Kapoor: Sir on the raw material basket front if you could give some color what kind of reductions are we expecting and if you give the breakup also in some sense, which is the major constituent, which will aid to our margins in spite of prices of finished goods falling?

R. S. Jalan: Mainly coal prices, coal and energy prices have softened and because of that you will have an advantage. The major cost was and that is the major advantage we are talking about.

Saket Kapoor: Sir how will explain for this quarter the dip in margin vis-à-vis the last quarter of last financial year that 26.5% going down to 25.2% what factors have contributed to it?

R. S. Jalan: That is purely seasonality nothing else. If you look at the quarters of the last many years you will find that the last quarter of any financial year is always best as compared to the other quarters so this difference what you are seeing is only because of seasonality in soda ash, nothing else no other reason. In a way I would say this is a significant improvement that we have been able to able to maintain the same production, which normally that did not happen. Production of first quarter is always lower to as compared to the last quarter, but this time we have been able to maintain the same volume.

Saket Kapoor: But for the Q2 there will be a dent in the production as well as the sales that is what you are guiding us?

R. S. Jalan: I have not said that. I said that overall if you look we will be able to maintain the margin and I think second quarter in terms of the inorganic chemicals we will be better as compared to the same quarter last year.

Saket Kapoor: Last point and I will come back. Sir our budget has put a cap on buyback of shares from corporate making them costly by 20%, introduction of 20% tax, so I think this arsenal is now lost for many corporate of rewarding shareholders, so your thought process on the same and how best can now you will be able to reward your shareholder and whether this is pointing as towards increasing the dividend distribution rate for us going forward? Will you think over it again?

R. S. Jalan: We have a stated policy on the dividend and we will maintain that policy at this point of a time. Of course the board is the final authority on that, but at this point of a time as management our thought is that we have a stated policy and we would like to maintain that policy of course the buyback has become costly, but it does not meant that buyback is not option.

Saket Kapoor: But paying 20% this was earlier not the case anyway, there can be a thought process. Lastly on the home textiles side what I missed earlier, home textile you are projecting a better year in terms of the EBITDA, which we posted for the last fiscal?

R. S. Jalan: Yes.

Saket Kapoor: That thought process is correct. Thank you Sir.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Congratulations on your results. I wanted to just get a few clarifications so that I understand correctly. What you guys are saying is there could be a slight impact in pricing on soda ash to the extent of about 2% this quarter, may be another 2% in the next quarter, which could get offset up to an extent with lower RM prices as well and therefore we expect to maintain the EBITDA margin of FY2019 on a slightly higher revenue base because of increased capacity so therefore absolute EBITDA would be slightly higher in FY2020 compared to FY2019 is that a fair understanding?

R. S. Jalan: Yes Mr. Gandhi you are 100% right and I can only say that the absolute EBITDA will be significantly as compared to the last year and significantly higher because of like I said volume growth. The EBITDA margin remains the same percentage. If the EBITDA remains the same percentage and if the volume goes up automatically it means the absolute EBITDA will be significantly higher as compared to last year. Even in soda ash as well as in textiles. Like I said in textiles, the absolute EBITDA we are talking about better than last year, so overall in spite of the challenge of the slowdown we still believe that our performance this year will be significantly better as compared to last year.

Riddhesh Gandhi: Got it and the slowdown impact goes away after say three to six months where you know across the board we are seeing impact on FMCG, autos, which obviously will then impact us on the soda ash side? In terms of if the recovery happens we would anticipate a potential revision upwards of prices or do we expect that not to happen in the near term because of the incremental supply that has also come on stream?

R. S. Jalan: Two things first I want to give the past what we have done. Last year there was a price increase of around 9%. Though there was no cost increase the selling price had gone up by around 9%. Probably a kind of like I said 4% drop this year will be seen. However, next year probably again this kind of a revision will be possible because the oversupply situation we believe that will settle down this year, so next year probably you can see a kind of a better pricing.

Riddhesh Gandhi: That is all from me. Thank you so much. All the best.

