“GHCL Limited Q3 FY2018 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to GHCL Q3 FY2018 Earnings Conference call, hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Niket Shah from Motilal Oswal Securities. Thank you and over to you Sir!

Niket Shah: Thanks so much. We at Motilal Oswal are extremely pleased to host this call to discuss Q3 FY2018 results for GHCL. From the management, we have Mr. R.S. Jalan, Managing Director of the Company and Mr. Raman Chopra, CFO and Director (Finance). I will hand it over to Mr. Jalan for his opening remarks post which we can open the floor for Q&A. Over to you Mr. Jalan.

R.S. Jalan: Hi everyone, I am glad to welcome you all on this earning call for Q3 FY2018. Your continued trust, encouragement, support and fair criticism give us energy, passion and inspiration to strive for improvements. I have Raman our CFO along with Sunil and Abhishek on this concall to take us any queries that you may have. We have given a fair guidance since Q4 FY2017 that the financial performance shall have a bearing due to raising commodity prices and headwind in the home textiles business. The performance of H1 FY2018 reflected the same both in terms of margins and absolute numbers. We are glad that from this quarter, a positive upward trend is reflected in the performance with PAT improving by 33% from Q2 FY2018.

Now let me take you to the business wise dynamics to enable you to better interpret the above performance. We have maintained our stronghold in chemical segment with 53000 metric tonnes increase in soda ash production registering 28% growth over Q3 FY2017. This had been due to additional volume from continued expansion and also building efficiency in our production processes. You would be happy to note that we have registered 97% capacity utilizations in nine months of this year. On the back of higher production volumes, we have been able to increase our domestic market share from 23.5% in the FY2017 to 24.5% in the current nine months period. Our continued focus on business excellence in the segment has resulted in the increase in the EBITDA by 23% over Q3 FY2017. Coming to the micro industry dynamics, whereas Europe is showing a positive trend; however, tightness in the Chinese region is now softening. We need to remain watchful as Turkey is expected to complete their expansion of 2.5 million metric tonne by March 2018. In this, market have remained buoyant during the quarter registering a 10% demand growth in three quarters of this year. This had led to the absorption of higher domestic volumes with stable pricing.

Coming to the textile segment as indicated earlier owing to the select sector headwind and weak operating performance. Our performance has remained low both in terms of revenue and EBITDA. There has been a situation of destocking's of inventory level in USA by all Indian manufacturers indicating concerns of US slowdown and structural changes from brick and mortar stores to the e-commerce platform. Recently we have established traceability of recycle PET in synthetic fibre in association with Reliance Industries. Being environment friendly, we expect to tap good market investor in the world however being at initiation stage, it will be difficult to make projection on the same. We have also taken constructive measures of strengthening marketing and further development teams along with focus on improvement in the operational parameters. We will have more clarity in next two quarters; however, we are confident to improve the situation during next financial year. The spinning business is however doing well with a strong demand for yarn in both domestic and export market.

To update on capex projects, we have doubled our refined by cargo net product capacity to 60000 metric tonne, our soda ash Brownfield expansion of 1.25 lakh metric tonne is on track and likely to complete during Q4 FY2018. We are actively focused on the Greenfield expansion plans and we believe that this project will act as a big catalyst in the GHCL growth journey. I now invite Raman to walk through this quarter's financial performance in detail. Thank you.

Raman Chopra: Thank you Mr. Jalan. I welcome this august gathering of financial fraternity on today's earning call. To apprise you with our performance for the quarter ended December 2017. Previous year's revenue numbers have been reclassified according to the Ind-AS in respect of excise duty and GST accounting. The revenue for the quarter has increased by 19% from Rs.618 Crores to Rs.738 Crores in Q3 FY2018. EBITDA for the quarter is Rs.158 Crores versus Rs.163 Crores of Q3 FY2017 and Rs.139 Crores of Q2 FY2018. EBITDA margin achieved during the quarter was 21.5% as compared to 26.4% of Q3 FY2017 and 19.4% of Q2 FY2018. Profit after tax is Rs.71 Crores versus Rs.81 Crores in Q3 FY2017 and Rs.53 Crores in last quarter of this year. Consequently our EPS for the quarter is 7.29 per share.

