



“GHCL Limited
Q2 FY2021 Earnings Conference Call”

October 27, 2020



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Moderator: Ladies and gentlemen, good day and welcome to Q2 FY2021 Earnings Conference Call of GHCL Limited hosted by Emkay Global Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. 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 of GHCL and thank them for giving us this opportunity. We have with us today, Mr. R.S. Jalan, Managing Director and Mr. Raman Chopra, CFO and Executive Director, Finance. I would like to take this moment to congratulate the management on delivering better than expected performance in this challenging environment. We hope that such positive performance trend to continue in the coming period as well. I would now hand over the call to the management for the opening remarks. Over to you Sir!

R.S. Jalan: Thank you Rohit. Good evening and a warm welcome to all of you on today’s earning call for Q2 FY21 results. Raman, our CFO and Manu and Abhishek from the finance team, accompany me for this call. At the outset, I hope you and your family are safe during this challenging time. At GHCL, the safety of our employees remains our key priority and we are taking appropriate measures.

The global markets have been impacted by the COVID-19 pandemic leading to demand erosion particularly in Q1 FY21. However, green shoots are now visible in Economic activities across the globe. With gradual unlock and easing out of restrictions in India, economy has started to rebound and business activities are returning towards normalcy.

In Soda Ash, domestic demand is reviving, and capacity utilization for the Indian Soda Ash manufacturers has improved to around 85-90%. Among user segments, Detergent was least impacted. Glass industry has also witnessed a good revival and operating at around 80-85% capacity. While flat glass industry has improved due to revival in construction and auto industries ahead of the festive season, container glass is also showing faster recovery relatively to FMCG / Pharma sales, though liquor sector is still facing subdued demand. Based on our assessment of the current situation, we believe that we will be able to attain normal utilization levels in the coming quarter.

In Textile segment, both our Home Textile and Yarn businesses have performed well. Home textile industry has witnessed a pent-up demand from our key export markets as people are



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staying at home, spending towards health and hygiene. Yarn demand has picked-up quite strongly, on the back of robust demand from user segments especially home textile. There is upward pricing trend for both cotton as well as yarn. As we stand today, the next half year looks to be reasonably good, and our overall Textile performance this year is likely to be significantly better than the previous year. However, long term sustainability of this demand for home textile would most likely be known in next few months.

The demerger process of our Textile business is well on track. We have received a communication from CCI in late September, which confirms the scheme. Further, the stock exchanges have forwarded the scheme to SEBI. We are awaiting for SEBI approval, post which we will file the application with NCLT. We are sticking to our initial timelines of 12-15 months.

The resurgence of COVID pandemic in certain countries is a matter of concern. However, we are trying to combat the adverse impact on our business by focusing on operational efficiencies and managing costs including finance costs. Our endeavor is to remain agile and adapt as per evolving situation.

I would now request Raman to discuss this quarter's financial performance.

Raman Chopra:

Thank you very much Sir. Good evening everyone and a warm welcome to all of you in our Q2 Earnings Call for FY2021. I hope all of you are safe. I will briefly cover financial highlights for the quarter and also take you through the segmental performance.

Revenue for Q2 FY2021 came in at 779 Crores as compared to 826 Crores in the same period of last year. Year-on-year there is a decline of 6%, which is attributable to a softer realization in soda ash and lower operations. Having said that I am glad to underline that our manufacturing plants are gradually moving towards normal utilization levels across both chemical and textiles, this is reflected in our sequential revenue growth of 77% up from 440 Crores in Q1 FY2021. EBITDA for the quarter stood at 162 Crores as compared to 203 Crores in Q2 FY2020 and 84 Crores in Q1 FY2021. Consequently we achieved EBITDA margin of 20.8% for the current quarter as compared to 24.6% in Q2 FY2020 and 19.1% in Q1 FY2021. The profit after tax for the quarter stood at 78 Crores compared to 122 Crores of Q2 FY2020 and 17 Crores in Q1 FY2021.

Let me now share the segmental perspective. In the Inorganic Chemical segment we have reported revenue of 482 Crores during a quarter, which is down 11% as compared to 542 in Q2 last year. EBITDA for the quarter came in at 119 Crores as compared to 179 Crores in Q2



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FY2020, which translates into EBITDA margin of 24.6% in Q2 FY2021 as compared to 33% in Q2 FY2020. The primary reason for this decline was reduced soda ash realization by 13%. We have registered strong performance on a sequential basis on the back of revival in demand of user industry and accordingly our segmental revenue is up by 39% from 346 Crores while our EBITDA is up by 49% from Rs.80 Crores.

Moving on to the textile segment if you would recall we were severely impacted in Q1 due to lockdown, however this segment has bounced back strongly in Q2 on back of pent up demand in our key export markets due to health and hygiene factors. Revenue stood at 297 Crores as compared to 283 Crores in Q2 FY2020; also EBITDA came in at 44 Crores as compared to 24 Crores in Q2 FY2020 translating into an EBITDA margin of 14.7% compared to 8.6% in Q2 of last year. Compared to preceding quarter Q1 FY2020 our revenue has tripled from Rs.94 Crores and EBITDA has increased manifold from 4 Crores to 44 Crores. We generated 161 Crores in cash profit after tax in first half and were able to reduce our working capital by Rs.139 Crores, this cash flow was utilized to lower the debt by Rs.245 Crores and 34 Crores was spend on growth capex whereas 21 Crores was parked in short-term investments. We have also achieved a reduction of 20% in finance cost as compared to Q2 of last year through prepayment of high cost debt and reduction in interest rate. That concludes my initial comments and now I would request the moderator to open the forum for question and answer. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Navid Virani from Concept Investment Wealth. Please go ahead.

Navid Virani: Just wanted to understand that when do you expect the price erosion in the inorganic chemical segment to normalize and when can we expect margins to come back to normal?