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

Jatin Damania: Sir just wanted to know the global scenario there was a slowdown can you help us in understanding how much prices have declined globally and at what rate import is in coming into the domestic market?

R. S. Jalan: Of course all these numbers are depending on the country specific, the numbers, are different, but in general you can say approximately around it has gone down by around $15 as compared to last number 270 to 255 that is the number.

Jatin Damania: Sir what rate import is coming into India and if you quantify the quantum of the import that is coming?

R. S. Jalan: As I just said that is price, which I am talking about 270 to 255 is the import to India slight trend.

Jatin Damania: In terms of quantity?

R. S. Jalan: Quantity is the same number probably like if you look at our numbers you will find that approximately it will be 25% and Indian demands are being met by the imports and that number will continue.

Jatin Damania: Sir this incremental supplies that is coming into global market is basically coming only from China or because in the past couple of calls you have been highlighting that the Turkey capacity, which was coming on stream, the contract has also been signed and the entire supply has been absorbed so just wanted to understand how is the demand supply globally?

R. S. Jalan: Demand and supply situation as I said slightly on the over side because of China. Last year if you remember China was having lot of shutdowns, so because of that some surplus is being seen in Chinese prices. Other than Chinese bulky little bit last year whatever the volumes they had because of the better now utilization they may have some advantage of the higher volumes in Turkey, so capacity remains the same. However the advantage to India is on side Pakistan has stopped. No material is coming from Pakistan. On the other side also some supply challenges we are seeing in Romania. Overall our understanding is the similar percentage of 25% of the demand of the soda ash will be continued to be met by the imports.

Jatin Damania: Sir my last question is on the textile and I will come back in the queue. As you have seen this quarter we have seen a significant improvement sequentially as it is year-on-year in the textile segment, but now since we are saying that Q2 being a weak quarter do we expect that on the operating performance we will be reporting a loss from a 34 Crores of EBITDA that we have reported?

R. S. Jalan: No, I do not think. We have never said that the EBITDA will be a loss.

Jatin Damania: Probably but we will do an 11% margin that was you are guiding earlier for the full year that is true right?

R. S. Jalan: Overall as a year as a whole we are talking about that.

Jatin Damania: Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

Yogansh Jeswani: Sir in terms of prices like the fall that you are mentioning about 2% is it in line with the global trend because few months back we saw a report wherein we saw Chinese prices correcting to about 10% to 15% odd so is it in line, the fall that we are seeing in domestic market is it in line with the global market or is there some difference due to some antidumping duty that there is a lesser fall in domestic market compared to the global market? Can you just throw some light?

R. S. Jalan: There is no antidumping duty so that this point of time. Nowhere we have an antidumping duty, so that is one. Second this global pricing and more particular if you talk per the Chinese pricing they are quite fluctuating. I remember that six months back their prices were very high, which our prices were cheaper as compared to that and that is only for a short period of time and similarly this price softening, which his happening. Also we are seeing it is more for a shorter period of time. In the longer term if you are looking at the answer on the longer term like I said very stable margin. I have given in the past call also many a time that, 15 years of data source the soda ash prices have not fallen. In the last 15 years only twice and that is why because in one year there was as significant increase in the soda ash prices and subsequently the second year there was some drop in the prices, so 15 years data shows that there was not such a big dip on the soda ash prices.

Yogansh Jeswani: Right so just a follow-up on that so the current prices that we are seeing are they in line with the historical averages or are they above those historical averages or are they below the current prices?

R. S. Jalan: Yes historically. If you look at the margins they are historically average.

Moderator: Thank you. Mr. Jeswani may we request you to join the question queue for any followups. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Good evening Sir. Sir my question is on textile segment, so do this quarter's margin also include the benefit of ROSCTL that the government had given to the industry?

R. S. Jalan: Obviously whatever the benefits that the government has given that has been accounted for. On the other side if you look the dollar, which was 72, which had come to now 68.5 all those dollar disparity or the export benefit given by the government everything has been accounted for these numbers.

Dikshit Mittal: So currently Sir what are the incentives that we are booking in? We are in booking in 6% of this new incentive right?

