



“GHCL Limited
Q2 FY2019 Earnings Conference Call”

October 31, 2018



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



GHCL Limited
October 31, 2018

Moderator: Ladies and gentlemen, good day and welcome to the GHCL Limited Q2 FY2019 Earnings Conference call. 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. Sunil Gupta. Thank you and over to you Sir!

Sunil Gupta: Good evening everyone and thanks for joining our earning call today. I now handover the call to Mr. R.S. Jalan, our Managing Director for his opening remarks. Thanks and over to you Sir!

R.S. Jalan: Thank you Sunil. I welcome everyone on today’s call. I am joined by Raman our CFO, Sunil and Abhishek from finance team. Global Soda Ash Market continues to remain strong mainly due to lower volumes from China and growth in other regions like Europe and US. Turkey’s all 5 lines are operational and the volumes have been well absorbed. Domestic Soda ash market has registered a growth of 5% in H1 FY19. The demand growth has been largely due to growth in detergent and flat glass segment. RSPL’s volumes are expected to come to the market from December 2018. Looking at the current situation we believe demand and supply to remain balanced. As indicated during last call, due to rising fuel prices and rupee depreciation input costs remained under pressure. However, with price increase we have been able to offset its impact.

We are glad to inform that our brownfield capacity expansion of 1 Lakh MT is heading as per schedule and we are trying to prepone it during early part of Q4 well within our cost estimates. This will be followed by another brownfield expansion of 1 Lakh MT, the benefits of which shall accrue in 2 years i.e. FY21 and FY22.

In the textile segment, structurally headwinds continue. However, the severity of the same has reduced largely owing to Rupee depreciation which will ease margin pressures going forward. Our strategy to emerge as an innovative supplier is being well received in the market place leading to increase in current volumes and better outlook going forward. In the recently concluded market week in US, we have launched a concept of FABFIT and Cirkularity revolving around philosophy of sustainability, traceability, innovation and Giving Back to Society. Under this concept we have offered a range of 8 product lines to our customers, which has been well appreciated. The emerging trends of economic protectionism led by US and China can have its impact on Indian industry. In addition to this, US led dispute on export subsidies raised in WTO can also impact further.

As a closing remarks, I would like to reemphasize the fact that despite an environment of volatility and Global uncertainty, a more resilient and agile business strategy and strong focus on



GHCL Limited
October 31, 2018

internal business conduct can sail through such testing times. We on our part would continue to work hard and be transparent to our stakeholders that is key to value creation.

I would request Raman to take you through the financial results of this quarter.

Raman Chopra:

Good evening everybody. Thank you very much Mr. Jalan for this opportunity. A very warm welcome to all the participants of today's earning call. The revenue for the quarter is 839 Crore as compared to 717 Crores of Q2 FY2018 thereby registering a growth of 18%. The EBITDA for the quarter stood at 179 Crores as compared to 139 Crores in the corresponding quarter thereby registering a growth of 28%. Our EBITDA margin during the quarter was 21.2% as compared to 19.5% of Q2 FY2018.

The profit after tax increased by 47% that is Rs.78 Crore compared to 53 Crores of Q2 FY2018. EPS for the quarter stood at Rs.8.02 per share. Both chemical and textile segments have contributed in the stellar performance that were achieved during the quarter.

In our inorganic chemical business our soda ash production was 2.42 lakh tons during the quarter as compared to 2.26 lakh tons of Q2 FY2018 and 2.20 lakh tons in Q1FY2019, so we have been able to mop up our production neutralizing the impact of annual shutdown in Q1 of FY2019. Accordingly, the sales volume have also increased to 2.29 lakh tons as compared to 2.14 lakh ton of Q2 FY18.

Our revenue from this segment has increased by 20% from 444 Crores in Q2 FY2018 to 534 Crores during the quarter, this has due to higher sales volume by 15000 tons, increase in the realization over last one year and growth in our chemical trading by almost Rs.24 Crores. EBITDA increase from 136 Crores in Q2 FY18 to 149 Crores in the current quarter, EBITDA margin excluding trading business for the quarter was 32% as compared to 33% in Q2 FY2018 and 30% of Q1 FY2019.

This small drop in margin is mainly due to similar increase in both selling price and cost as compared to Q2 FY2018 thereby impacting the denominator; however, if you look at the absolute EBITDA per ton has increased by around Rs.250 per ton in this quarter as compared to the same quarter of last year. As compared to the Q1 our EBITDA margin has improved by 200-basis point and in terms of absolute margin it has improved by approximately Rs.300 per ton.