R.S. Jalan: As you see that in last few quarters the prices has dropped, but in the last I would say two quarters the prices are almost stable, my understanding at this point of time for the next two quarters we should assume the similar price to remain; however, some improvement we will see in the cost structure and that will improve a little bit of margin, 2021-2022 probably should be seen as better year; however, I would say that we have to wait for some more time to really get it clear the guidance's on how that number looks like in 2021-2022.

Navid Virani: My second question is on how much of this cost saving, which we have achieved is sustainable and how much of it is expected to come back once things normalize a bit more?



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R.S. Jalan: Cost optimization entirely depends on the two things, one how that you run the plant like we have seen in the first quarter we run the plant only for 50% in this quarter we run for 86% and going forward my understanding is it should come to the normal production or the normal utilization so that will definitely improve the cost per tonne. Second advantage which is there, is your pricing of utility or energy that is at this point of the time is lower and my understanding is at least for the next two quarters I see those prices should be in the same range.

Navid Virani: That is it from my side. Thank you.

Moderator: Thank you very much. Next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Congratulations on recovery starting, Just had a couple of questions, firstly can you just update us on what is happening with the antidumping duty. Has it been implemented, is it executed, is it already reflecting in prices and also on the demand supply with regards to imports of soda ash?

R.S. Jalan: Riddhesh Ji first of all on the antidumping duty as updated in the last call, antidumping duty application recommendation has been forwarded by the Commerce Ministry to the Finance Ministry and still no response or no final approval has come from the Finance Ministry we are still waiting on that, normally it does not take that much of time that is almost more than two months, there is definitely at this point of a time we do not have any clue why it is getting stuck up at the Finance Ministry it has not yet been cleared and obviously when it has not been implemented the reflection in the price is not yet there. As you know this antidumping is only a preliminary duty once implemented or once approved by the Finance Ministry it will be applicable only for the six months; however, the final duty was keep going on in the Commerce Ministry and hopefully I think in the next two, three months the final duty recommendation will also go to the Finance Ministry, this is the current status of the soda ash.

Riddhesh Gandhi: If we look at overall global demand and supply of soda ash do you have any few on effectively how do you see over demand growing and if there is any incremental capacity which is expected to come on stream and also Ramanji had indicated about 35 Crores of the growth capex you could just highlight the areas, which we are putting in the capex?

R.S. Jalan: Yes first of all from global perspective China has recovered very well and now in China the demand has grown and they are looking at some firmness in the price has happened in China;



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however, other parts Europe also I would say that at this point of time more stable, but more particularly in the US the demand has not been revived and that is primarily because of their own domestic demand as well as the demand in the South American market that has not revived I would say that in US there is some surplus situation at this point of time, but overall I would not say that at this point of time if I take the entire globe that the demand has come to the pre-COVID level no and that is primarily because of US and the two countries, which I have said and in terms of the import you said import in India has dropped as compared to the last year; however, my understanding is import will be proportional to the demand or the market share they have and they will continue to have that.

Riddhesh Gandhi: If we were to look at it over prices compared to let us say in the last year and if we were to compare average realizations of Q2 and the prices where we are right now could you give us some indication on that?

R.S. Jalan: See last year the prices in the same quarter versus in this quarter there is almost a drop of around 13%; however, like I said this prices are now stable, I personally believe that the prices are come to the rock bottom, now I do not see any further reduction from here; however, in the next two quarters I also do not see too much of improvement also into the soda ash pricing and it all depends on how the antidumping duty move. If it imposed, then probably maybe in the last quarter or in the first quarter of next year some improvement you can see in the pricing.

Riddhesh Gandhi: Price decreases have already started from Q3 of last year I think it is 13% lower than Q2 average, but effectively Q3 would have already been slightly lower so going forward the price implication will not impact as much?

R.S. Jalan: Yes, further price implication will not be there that is what you are 100% right and the prices should be more or less on this level.

Riddhesh Gandhi: Got it thanks and that is all from me, I will go back in queue. Thank you and all the best.

R.S. Jalan: The second question you have asked was 35 Crores, which we have spent this is primarily spent on soda ash mostly. More than 90% has been spent on the soda ash only because we know that another 50000 tonne and another 50000 tonne is on the pipeline so we have started spending the money on that growth project.

Riddhesh Gandhi: It would be expected to come on stream and how long the incremental 50000 tonnes?



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- R.S. Jalan:** Here the full capacity will be there.
- Riddhesh Gandhi:** From actually which quarter onwards would we expect it to start from?
- R.S. Jalan:** April onwards you can see that will be fully operational.
- Riddhesh Gandhi:** Got it and the incremental EBITDA, which we earn on this new capex is also materially higher right the gross margins are high so effectively it would be like north of 40% EBITDA on the incremental capex which we do right?
- R.S. Jalan:** Yes, 100% you are 100% right.
- Riddhesh Gandhi:** Understood Sir. Thanks that is all from me. Thank you.
- Moderator:** Thank you very much. Next question is from the line of Mr. Resham Jain from DSP Investment Managers. Please go ahead.
- Resham Jain:** Congratulations on good numbers actually in tough time. I have few questions, first is soda ash margins, which we have seen in Q2 it might also be lower because of lower utilization so is it possible for you to help us with the impact on margins because of lower utilization?
- R.S. Jalan:** There are two things that I want to highlight one definitely as you rightly said utilization does impact the margin per tonne definitely makes that impact and second also as you know that I have said in the past calls also that Q2 is normally where the raw material costs are on the higher side because of the rainy season in terms of the overall efficiency of the raw material is lower so both this put together definitely is going to help in terms of improving the per tonne margin and going forward.
- Resham Jain:** So Q3 this will normalize raw material also and some of the operating leverage also will kick in. Is that fair assumption?
- R.S. Jalan:** Yes, it should improve, the margin should improve.
- Resham Jain:** this new capacity 50000 tonnes, which will come by March how much capex, has been incurred already and how much is left for this new capacity addition?
- Raman Chopra:** Approximately Rs.170 Crores has already been spent.
- R.S. Jalan:** Rs.170 Crores has been spent and the balance we have to spend is 180.



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Raman Chopra: No balance this year and then something in the next year also so all put together totally around 350 Crores is the total spend.