R. S. Jalan: Whatever the incentives are there, all has been accounted for.

Dikshit Mittal: Any possibility that some of it may be taken away in the next one or two quarters?

R. S. Jalan: Everything is possible. It is a government policy. We do not know what the government will be doing.

Dikshit Mittal: Sir secondly you mentioned that there has been a sharp fall in the energy cost right? I think there is 15% to 16% dip in the coal cost during the last I think one quarter, so I am right on this?

R. S. Jalan: Yes.

Dikshit Mittal: Energy is around 40% of our input right?

R. S. Jalan: Right.

Dikshit Mittal: So to that extent we can see 5% to 6% cushion from the margin point of view in terms of our full year estimates?

R. S. Jalan: That is what I said that 4% drop in the price and 6% benefit in the energy price all put together margins are the same.

Dikshit Mittal: Sir will be there any debt reduction for the full year this year? Q1 we have retired around Rs.10 Crores to Rs.11 Crores so for the full year how much debt reduction can we expect?

R. S. Jalan: Our target is around Rs.100 Crores roughly because this year we are not looking at the very major capex so probably the debt reduction will be more than Rs.100 Crores.

Dikshit Mittal: Because even in spite of Rs.350 Crores of capex we are looking at around Rs.100 Crores debt reduction this year?

R. S. Jalan: Yes.

Dikshit Mittal: Thank you.

Moderator: Thank you. The next question is from the line of Srivatsa Venkatachalam from UTI Mutual Fund. Please go ahead.

Srivatsa V: Good evening Sir. Actually I had a slightly longer term question because we have always been talking about the demerger of textile. I just want to know what would be the trigger point for that in terms of what kind of scale you would be looking to kind of demerge so that shareholders get the preference of choosing the business that they want to choose?

R. S. Jalan: In terms of the timing, it will be very difficult for me to commit to any timing, but like I said in the past also that issue is already on our radar and probably at the right time definitely we will do it. In terms of the right time as you rightly said once the size of the business, stability of the textile business as well as some trigger point and we are working on some things and probably at the right time we will let you know this split.

Srivatsa V: Secondly Sir on the spinning side we have been hearing very distressed news from a lot of the standalone spinning companies and the current situation may also continue in the next two to three quarters and we are also hearing of lot of mills even closing down or scaling up so would you use this opportunity to do some acquisition, if you are able to get at the right price or you would still remain focused only on the soda ash business as far as the capital allocation is concerned?

R. S. Jalan: At this point of the time capital allocation to soda ash as well as debt reduction and marginal investment into the spinning will be our policy.

Srivatsa V: So we would not be looking at any M&A even if you get a very attractive proposition on the spinning side?

R. S. Jalan: At least at this point of time no.

Srivatsa V: Sir lastly on the demand side we are also saying I do not know what will be the linkages on the soda ash to the automotive demand, but some of the glass can go, so do you see any kind of downward revision in the Indian demand because of the pressure on the automotive sales that we are seeing where everybody is projecting a 5% to 10% decline in the current year? Is there any kind of correlation between that and the final soda ash demand Sir?

R. S. Jalan: Definitely, there is a correlation between the glass demand versus the soda ash consumption, but on the one that you rightly side on the automobile there is a drop in the demand whereas if you look at the bottle glass they are doing good because of this environmental concerns now the plastic usage are being restricted, so lot of bottle glass business are doing good and there also the soda ash consumption is there, so keeping that into mind our personal understanding is that the demand growth in the soda ash in the range of around 5% will continue to happen.

Srivatsa V: On the supply side, which is expected this year by one big player the fourth player how far has it been absorbed Sir and do you feel that this year it will be fully absorbed or you are seeing any kind of irrational behavior by the participants to offload more supply to the market because he has put a huge capacity?

R. S. Jalan: No, not a huge capacity. Like I said this year our estimation is that the fourth player will be in the range of around 200000 tons of extra production and 200000 tons of that production along with others expansion so roughly slightly of the supply situation is there, but our belief is that next year it will get balanced.

Srivatsa V: But we are not seeing any signs of irrational behavior in terms of reducing the price to get volume and all that?