Our textile business has shown significant improvement both in topline and EBITDA whereas revenue has grown by 11% Y-o-Y the EBITDA is increased to Rs.31 Crores during the quarter as compared to Rs.3 Crores in Q2FY2018. The EBITDA margin for the quarter is 10% as compared to 1% in the corresponding quarter of last year. We are confident to retain these levels and improve gradually in the coming year as indicated earlier.



GHCL Limited
October 31, 2018

Our total debt at the end of the quarter stood at 1330 Crores with the debt equity ratio of 0.76, which is much, lower than our guidance of remaining at 1:1.

We 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 the question and answer session. The first question is from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

Viraj Kacharia: Good evening Sir. Thanks for the opportunity. Sir on this antidumping duty expiry Sir post that how has the realization moved and have we seen increasing the import as compared to the domestic production? Has the market of imports increased in terms of market share in the domestic market?

R.S. Jalan: See in terms of, first let me clarify the antidumping duty legal status. There are two antidumping duty one is on China, US and other part of Europe and a few more countries and another is the Turkey and Russia. The duty, antidumping duty on Turkey and Russia continues and on the other countries US, China the duty had expired but the sunset review is under process. Now, but at this point of time on China and US, Anti-dumping duty is not there; however, in spite of this duty withdrawal there is no impact in the market in terms of the pricing pressure or the volume pressure, there is a very balanced market and no drop in the pricing, whether the price had gone up, if you look at last six months almost the price has gone up by 8%.

Viraj Kacharia: Then it means that there is no additional imports, which have come into the market even post the duty expiry, so the demand is still met by the local producers in India?

R.S. Jalan: See whatever the shortfall is there which the domestic players have not been able to supply that definitely goes to the import.

Viraj Kacharia: Secondly Sir the energy cost escalation which we have seen in the recent quarter so is it completely build into our P&L now or do you see that some more impact can happen over the next following quarter?

R.S. Jalan: See commodity prices are anybody's guess; however, whatever the based on our current assessment we see the energy prices are more stable now.

Viraj Kacharia: Lastly on this, so just coming on the energy cost again if you look at Ghadi is coming up with a capacity of almost half a million ton in December and we would also be adding another one lakh ton capacity to the market, now considering the high energy cost do we see any possibility for us to pass on that cost in the market or realizations would be stable at this level going forward?



GHCL Limited
October 31, 2018

R.S. Jalan: My understanding is that the prices should remain at this level because Ghadi will be coming with the production, they will require some time to stabilize and there is always almost around 200000 tons of the extra demand which they generate every year, so our understanding is that this prices would remain at this level and globally there is a tightness in the soda ash.

Viraj Kacharia: Lastly Sir on this capacity expansion so just trying to understand that when we are looking at Greenfield expansion what is the kind of returns we are looking for the projects and does the pricing give us a enough IRR to support that 17% to 20% ROEs?

R.S. Jalan: First of all, let me clarify, which I clarified last time also, we are not looking at a Greenfield project in one go, we are always going to be on the modular form and that will take at least three to four years more before even if smaller capacity comes into the operation. In the meantime, our Brownfield expansions are under way and the benefit of the Brownfield expansions, which we have indicated before also where the gross margins are in the range of around 50% and obviously, that helps in improving the EBITDA margin because your other cost remains constant. So at least for next two years we are clearly seeing a volume growth by Brownfield expansion instead of Greenfield expansion.

Viraj Kacharia: But Sir then effectively which means that the Greenfield expansion which comes in three four years by that time your underlying assumption is that the demand supply market will, the demand will be more while the supply is getting constrained basically then the pricing will be sustainable for us to support that Greenfield expansion, is that the right assumption?

R.S. Jalan: Yes.

Viraj Kacharia: Okay Sir. How are we seeing the global demand supply especially from the Chinese market so the net exports which you earlier were giving were two and half as come down to one and half and as it further reduced or because what we hearing in China capacities which are coming up close to one million tons so from a net export level how is that moving in now six months?

R.S. Jalan: See our understanding is China is gradually going to reduce their export to the other parts of the world because of the various reasons, one is in terms of their awareness about their environmental concern, second is that hou technology which I explained in my earlier calls as well where ammonium chloride generated as joint product in equal proportion, there is definitely a big pressure on the ammonium chloride price and that is creating a kind of a viability issue for them, so in a net we can say that China will gradually reduce the volume into the global market.