R.S. Jalan: Total spend is around 350 Crores out of that 170 has been spent and we are talking about 100000 tonnes, so out of this 100000 tonnes we have already spent 170 Crores and roughly around 180 Crores further will be spent on this thing in the next two years, this six months as well as next full year.

Reshan Jain: On home textile last quarter you mentioned that our customer profile does not have some of the large box retailers and possibly as compared to some of the other industry players we are not very well positioned, but the results are actually looking much better so if you can help us with what has happened in the last three months from the customers perspective given that we had a lower exposure from some of the large box retailers?

R.S. Jalan: No, you are right, and the position remains the same our large box retailers are same we have not got any new customers I would say that, but because of the pent up demand the volume has gone up number one. Second we have also done lot of cost optimization also and we have used some of our capacity for domestic usage as well, all this put together has improved our overall margin, overall bottomline and my understanding recently that going forward also we will be in a better position than what we were in the last year.

Resham Jain: Given the current demand conditions in home textile Has our customer profile seen any change because they are also looking out for incremental quantity being supplied to them so any comments over there in terms of any changes in our customer mix?

R.S. Jalan: Two things one like I said next six months looks to be good for overall home textile business and for us and how does this COVID and the work from home and overall the benefit has been given to the US citizens by the US government and election in November, all these things will determine how was the demand whether there is demand growth and one more reason of this demand growth, which we have seen in the last three months was primarily because first three months of last year, I am talking about last January, February, March and April, May, June six months there was a lot of demand degrowth was there because the retail shops are closed and things like that, so there was a inventory misbalance was also there, so keeping everything into mind my understanding is we have to wait and watch to see that next year how does we see the demand likely to happen, but this six months looks to be good.

Resham Jain: My last question is on the overall textile business, which is going to get demerged it would be good if you can give a slide maybe next quarter or so on what will be because as of today



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it is a smaller portion of our overall business, but what will be the growth part or what will be its own part over the next three, five years because currently it has just two divisions and the current intent was that we do not want to invest further in textiles, but once it will get separated it will have its own course of action, so it would be good for us to understand how are we looking just textile business as a separate unit that would be very helpful actually?

R.S. Jalan: No, surely, we will present that view, but at this point of time let me tell you what the thought is we have in our mind is. Textile business will have their own journey and we are making that separation with a very healthy balance sheet of the company and to ensure that they have a growth opportunity into their business, in terms of the debt we will have a very reasonable debt on that company whereas the efforts are definitely much larger than the debt, which we are transferring to them and the way I see the business recently I see personally that definitely we will have a good opportunity of a growth because I see spinning will also do better going forward now even the home textile will do better going forward now, so both these put together definitely at least they will have resources to grow and with the right management input I think probably they will have that journey, but detail presentation they will make to the investors in the next few months.

Resham Jain: Just one bookkeeping question textile debt as on March end was 470 Crores gross what is this number as on September end?

R.S. Jalan: 410.

Resham Jain: Thank you Sir. All the best.

Moderator: Thank you very much. Next question is from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Congrats on good performance on a sequential basis. Sir the first question is regarding the domestic demand so during last concall we had suggested that for domestic demand for this year in terms of soda ash would be down by about 12% to 15% now given that half year is over and we have seen second quarter has been quite phenomenal what was your expectation in overall industry in terms of this demand?

R.S. Jalan: As you rightly said that in six months if you look at the first quarter the demand was almost around 60% broadly. In this quarter it is roughly around 85% broadly I am giving you the number, my personal belief is in next two quarters it should be normal demand so if we can calculate on that basis probably that 10% to 12% number, which we have said or 12% to 15%



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number we said will be slightly on the lower side maybe 8% to 10% kind of a number should be hitting was the overall demand of soda ash.

Rohit Nagaraj: Sir second question is in terms of the EBITDA per metric tonne so how this metric has improved on a QoQ basis and what is it on a comparable YoY basis for soda ash business?

R.S. Jalan: Overall the EBITDA per tonne has not improved year on year or I would say it is much lower than that if you can look at the same quarter, and as compared to the last quarter Q1 FY 21 definitely it is better.

Rohit Nagaraj: On this home textile front you have just answered for the previous participant as well about second half is going to be quite healthy, but given that some of this increase we have seen now in second wave of the pandemic and it could have again impact in terms of exporting the product from India to other countries, so how confident are we that we will be able to supply the product and fulfill that demand in setting up?

R.S. Jalan: Based on our assessment at this point of time we believe that of course the COVID resurgence is happening, but the way I have seen the situation my understanding is we are reasonably confident that next six months could be because at least two, three months the visibility is very clearly being seen by the industry. My personal belief is for this six months probably things should happen, but you do not know in this volatile market something drastically happens wrong then I cannot say but based on our assessment reasonably I am of the view this six months should be reasonably okay.

Rohit Nagaraj: Sir in this second quarter growth is predominantly due to pent up demand or is there any other factor like probably some of the players are out of the system as of now due to pandemic or maybe some issue and that is why we are getting benefitted from this?

R.S. Jalan: Not really, if you look at the home textile total not our company you would look at the total there is every company in the home textile shown a good growth in their numbers this is an overall demand growth, which is primarily pent up demand number one, number two the people are living at home and obviously when they are living in home their focus is more on the home and therefore home related products there is a good growth in the demand, so I personally believe this demand is and third like I said overall the inventory because first six months last year's fourth quarter and this year's first quarter there was a disruption in the supply that has also helped in this quarter the numbers has gone up, it is a real demand growth I would say.



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Rohit Nagaraj: That is good to hear. So just last clarification China's soda ash prices have gone up in last quarter so in Q2 they have gone up on a month-on-month basis and now I believe that they are touching close to about 230, 240 dollars so have we seen any impact from that on domestic prices because your commentary suggested that we believe that Q3 and Q4 flattish kind of pricing? Thank you.