R. S. Jalan: They have volume because they have an internal consumption. Whatever the volume they will be producing they will be continuing internally so there is no type a product to offer to the market.

Srivatsa V: The interesting players because effectively if he is not buying it from the three other players other players would have to sell it in the open market, so we are not seeing any kind of irrational behavior because of the slight oversupply?

R. S. Jalan: No, we do not see that.

Srivatsa V: Sir I will just request you to kind of reconsider or consider buyback even though there is a tax because of the current valuations that we are quoting in. I feel at some point it may make sense just to do a buyback. It will improve our return ratios and as well as keep the price less volatile?

R. S. Jalan: We take your point. Definitely we will consider this.

Srivatsa V: Thank you.

Moderator: Thank you. The next question is from the line of Rajeev Agarwal from DoorDarshi Advisors. Please go ahead.

Rajeev Agarwal: Actually my question is a continuation of the previous questioner, so I thought RSPL supply 200000 metric tons this year, I thought they put up a capacity of 500000 so what is the difference and why is that difference?

R. S. Jalan: I am sorry. Can you repeat your question?

Rajeev Agarwal: Sure, so RSPL I think we are saying that this year the supply will be 200000 metric tons, I thought their capacity they put in was for 500000 tons is it that the plant is not fully commissioned or why only a smaller amount is coming this year?

R. S. Jalan: First of all the total plant is not yet operational fully number one. Number two in this business any new capacity they take a number of years to come to a level of around 80% to 90% capacity utilization and the past history of whatever the new players has come in and we came in it takes years to stabilize and come to that level of highest capacity level and I think that is the reason that we are estimating a production of around 200000 tons.

Rajeev Agarwal: Got it, so we should expect incremental supply from that plant keep coming over the next few years' right? Is that a reasonable expectation?

R. S. Jalan: Yes.

Rajeev Agarwal: So that will also be an additional overhang on the supply, got it. Now the other question I think somebody asked about the Tata Chemicals capacity and you said because they mentioned

Rs.1000 Crores and they are only putting 50000 metric ton plant for Rs.1000 Crores that seems very?

R. S. Jalan: I do not know because we do not have a detail, so it will be difficult for us to comment on that; however, the detail on the media report, which we have seen there they are talking about 10.9 lakh tons to 11.13 lakh tons. We have just subtracted the numbers on there and in addition to that they are putting the power plant and they are putting up cement also on that, but we really do not know the numbers how this Rs.1000 Crores is getting spent.

Rajeev Agarwal: Got it. Just continuing on the soda ash, I think in the past we have always said that the Greenfield plant is a lot more expensive right and unless the environment is good putting up a Greenfield plant does not give us good return on capital just because it is so much more expensive than a Brownfield expansion and that is why we have done modular or when we have thought about Greenfield expansion we are thinking from a modular perspective so given the supply situation be it RSPL, bet it Tata Chemicals, and be it ourselves. Do we still think that this modular. I know we have not put in a lot of expenses capex there? Do we think being prepared is still the right strategy or you think at this point as we might not want to bring it on stream given what in happening in the market?

R. S. Jalan: First of all, I want to clarify this point because this has come many a times like I said in the last 15 years if you look at you will find that demand has always been ahead of the supply and therefore our belief is that the same will continue in the future as well and let me give you why I am saying so. One is the past data shows that and the second is see every year the Indian demand is growing by 200000 tons extra volume. From where will this volume come? If you want to set up a Greenfield project with 500000, which takes care of only two years of the total demand you require seven years or five years. Imagine if somebody does not put a plant or Greenfield then what will happen after five years. In five years you require another million tons of extra volume requirement in India whereas we are only talking about half a million ton in the modular form, so from that perspective rest assured on one thing soda ash is a business, which is more on a demand always ahead of the supply and this modular expansion, which you are talking about will take care of that extra volume, which is coming into the market and we will do only to the extent, which demand permits.

Rajeev Agarwal: Got it and then lastly when you mentioned I think the import price of soda ash is $277 per metric ton did I hear that right?