Viraj Kacharia: Thanks a lot.

Moderator: Thank you. The next question is from the line of Nihil Parekh from Dhanki Securities. Please go ahead.



GHCL Limited
October 31, 2018

Kaushal Shah: Sir Kaushal here, congratulations for the great set of numbers, so Sir I had a few questions if I remember correctly Sir the initial, in the earlier conference calls we had mentioned about the Brownfield expansions of 1.25 lakh tons and I think just now you mentioned one lakh ton so is there a kind of a re-working in our numbers in terms of the addition?

R.S. Jalan: No. It will be 1.25 only. The numbers we have indicated is the numbers which probably will likely production which will be getting and as I mentioned to you in my opening remarks that we are trying to prepone this advantage to the last quarter of this year January-March so probably some advances we will get during the last quarter of this year.

Kaushal Shah: Sure. So basically this 1.25 this year and 1.25 next year so that number remains the same I mean there is now downward revision in the volume expansion?

R.S. Jalan: Capacity expansion of 1.25 will remain and we will get the advantage of 1.25 next year fully, may be partial benefit we will be getting in the last quarter of this year.

Kaushal Shah: Sure. So just two more questions, one is that if you can throw some light on how many price hikes have we taken in the last three months in the soda ash business and if you can add some colour on the textile business both the yarn and the home textile?

R.S. Jalan: We have taken two price increases in last three months and the last one was we have taken on first of October and the first one we have taken in the month of August. And so these are the two price increase we have said. Like I said last in this quarter last six months there is a price increase of around 8% vis-à-vis same period of last year. In terms of the textile as I have been telling always that and I have said in my opening remarks as well in this business of course we are seeing a better number this quarter and we believe that we should be in a position to improve on these numbers going forward; however, this business I have given also some challenge in this business like one is that we exactly do not know how that this China-US situation will play out, No.1. No.2 even your WTO, dispute raised by the US how does this impact the business that is to be seen , and of course the cotton also plays a major role in the whole scenario and this year we are seeing a cotton crop there is some I mean downsize of the cotton crop is also being seen, firmness in the cotton prices we are witnessing at this point of time, so these are the factors, which can kind of can make an impact on the operation of the textile industry. In terms of the positive side like I said rupee depreciation definitely has helped the margin expansion in this business and in our case some good things has happened in over a period of last six months like I said Circularity is the one range which we have launched, we have a launched Rekoop in the March now all these products are innovative products where the customers are appreciating our initiatives of innovative, we have been recently recognized as a most innovative company by one of the big retailer , so this gives us a kind of a satisfaction that we are moving in a right direction.

Kaushal Shah: Sir if you can throw some light on our cotton procurement price?



GHCL Limited
October 31, 2018

- R.S. Jalan:** Cotton procurement has just started you know that the season start from October and it continues up to the next September and we have started the process of crop cotton but as a policy we generally cover the most of our requirements during before March, this we have done last year also and we have got a big advantage because of that coverage and that policy continues.
- Kaushal Shah:** Sure. So the candy prices has reached about 48000-50000 also in some cases so what would be our range?
- R.S. Jalan:** At this point of time like I said that the current price, which is rolling dependent upon the quality, which you buy, is in the range of around Rs.47000.
- Kaushal Shah:** Right Sir this was very helpful. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Dixit Mittal from Subhkhram Ventures. Please go ahead.
- Dixit Mittal:** Congratulations on good set of numbers. Sir my question is on this textile division so can you like give us what is the windmill contribution during this quarter in the EBITDA?
- R.S. Jalan:** The number is not very significant.
- Raman Chopra:** It is Rs.3 to Rs.4 Crore but now the numbers are the same across all the quarter.
- R.S. Jalan:** There is no extra benefit of the windmill during this quarter.
- Dixit Mittal:** Okay, Sir because in the past the windmill benefit used to come in two quarters only right, Q2 and Q3 so that is why I was asking.
- R.S. Jalan:** Now we have distributed evenly into all the four quarters.
- Dixit Mittal:** Okay, there is no seasonality impact.
- R.S. Jalan:** Yes, this will be uniform, accounting is now uniform, we have apportioned it at uniformly across all the four quarters.
- Dixit Mittal:** Sir secondly in this 31 Crores EBITDA can you breakup like are we making profit in home textile this quarter or still we are breaking even kind of?
- R.S. Jalan:** See like I said the numbers of the home textile are better than the earlier quarters and but yes, some improvement has been seen in this spinning also, the separate numbers Mr. Mittal I can share you offline.