On a segmental insight in our inorganic chemical segment, we achieved the ever highest production of 2.43 lakh tonnes during the quarter as compared to 1.91 lakh tonnes during the same quarter of last year. Thus resulting in a higher sales volume of 55000 tonnes from 1.78 lakh tonnes to 2.33 lakh tonnes including a refined bicarbonate sales. A revenue for the segment has increased 37% during the quarter regarding a topline of Rs.497 Crores as against Rs.361 Crores in Q3 FY2017 whereas the input cost have remained high, the EBITDA for the segment has increased by 23% to Rs.157 Crores in Q3 FY2018 from Rs.128 Crores of Q3 FY2017 and 16% up from Rs.136 Crores of Q2 FY2018, increased production volumes due to expansion and focus on operational efficiency has enabled us to achieve this performance. We have maintained our EBITDA margins at 32% which is 100-basis point higher as compared to the last quarter as per our guidance given during our previous calls.

In the textile segment, the headwinds have continued to impact entire industry though the performance has not been good, but it has remained inline with our guidance during the previous concall. There has been a drop in revenue to Rs.241 Crores as compared to Rs.257 Crores recorded in Q3 FY2017, EBITDA margin have dropped to 1% as compared to 14% in Q3 FY2017 and the same levels of Q2 FY2018. As indicated by Mr. Jalan, we have strengthen our marketing team and our operating team in this segment and we are confident that will be on track to improvement in the next two to three quarters. The overall debt of the company had come down from Rs.1431 Crores in March 2017 to Rs.1314 Crores which is a reduction of Rs.117 Crores. We have improved our debt equity ratio to 0.85 from 1.04 in March 2017. The ROC for the quarter is 18% with ROE of 26%. I would now open the house for discussions and any questions that you may have.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thank you for the opportunity and congratulations on decent set of numbers. I just have a couple of questions on soda ash side. Just want to get a perspective if we see globally and also across key regions including India, how is the demand-supply trend panning out right now?

R.S. Jalan: If you look at globally, Europe is doing well. Europe demand looks to be buoyant. Even on the South America side also, the demands are good. Overall if you say other than China. China is also I will say not on the same percentage of 10%, but otherwise China demand is also in the range of around 5% to 6%. So overall I would say that this year globally our expectation is the demand growth globally should be something around 3%, 3.5% and if you come to India, India like I said nine months period has given a growth of around 10%, which is a very good number for the Indian growth and we expect that the way the economy is being seen, I believe that for next few quarters, it should be in the same range.

Viraj Kacharia: Okay. If I look at it globally in terms of demand-supply trend, globally how would that trend we as a market in deficit right now or a market in a slightly surplus position, because you mentioned about softening in Chinese market, which has some additional capacity which may be coming from China as well now and considering that is 2.5 million which is expected from Turkey in the next couple of quarters, so just want to get a prospect of how the demand-supply trend is looking at the moment and expected to pan out?

R.S. Jalan: My understanding that overall globally the demand-supply situation other than Turkey is fairly balanced and like I said if you look at the 3% demand growth that is the big number and that numbers comes to on a 66 million of the total capacity is there in the world. If I take 3% it comes to something around 1.8 million. So this 2.5 million of Turkey should not disturb too much into the market place, because I also believe that the Turkey this 2.5 million will not get stabilized as quickly as we were expecting before. So therefore my sense is that this should be a fairly balanced market. Out of that, one million has already come. Like I said I do not see oversupply situation in the market. On the other side I will also not say that there is a shortage of supply let me put that way. But one thing I just want to add here is which is very important that overall the currency play is also making a major impact on the overall scenario of I am talking from the Indian perspective. If you notice that today India is being supplied 46% of the total import into India by the Europe. There the Euro has appreciated by 14.5% whereas the Indian currency has appreciated only by 6%, so roughly around 8.5%, the Europe price had become noncompetitive, so that we will have some advantage to the Indian producers. Last point I just want to highlight. China is not looking at a major expansion in the next one year. Our belief is that the China some new capacities will come, but some old will also get stopped, so therefore we are not seeing too much of supply coming in in China. China's export to the other world will gradually reduce.

Viraj Kacharia: Just two more questions. One is on the price trend which we are seeing in soda ash and sodium bicarbonate, what will be the prices such as there in the market right now?