R. S. Jalan: $270 was the price and now there is a $15 drop into the price of imported soda ash, which definitely varies between various country to country and location to location like south could be a different price and north could be a different price.

Rajeev Agarwal: So with this import price at $255 a metric ton effectively our supply has to be at the same price right so it is not like a imported soda ash has a better than ours right?

R. S. Jalan: Sorry can you repeat your question again.

Rajeev Agarwal: Sure so the $255 a metric ton of price whenever we sell our soda ash that has to be at the same price right? We cannot be selling at a higher or a lower price at this price?

R. S. Jalan: Among six players all this gets a better price because of the many supply chain advantage, so the domestic players always get a better price when compared to the import price.

Rajeev Agarwal: How much would the differential be?

R. S. Jalan: Depends on customer to customer. It is not a thumb rule kind of a thing, it is depending upon the large volume customer, there difference will be less. In the smaller volume, the difference will be high and things like that.

Rajeev Agarwal: Got it and then lastly just on the home textile, I think this Rekoop and Cirkularity have given a lot of good brand name recognition. I think congratulations on that, but it seems to me that still the home textile there is a lot more of excess capacity and you think that with our brand name, we are able to differentiate ourselves from other players, can you just comment a little bit on that?

R. S. Jalan: No you are 100% right, like you rightly said the oversupply situation, in the oversupply situation how do you differentiate, unless you differentiate yourself you will not be able to sustain in that business. If you are in a commodity space, which we have been doing for a long period of time. The differentiation of this branding and the different concepts like Rekoop is based on the environmental concern, any millennium customers, which is appealing, product is the same whereas they are contributing to the environment, so that is the differentiation they are building and brand awareness definitely as you know, the brand awareness is always helping you, a pull from the customer, instead of a push from the vendors, so this differentiation strategy is definitely giving us an advantage and we believe that this differentiation strategy will give us a further advantage going forward.

Moderator: Thank you. Mr. Agarwal may I request you to join the question queue for any followups. The next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Thank you for the opportunity. Just wanted to ask two things; just wanted to know the number, gross debt and the net debt number?

Raman Chopra: Rs.1282 Crores is our total debt, Rs.1281 Crores as of now end of June 30, 2019.

Resham Jain: Cash amount Sir?

Raman Chopra: We have got around Rs.73 Crores in cash and cash equivalent end of June 30, 2019, so this number is the gross number 1281 and we had Rs.73 Crores worth of cash and cash equivalent as of June 30, 2019. So, if we reduce that it will be around 1200 Crores.

Resham Jain: Yes, the second question is capex, what is the total capex, which you are planning for this year FY2020?

R. S. Jalan: For FY2020 we are looking at approximately around Rs.350 Crores.

Resham Jain: Just trying to understand that we have been talking about this buyback since last I think couple of quarters and before that as well, even after given the current cash situation we have, what is the thought process, what is the kind of discussion we are having on the buyback side because we have been talking about this since last few quarters, so just wanted to understand the thought process given the cash situation and cash flow situation we are quite healthy, so you can just help with that?

R. S. Jalan: No, definitely the buyback is in our radar. It is not that the buyback is not in our radar, but the timing wise probably you want to wait for little bit more on that. In terms of the number, which you said Rs.350 Crores we are looking at more of a capex, we are looking at Rs.100 Crores of debt reduction then we have also dividend policy that number will also be significant number and balance yes buyback is in our discussion.

Raman Chopra: And then we are saying this includes the Greenfield land that we purchased.

Resham Jain: That is a part of Rs.350 Crores right?

R. S. Jalan: Yes that is a part of.

Resham Jain: Okay because I was just wondering like it has been like almost multiple quarters, what makes us not decide on that just wanted to understand since the valuation and the numbers looks quite conducive, so that is the broad things, which I wanted to understand, but yes, that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thanks for the opportunity. Just had a couple of questions first is if I look at this particular quarter we have seen an improvement in realization by around Rs.300 sequentially Q on Q, but if I look at EBITDA per ton it is likely down to almost Rs.600 per ton, so just trying to understand what led to that and because incrementally when we say we are seeing pricing pressure how should we understand the EBITDA per ton for us?