R.S. Jalan: No, you are right this Chinese prices has gone up in last few months, but the impact of that has not been felt on the Indian pricing at this point of time primarily because of Iran, Russia and the US there the prices has not improved, and as you know that the China has never been a major supplier to the Indian soda ash consumers, but yes if the situation continues then probably you will see a positive trend into the pricing because ultimately in any case China is controlling almost around 40% of the total demand of the globe there is a firmness in the prices definitely that will help the Indian prices ultimately.

Rohit Nagaraj: Right Sir. Thank you and best of luck Sir.

Moderator: Thank you very much. Next participant is Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Congratulations Sir on a neat tariff set of numbers. Firstly Sir as the figure ask about the debt number it is 410 Crores for the home textile debt on the books this includes the working capital as well as the long-term debt?

R.S. Jalan: Everything.

Saket Kapoor: If you could give some more colour on how has been the finance cost and the depreciation for the home textile segment for the first half Sir split up of the sales?

R.S. Jalan: In terms of the interest cost structure of textile?

Saket Kapoor: Yes, Sir interest and depreciation.

R.S. Jalan: Interest is also down by almost around if I look at the same quarter last year it is down by around 33% and depreciation is more or less same.

Saket Kapoor: I am asking about out of the total interest cost of 24 Crores for this quarter how much is attributable to the home textile and out of the depreciation also I wanted the split between the home textile and the soda ash?



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- R.S. Jalan:** We do not provide a separate number of the spinning and home textile.
- Saket Kapoor:** The request is there since CCI have now given clearance and we are moving ahead as per our program so if feasible and if it in the ambit of all regulations please be sharing, it would be good if that data can be shared and we can have a understanding of how both the segments are shaping up in respect of finance cost; however, it is not very significant but still it will give more clarity. Sir if we come to the inventory write-off which we took in March of around 20 Crores with improvement in the business sentiments are we expecting any reversal on account of that going forward?
- R.S. Jalan:** Our focus is more on how do we reduce the working capital and I think we have done a good job on reducing the overall working capital deployment into the textile business and in terms of the reversal we will see at the end of the year how the situation pan out and then we will decide about it.
- Saket Kapoor:** For the US market in particular you have mentioned in your presentation also that inventories are higher due to the lockdowns and the productions has been cut back by 30% is it mainly because of the COVID factor because what we read in paper that the industries are not being affected to that extent in US as had been the case in our country but this is what my very little understanding so just wanted to understand is there any structure probably and there it is also the natural soda ash part being played in US so how will this shape up going forward because we are hearing the second wave also in full force in the continent?
- R.S. Jalan:** No, in terms of the inventory if I talk about this global inventory of soda ash frankly speaking the soda ash inventory has gone down since last three months including in the US also the inventory has gone down, the things are better than what it was in the month of June or July, even in China, US everywhere the inventory has gone down. In terms of the COVID what you said I have already given my view on this that I do not see personally that there will be a much significant impact of the COVID resurgence on the overall soda ash demand in my understanding. So I personally believe that things are now better looks to be better as compared to what it was in the first quarter, the scene in the second quarter is better and I think it should continue to be better going forward also.
- Moderator:** Thank you very much. Next participant is Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** Sir if you can just throw a little bit more light on the soda ash segmental demand how are the various segments doing and which are the areas where you have seen a revival in second



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quarter and you earlier mentioned that going forward we expect better demand and also better per tonne EBITDA so should you just throw some more light on which are the key sectors which are driving some demand revival?

R.S. Jalan:

Yes, detergent as I mentioned in the past also that in the detergent we have not seen any demand degrowth; however, currently my personal belief is that is primarily because of the inventory adjustment the small drop is being seen in the detergent demand, but overall you can say this year there will be a kind of a demand there will be muted demand as compared to the last year to say. In terms of major driving source is more on the flat glass, the flat glass, which was in the first quarter was almost very little maybe 20%, 30% kind of a demand is now already reached to the level of around 85% to 90% and my belief is that going forward there will be a further improvement into the demand of the flat glass. Even in the bottle glass also there is improvement in the second quarter and my personal belief is that even in the bottle glass also there will be an improvement going forward also. Overall glass will be the major contributing factor for the demand growth, which has happened in the second quarter and that will continue for the third and fourth quarter.

Kaushal Shah:

Last year FY2020 we concluded the year with around I think 10 lakh production so now that half of the year is passed and there is some visibility, some clarity, is it possible for you to kind of give some indication about the likely volume number for this year and also what are the likely imports that you see first quarter imports were little weak, in second quarter also you have talked about soda ash import so how do you see imports and your own soda ash volume some clarity on that Sir?

R.S. Jalan:

If you look at the overall total demand I would say that roughly the production will be in the range of around roughly around maybe 880000 tonnes kind of a thing and in terms of imports like I said first quarter was weak, second quarter also has been a number lower than the last year and my understanding is going forward it should be in the same range what it was last year you can say overall they will maintain the similar kind of a market share of 23% what they had last year they will maintain the similar kind of a market there. Along with the demand growth the import will also improve.

Kaushal Shah:

On the home textile just one last question by the end of this year you have said that the next six months are very good and looking good for the textile business so by the end of this year let us say March 2020-2021 do you anticipate that we will be closer to full utilization in the home textile or we will still have some room for expansion?



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R.S. Jalan: See two things first on the performance, which I have said, in spinning my understanding is spinning will do better than what it has been done even in this quarter spinning will do better and home textile will continue to do better for the next six months, overall as you rightly said performance in the next six months should be better. In terms of the utilization see currently as I said we are using some of the capacity at this point of time for domestic purpose as well, which ultimately does not give us the same margin but it definitely utilizes our complete assess on that and at this point of time I personally believe we will be using around 80% of our utilization based on these two parameters. Still we will have a scope of around 10% to 15% kind of a volume growth, but at this point of time we are not looking at any investment into the home textile during this year so we will see that whatever the utilization we have that is stabilized and continue to be stabilize then we will look at any possibility of investments.

Moderator: Next question is from the line of Rajeev Agrawal from Doordarshi Advisors. Please go ahead.

Rajeev Agrawal: My first question is you have talked about that you have retired high cost debt, so what is our average cost of debt that we have on the balance sheet and how will we see that trend in for the rest of the year?