GHCL Limited
October 31, 2018

- Dixit Mittal:** Okay but is it safe to assume that they are in positive territory right now?
- R.S. Jalan:** Yes, they are moving in the positive territory.
- Dixit Mittal:** Sir this thirdly yarn we have seen like good margins across the industry in yarn so do you see this Q2 margins of yarn maintaining next two three quarters as well or will they moderate from hereon?
- R.S. Jalan:** My understanding is that some moderation should take place, because now the season of the cotton the new crop has started and probably some moderation into this spinning business would be seen.
- Dixit Mittal:** Sir lastly on soda ash so are you upgrading your guidance for the full year in terms of volumes because as you mentioned that would be preponing the commissioning so initially you guided around 4%-5% growth so can we expect a better growth for this year?
- R.S. Jalan:** I am sorry which if you can repeat the questions?
- Dixit Mittal:** Sir in Soda ash actually our guidance have been around 4% growth for the full year so now because we are preponing our expansion so can we expect some upgrade in that kind of our expectations for the volume for this FY2019?
- R.S. Jalan:** See 4%-5% what I said was of the demand growth in the industry, in terms of if you look at our volume growth during the last six months we are up by almost around 7% in the last quarter and overall in last six months we are up by 6% volume growth, I am talking purely volume growth. In terms of the revenue growth this revenue growth is approximately around 16% if I exclude the trading business, and in six months the revenue growth is around 12% and this is primarily because of price increase along with the volume growth. Now going forward, see there is only two things important, one is the seasonality will play definitely better production in the next six months and also that will the new capacity will also help to increase the volume.
- Dixit Mittal:** Okay but at least 6%-7% for the full year is on a conservative side we can expect right in terms of volume?
- R.S. Jalan:** At this point of time, Dixit commenting on that number will be slightly difficult.
- Dixit Mittal:** Okay. And Sir just one thing on this trading revenue can you give what is the exact trading revenue for this quarter?
- R.S. Jalan:** In this quarter our trading revenue is roughly around 58 Crores.



GHCL Limited
October 31, 2018

- Dixit Mittal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Viraj Mehta from Equirius Portfolio managers. Please go ahead.
- Viraj Mehta:** Sir just looking at the textile division for the first time after three quarters we have seen an uptick in the utilization for the textile division which is actually in line with the lot of other players including Trident and Welspun, so as a country are we gaining market share or so what is driving this higher utilization in home textile for all of the players?
- R.S. Jalan:** See my understanding overall the situation in last three quarters was somewhere even the destocking was one of the issue and that destocking has been completed and that probably is one of the reason but I do not think at this point of time I would say that we are gaining a big volume or the market share into the US market I do not think.
- Viraj Mehta:** Okay so as a country you do not think we are gaining any kind of market share?
- R.S. Jalan:** At least not to my knowledge.
- Viraj Mehta:** Okay and the ten percent EBITDA margin that we have done this quarter is actually one of the highest in I mean if I include the heydays one and half quarter to two years back we did our best was around 12%-13% margin so we are almost there in terms of our peak margins even if our utilization is 57% so is it fair to say that even if we go back to 70%-75% utilization our peak margins will remain at 12%-13% or the currency adds the new joker to the pack where we think we can do better than that?
- R.S. Jalan:** See in terms of first our peak margin was not 10%, our peak margin was around 15% to 16%, so there is always a play between 10% and 15%-16% there is an opportunity of 5% to 6%. Your second question about a dollar appreciation or the margin expansion because of the dollar appreciation, obviously that has an advantage on the margin expansion; however, on the other side your cost also takes a beating like cotton just now we discussed the cotton prices are higher than last year, so those challenge somewhere will restrict the benefit of margin expansion due to the dollar.
- Viraj Mehta:** What is, are we doing any capex in textile this year or next?
- R.S. Jalan:** See in terms of a spinning we are continuously doing the capex.
- Viraj Mehta:** Can you give me the number?