R. S. Jalan: Again, you are comparing as compared to the last quarter, which I said that this is basically seasonality. Prices are slightly higher as compared to the last year March 2019 versus this quarter supplies are slightly on the higher side, however because of seasonality raw material cost are sightly on the higher side, but this drop which you are seeing as compared to last quarter is primarily because of that. It is like-to-like comparative, sorry.

Viraj Kacharia: When you say seasonality what do you mean by that because a conversion business right, that is a commodity business, whatever you says conversion margins depending on what your raw material prices are, this will very according to that, so just trying to understand when we seasonality what do you mean by that?

R. S. Jalan: Basically it is from the same plant if you produce 100 tons, there is a different cost and if you produce 90 tons there is a cost, number one. Number two what raw material you are using like in the January, March quarter generally the imported limestone consumptions are on the lower side whereas in this quarter the imported limestone consumptions are on the higher side. So all put together that this cost difference is primarily because of seasonality that is what raw material we use like lignite, if we use in the January, March these are better and your lignite consumptions are slightly on the higher side. So all put together this cost difference is primarily because of that.

Viraj Kacharia: So when we say margins are going to be stable year-on-year for FY2020 vis-à-vis FY2019 that would mean that the per ton margins for the rest nine months will be quite higher than what we earned last year. Now this is despite the price pressure or the price cut which you talked about. Where will that increase in per ton margin or actually come from?

R. S. Jalan: If you look last four quarters of last year Q1 2019 versus Q3 and Q4 the same trend is there. Year before also if you look at FY2018 also similarly the trend is there, but the first quarter margin will be lower and the last quarter the margin will be highest. So therefore when I said this overall margin of last year versus this year per ton margin will be better than last year.

Viraj Kacharia: Third question was on the textile part, you talked about us seeing an improvement in yarn business in the second half. Can you explain a bit more in detail what this improvement would be led by and what parameters or factors we are seeing that that will drive this recovery or improvement in business?

R. S. Jalan: Two reasons cotton new season will be coming. If you look at this year the domestic cotton production was much lower. Our expectation is next year the crop size will be much margin. Second if you look at this year because of the low production of cotton imported cotton prices are cheaper than the domestic cotton prices, so which is never been a trend. Our expectation is that next season when the season starts in October the cotton prices will be softer. The second expectation is that definitely this demand which is slow down at this point of time will have some recovery. Both put together this will have a better margin in this third and fourth quarter.

Viraj Kacharia: This demand recovery would be led by any particular reasons or any particular markets?

R. S. Jalan: Seasonality normally, the exports which goes to the other part of the world and that has been improved, that is all the expectation and even in the domestic market also expectation is that the demand should improve going forward.

Viraj Kacharia: So on yarn for the industry as a whole how should we understand the capex cycle, say for next two to three years?

R. S. Jalan: Capex cycle for us?

Viraj Kacharia: Yes the industry as a whole I mean because you said that there is overcapacity in the industry right now?

R. S. Jalan: The spinning industry has always being an overcapacity situation, but over a period of time it gets balanced out also, but our strategy on the spinning is we have moved and we are in the process of moving from a commodity space to a value added space and because of that we will definitely have a big advantage going forward on that.

Viraj Kacharia: That is all from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Suresh Kapoor from Kapoor & Company. Please go ahead.

Suresh Kapoor: Thank you again. Sir if we take your standalone numbers and the comparison with the consolidated numbers we find the revenues moving up from Rs.876 Crores to Rs.889 Crores and we see the change of inventory going up from Rs.14.25 Crores to Rs.27 Crores, Rs.12 Crores increase whereas the profits are going down from Rs.161 Crores to Rs.155 Crores, so how will you explain this lower profits? I think so it is on account of home textile only, which these segments also explain, better understanding from your side?