R.S. Jalan: At this point of a time our average cost is roughly around 9% and of course we have repaid some of the high debt cost of which was in the range of around 9.9%, 10% and this I am talking about when I say 9% this includes your gross earnings we have certain advantages of some schemes and things like that, so we are not accounting for that, so 9% is my average interest cost in that the long-term debt is around 9% whereas the short-term debt is roughly around 6% to 6.5%.

Rajeev Agrawal: Do you see that continuing to come down further as you progress during the year?

R.S. Jalan: Yes, I think you will see that improvement will be seen going forward.

Rajeev Agrawal: Got it Sir, so that has been pretty good news especially the fact that we have been able to pay a lot of debt in the first six months and then do you have any sense on where we end up with the gross and net debt by the end of the year?

R.S. Jalan: See my understanding is we will be in the position to pay another 100 Crores in the next six months.



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- Rajeev Agrawal:** Great that is good news. Now just moving on soda ash when I do the back of the envelop calculation things like our realization was around Rs.20000 per metric tonne am I in the ballpark?
- R.S. Jalan:** You are talking about the realization in soda ash?
- Rajeev Agrawal:** Yes for soda ash.
- R.S. Jalan:** Yes, that is what it should be lower than 20000, the peak has gone to 21000 and it should be in the range of roughly around 18000 broadly.
- Rajeev Agrawal:** As you said now 18000 you think this is the bottom and we possibly will be around this range for a little while and then things should improve, so as you are saying those hit the bottom the margin should improve because of the cost efforts that you are putting on your side?
- R.S. Jalan:** I think so yes.
- Rajeev Agrawal:** Given your guidance for around 8.8 lakhs metric tonnes of soda ash that basically tells me that we are looking at pretty much 90% to 95% capacity utilization in the next two quarters of soda ash is that again I just wanted to confirm that I am understanding it correctly what you mentioned?
- R.S. Jalan:** Your understanding is correct.
- Rajeev Agrawal:** Okay fantastic and then on textile as you pointed out we have done well the industry has done well look at other players almost everybody is doing very well and that is because of the pent up demand, but how much better can it be on the textile do we think we are at a good level in textile or we can continue to improve from where we are on the margin side?
- R.S. Jalan:** My understanding is like I said there would be further improvement from here onwards because the two reasons one now the garments has also started picking up earlier it was only the home textile now the garment demand has also started picking up and the second I think there is some issue in relating to Chinese some of the retailers had kind of a denied to have the product from one of the particular region of China so because of that there could be some kind of a pent up demand in the garment also that will definitely help the spinning industry overall and that has been seen now so I think spinning to do better than what it has done in the last quarter Q2. Home textile I would say that this numbers or the performance what we are seeing this number should be maintained or in that range, overall things should be better.



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Rajeev Agrawal: Lastly on the cotton price how is that looking how is that impacting your outlook on textile?

R.S. Jalan: Very rightly you said if you look at last year almost same period the prices of the cotton the price has come to the same level or slightly higher than that level in-between the prices in the month of June, which was in the lowest, so after that the demand has picked up in the textile the cotton prices were also gone up so today it is on the pre-COVID same price at the same it was last year so definitely that will have some impact on the cost, but on the other side good part is yarn prices are also improving so that will help in terms of maintaining the margin in the spinning business.

Moderator: Thank you very much. Next question is from the line of Srivastava Venkat from UTI Mutual Fund. Please go ahead.

Srivastava Venkat: Sir I had a question on the sodium bicarbonate business wherein we had talked of good growth opportunities because of the FGD opportunity and all so any update on that, how much we have done on that part of the business and how are things shaping up there?

R.S. Jalan: No Mr. Srivastava nothing has happened on that account because you know that because of this COVID some of the customers mainly the PSU they have started the trial but in-between they have stopped that so at this point of time we have not seen, when the things becomes normal as I said slightly I would say longer-term vision once the utilization starts happening for the **Flu Gas** then we will get pickup in the demand of the sodium bicarbonate, but this quarter or next few month I do not see any major improvement happening because of that usage.

Srivastava Venkat: On the soda ash part we have suffered a decline in the realization and this is also coincided with the ramp up of a key competitor in the last 12 to 18 months so is this decline attributable to some kind of discounting done by the competitor because we needs to sell these capacities or it is more in line with the global prices and there is no evidence of any kind of undercutting there?

R.S. Jalan: You see whenever there is an oversupply situation definitely undercutting happens no doubt about it everybody wants to sell their maximum that do happen, but I would say that this drop in the prices is primarily because of the overall global scenario.

Srivastava Venkat: On this new proposed Greenfield capacity while we have kind of deferred it till such time the COVID impact has gone, but any thoughts on it as at what timeframe you would want to revive it and how would you like to go forward because the way I see it is I think in 2022-



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2023 again you will be short on volume so we need something to keep up going from 2024-2025 onwards so we need to plan at some point, any timeline you have or any kind of other indicators that you would give by which you would actually start looking at the new growth capex on the soda ash part?

R.S. Jalan:

No, your point is valid because if you look at even if there is a growth of demand growth of around 5% roughly you need around 200000 tonnes of extra production and this extra surplus situation what it has been get finished in one or two years and after that definitely will need to have that, but like as you rightly said because of this COVID at this point of time we have paused, but on the other side our efforts on land acquisition and all the other approvals that continues we have not stopped that so that we are ready and once everything all this land acquisition and every approval is there it will take almost around two, two-and-a-half years to complete the project, we are trying to be first complete our land acquisition and other approvals, once that happens then we will define the timeline because it is taking time in the land acquisition definitely it is taking lot of time we never thought that land acquisition will take so much of time of course COVID is also make some impact in that but the land acquisition is taking much more than what we thought of the time.

Srivastava Venkat:

My final question is on the spinning side where you have alluded to a very good margin in the second half but my question is more on a long-term basis given the fact that this industry has seen challenges and lot of small spinning mills are at the verge of closing down or there is one big spinning mill, which is already closed down in Gujarat, so do you see some big consolidation happening in the sector and given the fact that not many players are putting in new capacity, which will lead to some kind of a structural increase in the profitability in the medium term?