GHCL Limited
October 31, 2018

- R.S. Jalan:** Yes, will give you the number but in the home textile still last year we have done that capex but this year only marginal capex just for the purpose of maintaining the plant they are not making any major capex on the home textile. In the annual basis in the spinning we are making approximately around 70-75 Crores of investment.
- Viraj Mehta:** And what is a number of spinning we are putting up? How much spindles we are putting up every year for 70 Crores?
- R.S. Jalan:** They are likely to put Airjet spinning into this spinning that is a new technology we have put some investment into that. Some we are putting on the modernization so it is a mix of a spindle, all spindle I would say that capacity and along with the modernization as well.
- Viraj Mehta:** Just one last thing on working capital, our working capital has stretched slightly compared to March if I look at it is it fair to assume that I mean do you think that this is kind of peak even in terms of days or can we do a slightly better job there?
- R.S. Jalan:** We can surely do better job any time that is what our belief is. I would not say that we have done a great job anywhere.
- Viraj Mehta:** Sir our working capital has gone up by 100 Crores in first six months, sorry, almost 80 Crores which is a lot?
- R.S. Jalan:** 75 Crores has gone up, see in the soda ash what happens is some of the commodity like a coal depends on which consignment comes at what time that changes the working capital composition of the soda ash. In terms of the home textile again if you look the history depending upon the program, which we are running for the customers what time the shipment takes place, that also plays a role into that but let me assure the working capital management is a very focused area of the management and we constantly work on this working capital to make sure that we efficiently use our resources.
- Viraj Mehta:** Thanks a lot Sir. Most of the other questions you have answered earlier. Thank you.
- Moderator:** Thank you. The next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.
- Shikha Mehta:** I just had a few questions, Sir could you give details on the utilization levels for Soda ash and capacity?
- R.S. Jalan:** It is better to say that my capital utilization in soda ash is 99%.
- Shikha Mehta:** Sir could you give data on the realization this you have compared to the same quarter last year?



GHCL Limited
October 31, 2018

- R.S. Jalan:** Can you repeat your question please?
- Shikha Mehta:** Realization levels for soda ash for this quarter and the same quarter last year?
- R.S. Jalan:** I said that approximately around there is an increase of around 7% to 8% in the pricing of soda ash.
- Shikha Mehta:** And so would it be possible for you to give division in the revenue between spinning and home textile?
- R.S. Jalan:** No we consider the consolidate numbers.
- Shikha Mehta:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor and company. Please go ahead.
- Saket Kapoor:** Good evening Sir. Congratulations for a very good set of numbers. The numbers are much better than expectation also Sir especially the game changing has been from the home textile part. Firstly, Sir as we have moved for the first half what are our pain points now, where are the areas where more work is needed to be done, what are the main hurdles which you are facing, if you could dwell something on that?
- R.S. Jalan:** See in business there will always have a pain point you know that every area of the business is a pain but how do you look at the pain, we look at those pains in opportunity and my understanding is that in any business you have those pains. Only thing you have to look at the how do you focus on that area? In terms of the specific answer to your question in soda ash I would say that at this point of time raw material procurement and controlling a cost of raw material particularly the power, which is an energy, coal is the area where a lot of work is needed to be done, a lot of constant watch has to be kept, and I can only say proudly we have done a good set of job on that area in last six months. Currency fluctuation is also one of the biggest pain point at this point of the time because that give your by the M2M or your margin everything is depends on even a dollar like soda ash prices are always to some extent dependent upon the rupee dollar parity. So the dollar management is also one of the areas which is I would say is an area of focused. In terms of the textile, I would say that the dynamic situation one the cotton like the cotton coverage are one of the area, which needs to be lot of focus lot of time needed to be done. In terms of maintaining the home textile relationship with the customers and the customers are such where a kind of a long-term relationship is needed and they expect you on the dot every expectation of theirs so that is one area of challenge. In terms of retaining the people is also one of the challenge, you know in the business to retain the highest talent is also it is one of the area I would say that needs to be focused. So these are the area probably Mr. Saket I would say the area



GHCL Limited
October 31, 2018

of focus which I would say might be over a period of time reasonably done well but lot of opportunity lot of scope is there in the future to do better than what we have been doing.

Saket Kapoor:

Let me correct remember two quarters when we were bidding on the textile front guidance we have raised by us only that what is the outlook for textile what is the future of textile in our company, what are we going to do to address it, so the quarter-on-quarter the jump has been significant so if you could give us your outlook or the roadmap for home textile will it be still in-house still GHCL only or now we are contemplating steps that the recouping has been done to the textile and the time is correct for demerger or something of that sort to create value creation because Sir all the good work which you were doing over here are getting somewhat neglected from the market participants although Sir I may be wrong in my interpretation because what is very heartening is to see this change in the outlook of the mutual fund and approval towards our company so that is very heartening but now they control one fourth of our company that is very heartening stand, but still Sir the same query from us is that what is your take on getting textile demerged or will they continue to be a form?