Raman Chopra: Basically this is mainly due to on a consolidated basis in our overseas grace home fashion, which we are consolidating. There is a dent of Rs.5 Crores for this year. If you see when the last year on a consolidated basis there was around Rs.8 Crores to Rs.9 Crores lower loss in that subsidiary this essentially because of the buildup of DOTCOM business that we are putting up there, so what are done is in initial stage we are building up the inventory and also there is a cost of marketing, which happens in that particular business, so it is the initial cost which we are incurring. Hopefully towards the second half of this year you will see there is an improvement happening and the inventory will also go down as well as the bottomline in that particular subsidiary will, also we are looking at a breakeven kind of scenario in the second half of this year.

Suresh Kapoor: Correct me, here also there has been a reduction in inventory, there is no built up in inventory am I wrong in that assessment, your item number 2C sales change in inventory, which is not in the bracket, so that means that there is an inventory has been reduced not increased, if correct Sir if I am wrong?

R. S. Jalan: Let us talk about this number offline okay.

Suresh Kapoor: Not an issue Sir. Thank you for answering.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, most of my questions have been answered. I had this just one doubt, I said earlier in one of the call you had stated that the cost of Greenfield expansion in present case for 1 million tons is around $1 billion or around Rs.6500 Crores odd, so I was not able to understand how we are able to 0.5 million tons at a much lower figure that was one and the related question was that you had also mentioned in one of the concalls that the present soda ash prices have not corrected because the return on capitals not very remunerative at current prices that is one of the reason why the prices are not going down, so how come Turkey and other guys across the world are able to do such massive expansion and the same holds true for even Ghari?

R. S. Jalan: First of all this 0.5 million tons when you said about this capex we have never said that what number we will be achieving on this 0.5 million ton, what capital expenditure we will be doing, what we have said we will try to do that expansion on a modular form, so that the capex required for that business is being managed in our overall debt equity scheme of things because we do not want to leverage the business, so that is point number one. Obviously our expertise of setting up a plant per ton of capex, per ton of soda ash will be lower than as compared to the competition which he is putting. So far as you said about the Greenfield projects happening in Turkey and other part of the world everybody looks at this business not on a short-term basis, they look at this business on a long-term basis. Today if you look at our margin on this business is 35, 34 kind of a margin. These are all possible because we have invested a few years back, so people always look at this business from a long-term perspective. Third point, which you said was the soda ash price that point still be maintained that on this business why a lot of new investments are not coming other than the Turkey, which is a mature soda ash is primarily because there is not a big remunerative pricing at this point of time on a current capital cost, so from that perspective we believe that the pricing is a long-term is the prices, which are going to be on a upside not on the downside.

Sarvesh Gupta: Sir when we will invest in a modular fashion for the Greenfield, how many years would it take for us to achieve a 20% sort of a return on capital employed situation for the new Greenfield modular expansion?

R. S. Jalan: 20% of return on capital employed probably will take and my understanding of course, I do not have an immediate number on this, but my understanding is this will take at least four to five years to reach to that number.

Sarvesh Gupta: During that time our overall return on capital employed for the company might be subdued because of lack of utilization levels as you had explained earlier even for Ghari, which will take sometime?

R. S. Jalan: Let me clarify this point again. I just said that this calculation, which I am talking about is based on the current pricing, but suppose by the time you setup this plant and the prices are already moved, which has happened in last few years then probably this return on capital employed can be achieved today in a faster way also.

Sarvesh Gupta: Thanks a lot for answering the question patiently Sir.

Moderator: Thank you. Ladies and gentlemen, that will be the last question for today. I now hand the conference over to the management for the closing comments. Thank you and over to you!

R. S. Jalan: Thank you very much all participants. We really get encouraged from your questions and that definitively gives us a lot of thoughts on how to improve and our main mission always been impressive growth to all our stakeholders and 20% CAGR growth on our bottomline is a mission and if you have seen in last five years we have been maintaining on a 25% CAGR growth on our bottomline. Our mission going forward also continuing the same way that we continue to grow our bottomline by 20% CAGR that is what the mission we are working on and every team members are working towards that and I am sure that we will be able to maintain that momentum.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes today’s conference. Thank you all for joining us and you may now disconnect your lines.