R.S. Jalan:

Your point is valid in terms of overall some consolidation may happen, you see this spinning industry in a manner entry barriers are very low in this, wherever the situation becomes better you will find some new people are coming in or the existing people are having some capacity so it is still very low barrier there, but for us our journey is completely different, we are doing in a different way so that we have always competition advantage vis-à-vis these kind of commodity players first of all our cost structures are very, very competitive and I can say that overall if you look at historically you will find our EBITDA margins are much better than the industry level because of our cost restructuring, the way we invested the money to the machinery or the way on the energy and things like that so that is one. Second, we are moving from a commodity space to the value-added space. We produced a lot of value added product, value added product when I say is yarn only, but in a different segment and that definitely improves our margin and our realization so these are the two journey, which we are going on



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this and I am sure that the competitive advantage of ours will improve from here onwards also.

Srivastava Venkat: Fine okay thanks a lot Jalan Ji.

Moderator: Thank you very much. Next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: I have a couple of questions, first on ADD wanted to get a sense on which country imports as the ADD been requested and what could be the quantum of ADD and what was the underlying reason, were these countries actually dumping the soda ash prices lower so that is the first question and the second question is to an earlier participant you said that the average cost of debt for you would be less than 8% currently so what would this figure be at the same time last year and how has that moved and the third is you said that your margins in the domestic home textile industry is lower so who would your customers be in this industry?

R.S. Jalan: See first question which you spoke about is what was the question I am sorry can you repeat it?

Tarang Agrawal: Antidumping.

R.S. Jalan: Antidumping basically there are two countries on which the antidumping has been recommended, which is US and Turkey and obviously antidumping always is only been recommended when the people are dumping the product price lower than the price at which they sell into the other market or they are dumping at a price, which is injurious to the domestic industry so that recommendation has happened only because of that and this time that recommendation is more on a benchmark duty that means if they export or the import comes into India from that country from both these countries lower than \$275 then the difference between the import price and the 275 will get into the antidumping duty, when I say 275 this includes the regular or normal duty, which is 7.5% in the fact that becomes \$263 so if there is export less than \$263 the difference between the import price and the difference will go to the antidumping duty

Tarang Agrawal: So 263 becomes the floor basically?

R.S. Jalan: Yes. Second your question was on home textile the domestic you see domestic basically the product which we are supplying to our competition only and there are many competition of



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ours, they are using or we are supplying to them for their current export or respective market and what was your third question?

Tarang Agrawal: How is your interest cost moved in the last one year?

R.S. Jalan: 150 basis points the rate had gone down.

Tarang Agrawal: What proportion of imports can be attributed to US and Turkey cumulatively?

R.S. Jalan: You see out of the total import I would say if I take the total number you will find that roughly around 50% from the US and Turkey.

Tarang Agrawal: Great thank you Sir all the best.

Moderator: Thank you very much. Next question is from the line of Sachin Kasera from Swan Investment. Please go ahead.

Sachin Kasera: You mentioned that 85% is the utilization for the quarter on a month-on-month basis did we see significant improvement and is it like in September, October we are trending upwards of 90% in terms of the utilization of soda ash?

R.S. Jalan: Yes, at this point of time you can say that we are almost around 90% plus.

Sachin Kasera: Sure. Next question is regarding the capex you have mentioned the total 350 Crores capex for 1 lakh expansion 170 is done and 180 is pending, which will be spent in H2 of this year and FY2022 that is correct?

R.S. Jalan: Yes.

Sachin Kasera: Apart from this no other major capex as of now in soda ash?

R.S. Jalan: Land acquisition of this Greenfield project probably could be around Rs.40, Rs.50 Crores.

Sachin Kasera: So you have also mentioned that we will be repaying another 100 Crores of debt that will be primarily in the soda ash division or it will be split equal in soda ash and textiles in the 2nd half ?

R.S. Jalan: It will be both; our effort is also there to reduce the debt on the textiles also.



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- Sachin Kasera:** Thank you.
- Moderator:** Thank you very much. Next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.
- Sarvesh Gupta:** If I take the utilization as a proxy to sales data and if I use your overall inorganic chemicals revenues then it appears that there has been some 18% QoQ drop in realization for your soda ash business so is that the right understanding or there is a meaningful difference between the production and the sales data?
- R.S. Jalan:** No, I said if you look at Q-on-Q we have already given a specific number the price drop is around 13%.
- Sarvesh Gupta:** No, that is from this Q2 of this year to Q2 of last year I am talking about Q2 of this year from Q1 of this year.
- R.S. Jalan:** No, that is primarily because of the production and sales data.
- Sarvesh Gupta:** So what is the number Sir how much we have dropped?
- R.S. Jalan:** I have told the price there is no drop there is insignificant drop is there around 1% but it is more or less on the same price, the balance whatever the difference you are seeing that is primarily only because of inventory or the production and sales data difference.
- Sarvesh Gupta:** So H2 are we expecting better prices, and have we built in the ADD impact on that?
- R.S. Jalan:** ADD I said let the first ADD gets implemented because it still stuck up at the Finance Ministry level once that happens then probably some improvement can be seen.
- Moderator:** Thank you very much. Next participant is Dhaval Shah from ICICI Securities. Please go ahead.
- Dhaval Shah:** I have a question on the soda ash front so I just wanted to understand the imports from Turkey so given that the Turkish Lira has been depreciated by at least 20% so how much incremental imports have we seen for this first half on Turkey side and what is the realization pressure owing to the depreciation of Turkish Lira?
- R.S. Jalan:** See Turkish Lira you are right that the Turkish Lira has definitely depreciated, but because of that I do not see any major drop in their pricing and I personally believe that there should



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not be any drop in the price because ultimately their overall debt structure is also getting impacted because major portion of that is on the foreign currency loan so my understanding is we are not saying at this point of a time any major drop in the Turkish soda ash pricing and in terms of overall I would say that the Turkish import into India has likely frankly speaking had gone down as compared to earlier period.