R.S. Jalan: If you look at soda ash prices in India, from September onwards we have increased the price almost if I take on per tonne basis, we have increased the price approximately around 2% already and we have recently on February 1, 2018 yesterday only we have taken another increase of around 2% roughly. So I would say that the prices have formed at this point of time.

Viraj Kacharia: If we look at our overall profitability at EBITDA per tonne or margin perspective despite the market being relatively balanced and the price being formed. On a year-on-year basis, we are still profitability on per tonne basis is relatively low, so I just want to understand why is that because the market is fairly balanced and the price is forming up why there has been been difficult to pass on?

R.S. Jalan: I do no think if it is difficult to pass on and if you look at a long-term perspective, you will find and let me give you some numbers so roughly that can help you to understand. Our margin in Q1 2018 was approximately around 6300 which had gone up to 6700 in the Q3 FY2018 which we are just right now talking about it. So the margin per tonne has increased by almost around Rs.500. Now in terms of like I said on one side we have increased the price, but on the other side, the raw material prices have also gone up. So in spite of raw material prices have gone up, we have been able to improve our margins on this business.

Viraj Kacharia: So with this 2% price increase which you took in February, does that fully cover for the raw material cost increase?

R.S. Jalan: Right now February we have taken on first of February, so I think this Rs.400, with this increase of 2% probably we will improve slightly our margin in the going forward.

Viraj Kacharia: But it still does not fully cover the cost increase which you have seen right?

R.S. Jalan: No, I said already our margin was X and Q3 our margins are better than the X that clearly indicates that they have been able to pass on the cost to the customers.

Viraj Kacharia: Okay fine. Thank you very much.

Moderator: Thank you. Next question is from the line of Amit Kadam from LIC Mutual Fund. Please go ahead.

Amit Kadam: You mentioned the demand is coming basically you said Europe and South America has seen actually good demand and China has been now in the range of 5% to 6%, but in terms of like customer side or industry side, can you first like where it is like I understand it is more like glass and also detergent industry, but still any pickup in few things which are not there earlier anticipated a new customers or new clients have been added or new industries have added to this particular thing for this 3% global demand and on the India side also 10%, where the growth is coming from especially?

R.S. Jalan: In India, the growth is in the typical industry. One like I said in the glass industry, there is a good growth because of housing sectors, because of automobile, so there is a good amount of growth into the glass segment. Similarly the same kind of a growth is there even in the detergent segment also, because of this urbanization, because of the expectation of the people for a better product. The detergent demand is also growing in terms of the – and therefore the soda ash is initially going up. Just to be specific to your question. I do not think any new consumption point has been added. The new customer must have been added who has come into the business, but no new consumption point has been added into this industry. There are some possibilities which I cannot discuss right now. There are some possibilities where there can be a good opportunity for a new industry adding as a consumer for the soda ash which is getting developed, but that will take some time. If that happens probably that can add a good demand growth into the Indian space, but that will happen may be after one, one-and-a-half, two years.

Amit Kadam: Okay and my second question is on the ADD, so I just want to get myself clear on this particular part where do we stand as a industry on this ADD?

R.S. Jalan: Right now the matter is subjudice and matter is pending before the Gujarat High Court. Judgment is reserved by the Gujarat High Court that order can come any time then only we will be able to know what is the status of ADD.

Amit Kadam: Okay and the third question is on our textile division, we know what is happening but how do we see down the line in one year, how the things should play out in this particular division or in this particular segment for us, I want to just check whether we stand as a Indian companies competing in US how the things are right now there?

R.S. Jalan: As I mentioned in my earlier calls in the last quarter calls also and I have given in detail that there is a definitely headwind into this industry primarily because of all the factors coming together to hound this industry. On one side government incentives on this sector has been reduced. Dollar has been depreciated. The raw material prices have gone up and not the last but not the least the overall dynamics in the US market which we cater around 50% I am talking about the Indian industry, there is a structural change happening there, lot of retailers are also getting into the financial difficulty also there. All these put together there is a headwind in this industry. That headwind probably at this point of a time I do not see that all of certain risk going to be tailwind in the industry. People have to work together to make sure that how do we handle this headwind. But business wise at this point of time I do not see too much of favourable things are coming into the way. We are to only look at our operations efficiency, we have to look at our utilizations and we have to look at the right customers. Those kind of a thing has to be done to address this issue and as I said we are coming with one innovate product, we see it environment friendly, we are really creating a brand for this product, we are doing a lot of marketing budge also into the US market which we are going to launch in March 2018 into the US market, we have a hope on this product. If that happens probably we will have better numbers going forward.