R.S. Jalan:

See my answer Mr. Saket remains the same as I said in the past. At an appropriate time where we as a management we believe that this demerger is in the interest of my stakeholders, we will see only those. We are sensitive to the expectation of my stakeholders and we will take a right appropriate decision at a right time. I do not think at this point of a time I would be in a position to commit you some timeline on that. Let me but just add one more thing, textile had always been an industry where lot of volatility has been seen by the investors. You are seeing in the other industry as well I am talking about the textile this kind of a volatility is been seen, probably the last few quarters is the performance where not as you expected probably the need of this demerger was impressed by my stakeholders. But that may not be true in a slightly longer terms, so let us wait for some more time to see that how this division works lot of good work has been done into the home textile business in last six months. Probably the true reflection of those good work will be seen later on and may be at the time probably we will look at it opportunity but at this point of a time, I do not think in the immediate future we have a plan to look at the demerger.

Saket Kapoor:

Sir lastly just if you can take, can we take this performance of home textile as a base for this year both on the utilization levels as well on the margin part looking at the program setup which you had probably in remaining part of the year?

R.S. Jalan:

See yes, if I can say so yes, whatever the visibility we are seeing we are seeing an improvement over quarter-by-quarter; however, as I mentioned all along this is a volatile business and nothing can be said in a surety but yes, whatever the numbers we are seeing at this point of a time for next two quarters we are positive.

Saket Kapoor:

There is a scope for improvement from here on?



GHCL Limited
October 31, 2018

- R.S. Jalan:** In every business, why not in soda ash, soda ash instead of 99% capacity we can have 102% capacity and we believe that, we believe that yes it is possible.
- Saket Kapoor:** Correct Sir. Sir forex loss and can you quantify for this quarter Sir, how much it have been and where it is been clubbed in the other expense of finance part?
- R.S. Jalan:** Both together.
- Raman Chopra:** Part of which has come in the other expenses that is around 7 Crores to 8 Crores and the balance is clubbed to the interest, goes to the extent you save on the interest that is clubbed with the interest and the balance goes to the other expenses. So it is 50:50 here almost.
- Saket Kapoor:** How did you say, 7 Crores only?
- Raman Chopra:** Around 17 Crores, 8 and 8.
- Saket Kapoor:** 17.
- Raman Chopra:** Correct.
- Saket Kapoor:** Sir I will come in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.
- Riddhesh Gandhi:** Congratulations on a great set of numbers. Just have a couple of questions; how much is the total amount being imported right now of soda ash into India?
- R.S. Jalan:** Approximately around 25% of the total demand is being imported from overseas and primarily the major contributors to the import is from Europe.
- Riddhesh Gandhi:** Effectively speaking even with the RSPL the incremental capacity and your incremental capacity, it would effectively be imposed substitution, which has been happening if I have look actually commodity as opposed to friendly to import mix?
- R.S. Jalan:** You are 100% right and let me say this point, I have said before also. In the world nowhere it had happened that the domestic production is there and that product is getting imported from somewhere else. That will happen anywhere and it cannot happen in India as well. If the capacity expansion takes place in India automatically that will replace the imported products.



GHCL Limited
October 31, 2018

- Riddhesh Gandhi:** In terms of the October price increase that you have taken how large is the price increase that you have taken in October?
- Raman Chopra:** Approximately around 3% to 3.5%.
- Riddhesh Gandhi:** So effectively given the RM prices have an increase you would expect this to ultimately slowdown to the bottomline as well?
- R.S. Jalan:** Some extent yes.
- Riddhesh Gandhi:** Got it. And so effectively and actually typically speaking Q3 and Q4 being the strongest quarters in soda ash, is it right?
- R.S. Jalan:** That all will happen.
- Riddhesh Gandhi:** So effectively we are lined up clearly for growth over the next few quarters given the increased capacity, increase in pricing and overall improvement in home textiles obviously?
- R.S. Jalan:** I think so.
- Riddhesh Gandhi:** And last question is that a reasonable amount of free cash flow, which you will be generating and last year you guys had done buyback, the plan this year is buyback dividend or other areas we have planned to actually invest in?
- R.S. Jalan:** Like I said that in terms of free cash flow we are always the key stakeholders and depending upon the board's how does the board look at that and obviously we would like to love to reward our shareholders appropriately.
- Riddesh Gandhi:** That is all from me. Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Amar Mourya from Emkay Global. Please go ahead.
- Amar Mourya:** Thanks a lot for the opportunity. Sir, just stretching the earlier participant question, what we want to understand is that you would be generating cash in the tune of 800 to 1000 Crores in the next two years and so what are the thoughts like is that whole cash is going to be utilised for the reduction of debt or for the dividend or we are going to plough back that cash for the future capex, so what is the strategy in terms of the utilizing the cash?
- R.S. Jalan:** Mr. Amar if I can answer you that there are four components where these resources can be deployed and we need to take a kind of optimization on these four areas of utilisation. One is