Dhaval Shah: Given that the DGTR has recommended around 20% to 30% antidumping on these two countries US and Turkey so do you foresee that this 20%, 30% can put you on the same page like in terms of the production cost or maybe on the realization front or do you foresee that the antidumping should be more than this 20%, 30%?

R.S. Jalan: No, I think first of all let this antidumping duty gets implemented and definitely like I said if that gets implemented definitely that will have an advantage in the pricing of soda ash in India because prices as you seen have 13% gone down as compared to what it was a year back so definitely there has been improvement on that and definitely the Turkey and the US product will become less competitive in India.

Dhaval Shah: That is all from my side. Thank you, Sir.

Moderator: Thank you very much. Next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: My question is regarding overall you are saying the price is going to stabilize and the flat glass has already restarted 85% utilization and other industry is doing good, so considering all these factors how things are happening for the contract soda ash price side?

R.S. Jalan: The long-term contract as you know that the long-term contracts are not 100% of the total demand it is roughly around maybe 15% to 20% of the demand is getting long-term contracts out of that some of the contracts has already been finalized and that has been finalized almost at the same price what it was last time and some of the contracts are still under negotiation, which will get implemented from January 1, 2021. My personal belief is there will not be any significant drop in those prices, whatever the current prices we will be in a position to closer to that level.

Sumant Kumar: How is the spot market when you are talking about inventory is lower globally and as well as in India so from this quarter we can see some strengthening in the prices can you quantify are you sensing any price increase couple of percentage from here in this coming quarter?



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- R.S. Jalan:** No I do not think at this point of time I would like to get from that like I said I would get more price stability for the next six months and my sense at this point of time I would have more on a stability of the prices.
- Sumant Kumar:** So next six months you are saying the price is going to stabilize here only.
- R.S. Jalan:** Should be in that range.
- Sumant Kumar:** Any increase in power cost might impact also the market?
- R.S. Jalan:** I personally feel that power costs also are not seeing any impact or the upside on to the power cost also. Frankly speaking for us the power cost will be slightly lower down because earlier we had this inventory of the energy covered in the six months or eight months back after that the prices **has soften**, there will be some reduction into the energy prices for us because of the consumption from a lower price product.
- Sumant Kumar:** So overall inventory is lower, and utilization is going to increase accordingly our demand is also going to increase so that stability will there be in the price?
- R.S. Jalan:** Yes.
- Sumant Kumar:** Thank you so much.
- Moderator:** Thank you very much. Next question is from Harish Bhatia. Please go ahead.
- Harish Bhatia:** My most of the questions have been answered just quickly on inventory if you see in the last six months it has reduced by almost 140 Crores on standalone basis to 90 Crores so just to understand where this inventory reduction majorly coming from and do we see any further reduction in inventory going forward or it will be mostly on the utilization level, second question would be if you could provide some colour on the sales volume for soda ash if possible?
- R.S. Jalan:** Two things one on the inventory that like you rightly said 140 Crores primarily comes from both the businesses, soda ash inventory also gone down as well as the home textile inventory has also gone down. Soda ash and textiles both has gone down from same number almost around 50-50% is from soda ash and from textiles and in terms of what was your second question you had?



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- Harish Bhatia:** Second question was on soda ash sales volume if you could provide some broad colour?
- R.S. Jalan:** It is almost I would say that the same level what it was last year.
- Harish Bhatia:** Alright Sir thank you.
- Moderator:** Thank you very much. Next question is from Umang Shah from Edelweiss Financial Services. Please go ahead.
- Umang Shah:** Sir I had two questions so on export front if you could just explain how much of your home textile revenues from exports and suddenly this quarter we have seen a good jump in your EBITDA, operational efficiency would give such a huge jump and whether this efficiencies are sustainable if you could just give me a brief on that then I will come to the second question?
- R.S. Jalan:** No, in the home textile as I mentioned almost around the total revenue, which we are seeing major portion is coming from export number only, but yes we have been able to utilize the machines of the processing by taking some of the competitions processing in our industry that gives you some of course lower margin but that gives you a margin that was one of the fact that, that has improved our overall margin number one and the second reason is lot of cost also we have tapered down lot of our fixed cost also and some of the variable cost also so there was a very big focus on the total cost so that has also helped in terms of the sustainability and the way if like I said overall the demand we see the demand we believe that this would be sustainable; however, next year how that things happen will be known only after little bit of stability comes in the next six months.
- Umang Shah:** Sir the order book from our export market is in place so Q1 might be differ to Q2 and all the order book have been deferred by a quarter or this was a lump-sum order that was given in this quarter and we could earn this revenue out of it?
- R.S. Jalan:** No I do not think it is more of an order always you have a visibility of next three months and at this point of time my understanding is we see a visibility of an order and we should be in a position to maintain this kind of margins.
- Umang Shah:** Okay alright and in soda ash part of business our majority of the clients would be glass manufacturers and detergent, so detergent you explained that the industry growth has been flat and there is only some reversal in their inventory because of which there is some degrowth, which we are looking at, but in glass you said that in Q2 things have picked up and



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you are looking at good traction in H2 coming forward that is this flat glass or bottle glass. Is my understanding right?

R.S. Jalan: Very right.

Moderator: Thank you very much. Next question is from the line of Anish from Banyan Capital. Please go ahead.

Anish: My question is around the EBITDA number so the degrowth has been much higher than the revenue degrowth so this also implies at the EBITDA per tonne has come down significantly so first question is to understand why it has happened, is it only attributable to the pricing decline and as we go forward how do you see this moving in terms of EBITDA per tonne?

R.S. Jalan: The degrowth is primarily because of the selling price, as I said the selling prices is almost drop by 13% whereas the cost we have been able to optimize to some extent but is still at around 6% to 7% degrowth has happened and if you are talking about the GHCL you are talking about the soda ash am I right or you are talking?

Anish: Yes, I am talking about the soda ash.