GHCL Limited
October 31, 2018

rewarding the shareholders and rewarding the shareholders can always be done by two ways one is the dividend distribution and second is also the buyback. That is one. Second area of investment, which is again equally very important, is the growth. How do we do that growth? Unless you do a growth like I said this year we are expanding by 125K. Next 100K is on the pipeline. Similarly, on the spinning side like I have said always margins has always been reasonably good. We are going to deploy definitely some resources. So these are probably an optimisation and the third, which is the debt. Again our commitment to our stakeholders is always we are going to be a company, which is absolutely deleveraged. It is not the sourcing; it is also to be utilised for this even better than the debt equity ratio we have like this quarter again we have been upgraded on our rating. Now we have reached to the level of A+ so our desire is that how do we reach to the maximum highest level of the rating and obviously the repayment of the loan is also one of the component of utilisation of our resources. So these are the four areas like I said, dividend, buyback, capex or the growth, and the fourth is debt repayment. We will be utilizing all these resources based on these principals of the growth. Like I said 20% of the growth. Like I said 20% growth in our bottomline is the area of growth. Capex is required to that extent to meet that target.

Amar Mourya: But then I think in terms of the capex quantum let us say if 125 K plus the 100K which we are doing, I mean a quantum of capex would not be more than around 200 Crores, right?

R.S. Jalan: My understanding is if you are looking at the two years of the period and probably I would say that approximately around 350 Crores will be the requirement of my capex on 100000 tons which we are talking.

Amar Mourya: Correct. That is what.

R.S. Jalan: Second like in spinning approximately around 70 Crores to 75 Crores kind of investment every year, so we will require around 150 Crores, something around that comes to around 450 Crores to 500 Crores kind of a capital requirement.

Amar Mourya: For the next two years?

R.S. Jalan: Yes, for the next two years.

Amar Mourya: So, other than that like largely we will be looking, my question is that the kind of debts which we have are we going to prepay the debt or we will try to retire the debt as the maturity reaches?

R.S. Jalan: No, definitely if we have the resources, then definitely we will try to prepay those debts.

Amar Mourya: So given the next two years, what is the kind of leverage ratio we target at the internal level, overall company level?



*GHCL Limited
October 31, 2018*

- R.S. Jalan:** Yes.
- Amar Mourya:** My understanding at this point of a time to committing a kind of a number like guidance we have given in the past of 1:1 debt equity ratio. Probably we should be in a position to reach to the level of around 0.5:1 kind of a thing.
- R.S. Jalan:** Yes, we should be in a position.
- Moderator:** Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.
- Rohan Gupta:** Jalan Ji good evening. Sir from my side just only one question that what is happening on the China front on you keep on visiting China and I believe that in chemicals lot of problem are being faced in China so far now we have not heard much on soda ash so are you seeing that on a user industry I mean in glass and in soda ash both are there any tightening happening in these front in China?
- R.S. Jalan:** Yes, we see it happening.
- Rohan Gupta:** Okay so that continue anything near term coming in or do you see that over next two years some capacities getting closed or how it is going to have impact on the domestic production in China?
- R.S. Jalan:** See what we have been in discussion with many of the world leaders into the soda ash business and according to them as well and as per our understanding as well next two years should be a tight position of the supply of soda ash globally and therefore there is a clear visibility of a price increase is being seen by every player be it a US players or be it a Chinese player or be it even Turkey players, they all are talking about a increase in the soda ash pricing in the next contracting period which start from January, so tightness in the supply, tightness in the pricing clearly being seen in next two years that is what the assessment of even people who are leader in the soda ash.
- Rohan Gupta:** That is all Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Saurav Jain from HSBC. Please go ahead.
- Saurav Jain:** Hi just trying to understand as you have mentioned that the demand situation remains strong and now there is reduced hit from Chinese players for the environmental issue and other stuff so I would want to understand the price hikes in future, would only be a function of your pricing cost or you can expect to command some better margins on the products?
- R.S. Jalan:** See in terms of pricing is always been a factor of demand supply situation. In the past also it had been seen that even if the cost had gone down the prices of soda ash had gone up that has been



GHCL Limited
October 31, 2018

seen in the past; however, along with that cost also gives us an opportunity because of the overall tightness situation the transfer of the cost is also very easily been seen in the last I would say many years, so if I am reasonable on my assessment probably rising cost in a slightly longer term is in a position to be transfer to the consumer that has been seen over a period of last many years; however, the pricing also has an impact of the demand situation that means you have an opportunity of increasing a price beyond your cost.

Saurav Jain: Okay but do you see that kind of a situation unfolding over a next few quarters?

R.S. Jalan: Difficult to say at this point of time, let the things unfold.

Saurav Jain: Just on the bookkeeping side can you also help me with your trading revenue in Q1 FY2019 and the Q2 FY2018?

R.S. Jalan: Yes, in terms of my turnover or the revenue of trading is around 58 Crores during this quarter vis-à-vis 35 Crores in the same quarter last year and the Q1 of this year it was 49 Crores.

Saurav Jain: Also you know can you help me understand what exactly comprises of this credit revenue?

R.S. Jalan: See we have many products. Basically there are two things one is we are realizing that on one side we have a customer base and another thing we are seeing is that we are in a marketing infrastructure. The concept is that how do we I would say leverage these two strengths and therefore we have added some of the product, which are being used by our existing customers and which can be easily can be managed by our marketing team, so we have added STPP is one of the we are one of the largest I would say trader of the STPP in India, similarly we have added few more products into this basket and gradually we are expanding the basket of the product into the portfolio.

Saurav Jain: Thank you. Thanks a lot.

Moderator: Thank you. The next question is from the line of Vihang Subramaniam from Ambit Capital. Please go ahead.

Vihang Subramaniam: Thanks for taking my question. My first question is related to the price hike in soda ash, does INR depreciation have any positive impact on the domestic soda ash price contract that you take because of import parity?

R.S. Jalan: Yes.

Vihang Subramaniam: So if INR depreciates further you would have to continue taking price hikes?



GHCL Limited
October 31, 2018

- R.S. Jalan:** Yes.
- Vihang Subramaniam:** Thank you Sir. My next question is could you please tell me what is the EBITDA per ton in your soda ash business excluding trading volumes?
- R.S. Jalan:** Approximately around 6500.
- Vihang Subramaniam:** Sir say a situation where like INR depreciation accelerates and input cost continue rising till what extent do you think you would be able to pass on the price increases or take you known price hikes?
- R.S. Jalan:** Two things again, like I said in the earlier also price hike had a relationship with the demand supply always. Further whenever there is depreciation in the rupee that gives an opportunity if the demand supply situation remains at the same level, that gives you an opportunity of a price increase and that price increase will be to the extent of the depreciation industry if everything remaining the same.
- Vihang Subramaniam:** Okay and Sir just one last thing Sir I mean you know soda ash prices have been moving up quite a bit since the last few quarters so do you see any downside risks right now to the soda ash price hike, and any degrowth occur?
- R.S. Jalan:** I can only tell you last fifteen years soda ash prices had never dropped except one year, I think that will give you an answer.
- Vihang Subramaniam:** Thanks a lot Sir.
- Moderator:** Thank you. Ladies and gentlemen as there are no further questions from the participants I would now like to hand the conference over to the management for closing comments.
- R.S. Jalan:** Thank you very much everybody who has participated and we are always happy to answer the questions because your questions always gives us a thought for further improvement and as a management we are committed to create a value for all stakeholders and which we have been doing for last few years and I promise on behalf of the entire management team that we will do everything possible in our hands to perform better than what we have been doing because our belief is nothing is the best, always there is a scope of improvement though we have said that 99% capacity utilization is a benchmark in the global standard but still our management believe that can be do better than this. Area of improvement has been a constant way of looking at the business and we keep on identifying those opportunities and keep on improving those opportunities and we will continue to do that. Thank you very much for participating.



GHCL Limited
October 31, 2018

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