R.S. Jalan: If I look at on a year-to-year basis Q2 FY2021 versus Q2 2020 the revenue has degrown by around 11% whereas your EBITDA the drop is around 8% this is primarily like I said almost the same number so out of this 11%, so overall this is primarily because of realization.

Anish: But as I see the numbers of chemicals business just the chemicals business EBITDA degrowth is like around 33% and realizations have come down by 12% and this is I think the numbers given from the presentation?

R.S. Jalan: No, you are talking about absolute number right you are talking about the absolute number and we are talking about EBITDA margin percentage so revenue degrowth as a percentage is around 11%, EBITDA margin has dropped by around 8%, obviously the number will be because of whatever is selling price drop is there that will have a direct impact on the absolute number the percentage will be definitely be higher.

Anish: My followup question is given our lower realization and let us say if the realizations remain low going forward can our EBITDA per tonne come back to FY2019-2020 level and further grow on that because of the Brownfield expansion that we are doing and where I am coming



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from is that overall in our presentation we are targeting 20% profit growth so the question is where it has been going to come from?

R.S. Jalan: No you are right, at this point of time definitely unless the soda ash prices goes up the improvement of that will not happen so definitely the soda ash prices has to go up number one, number two second is the textile area where we see an opportunity that these are the two areas definitely will bring an opportunity for us to grow.

Moderator: Thank you very much. Ladies and gentlemen, we will take the last question from the line of Dhruv Bhimrajka from Bharti AXA Life. Please go ahead.

Dhruv Bhimrajka: Can you please give the production numbers for soda ash for first quarter of 2021 and second quarter of 2021?

R.S. Jalan: See our production is almost around 100000 tonnes higher than the first quarter and approximately the production is roughly around 235 and it was almost around 136 in the first quarter.

Dhruv Bhimrajka: Okay so 136000 in first quarter and 235000 tonnes in the second quarter?

R.S. Jalan: Broadly yes.

Dhruv Bhimrajka: Okay Sir thank you so much.

Moderator: Thank you very much. Last question is from the line of Saket Kapoor from Harikrishna Securities. Please go ahead.

Saket Kapoor: Sir my first question is regarding our Honorable MD R.S. Jalan Sir regarding his vision of 10000 Crores of achieving enterprise value I am not using the word market capitalization I am using the word enterprise value where enterprise value formalize market capitalizations of long-term debt and short-term debt, my humble submission is that Sir in this regards what is the steps which our company is taking place if you can please share your view on it because it is a very nice vision of our Honorable MD so if we can share some news on it will be very kind of you?

R.S. Jalan: First of all that is a dream for us and definitely the growth in the business as well as the value system in the business, these are the two pillars which bring the valuation of the company. As you all know that on both these fronts we are working hard and purely we will be in a



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position to create that what you call value systems into the system, what the thought, there are many factors which creates a image and the respect or the trust of the investor into the organization that is one journey that is a little longer journey, second is a growth, the growth as you know that in soda ash in last five years we have grown significantly and our journey of growth in the soda ash as well as in the textile like I said textile now the things are looking up better, we will be looking at a growth journey from there also and these two components will definitively bring us on a different platform than what we are today.

Saket Kapoor:

I firmly agree with you honorable Sir and I would congratulate after you come in full form and Honorable Raman Chopra Sir coming in full form right from 2008 and right now in 2020 the company has grown phenomenal so I appreciate the effort given by the KMPs and the entire team at GHCL I have no doubt that we will achieve, but my one suggestion I have that regarding our consumer product that the dividend in India we see that consumer product companies are doing very well whether it is ITC, Marico one session I have like we are in honey and detergent like Nirma IFC that it has forwardly integrated also that it has come out with detergent they are in detergent segment so are we also planning to launch our brands because the Tata Chemical is also in this segment they have launched their brand so if you can share your thought process on it I will be highly oblige if you can share your thoughts on it Sir?

R.S. Jalan:

We already have the brand called i-FLO into our consumer product division and we are pursuing the brand i-FLO and in that we have the spices, honey and edible salt, so these are the platforms. Like you said about the detergent you see everybody cannot do everything you have to must understand that what is your core competency and how do you want to leverage your core competency and our strong belief is our core competency is large manufacturing, cost optimization, so probably our focus is more towards that, but still on a smaller scale we are doing this branding part let us see how it will shape up and going forward.

Saket Kapoor:

I fully appreciate just final question then I will not ask you for any further question. Just one suggestion Sir if possible kindly approach ITC because I see the Tata Chemicals in you, your R&D if you can focus on R&D you can create more value by sodium bicarbonate in pharmaceutical like what Tata's are doing, they are doing in Rallis why I say so Sir because we are only lacking on one point, after being a shareholder of this company for more than two decades I can say only one thing that is on the corporate governance part, you have done very well I appreciate that for the past 12 years now and then the testimony to this fact is that HDFC Mutual Fund has now purchased the share of our company they have enforced confidence in our company so my humble submission that kindly approach ITC because why I say I am calling from Kolkata and what I can understand by the activities they are doing,



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they have just gone for acquisition of 2000 Crores for purchasing a spice business and here we have a company, which is rich in manufacturing experience, manufacturing soda ash if they can come into detergent if they can market your detergent then definitely Sir it will create a huge value for us so that is why this humble submission and suggestion was given with the right intent Sir. I appreciate once again that the efforts given by you and festival greetings to the team members of GHCL Sir. Thank you, Sir.

R.S. Jalan: Thank you SaketJi and we have noted down your suggestions definitely we will work on this and see what best we can do.

Saket Kapoor: Thank you Sir.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today I will now hand the conference to the management for closing remarks.

R.S. Jalan: Thank you very much all the participants and as I have been saying always that our job is to make sure that we do our best in achieving the performance and me and my team are continuously working on that and those inputs many times helps in a big way to us, to introspect ourselves and look at the opportunity of improvement. Keep on giving us such suggestions and ask us the difficult and difficult questions because that will help us to kind of improve upon us and thank you very much for your confidence on us.

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