Amit Kadam: Then this Rs.240 odd Crores of quarterly revenue what we are clocking with Rs.1 Crore of EBITDA in this segment, so we will continue with this particular thing or we will see a further slide in this particular quarterly revenue in this region, simultaneously we are restructuring our business, so there would be a constant dip in this particular thing or 240 now, we will continue to per se this business whatever we have?

R.S. Jalan: No I think your question is very valid and which I have answered before also in the last call also that we are in the business of making money and any business which does not create a value; we can give some time to that business to stabilize and do justice to the investment. If that does not then we are in the business we have to take a right decision for that.

Amit Kadam: Okay. There are a couple of questions I will again come back Sir. Thank you.

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

Saket Kapoor: Good evening Sir. Congratulations Jalan saab, Raman Sir, Sunil Ji and Abhishek Ji. It is a good team work that we have been able to post good set of numbers. Sir coming to the first basic point about Turkey which you spoke that around 1 million is already in the system and 1.5 is in the process. Generally they follow I think there is a calender year and price revision do happen sometime in the month of January, so have internationally also Turkey and other major they have taken price hike that has resulted in us also taking the revision of course or no prices have been changed as per internationally?

R.S. Jalan: I would say that overall if you look at globally there is definitely a slightly firmness in the prices of soda ash.

Saket Kapoor: In the dollar terms…

R.S. Jalan: I am talking about the dollar and second like I said time has just changed very quickly, Euro appreciation over dollar will make a big impact going forward, because around 14% appreciation vis-à-vis other countries appreciation in the range of 8%, 7%, 6% kind of appreciation, so Europe has catered to around 46% import in India will have a big impact and they are cost competitive, so that will give us an opportunity to the Indian players to remain as a stable pricing.

Saket Kapoor: You mean to say that even if the anti-dumping duty does not hold, this will be accounted as prevailing to this, the Euro appreciation?

R.S. Jalan: Yes, if you just take an example if 14%, 15% translates into something around $30 whereas anti-dumping duty on Europe is only $10. So from that perspective if you look at of course I told that market scenario changes very rapidly we do not know, but at this point of a time my sense is I do not see in near future some kind of a challenge on the pricing or some kind of a challenge on the demand-supply situation, I do not see at least.

Saket Kapoor: Things are definitely looking very good for the soda ash for us and we are also on track for expansion, so this impact of RBC expansion also will kick in for the next quarter and in the March quarter we will be seeing the full benefit of which is coming to…?

R.S. Jalan: Surely that additional volume of our sodium bicarbonate will definitely add to our bottomline.

Saket Kapoor: Generally Q4 seems always for the industry has the largest quarter in the soda ash industry and you have been taking 97% utilization level for the nine months, we do not have much of a buffer for that expanded capacity to come into for the Q4, so the traditional of Q4 being the largest will not be particularly available for this year, because already we are running at 96, 97 where is the point for good**.**

R.S. Jalan: When we were structuring 90% that time also we had a similar kind of a thought that 90% looks to be good numbers. Okay I remember that even my belief was that 90% is a good number, culturally work in a slightly differently way, we never think that this number is the best number and we cannot do better than that. Whether we achieve or not that is a different thing. We move from 90% to 92%, 95%, 97% and though my team has not told you, but this quarter the utilization will be 100%. So what I am trying to say is let us hope that we do continue to do the good job.

Saket Kapoor: Right Sir. Now coming to the pain point for us the textiles industry, home textile part. Sir over the last two years, we have put capex also in the industry and the things just are not trying to improve, so first of all how much capex have gone into the textile segment for the last three financial year if you could quantify and how much is still in the process work in progress if you could give the number Sir?

R.S. Jalan: Let me answer your question this way that we have two segments. The segment number one which is your spinning, our major portion of capital allocation is on the spinning side and that is giving a good return. Last year also, it has given good return and even in this bad scenario of the spinning industry, still my margin EBITDA margin is around 16%, so that portion where we are doing at a capital allocation, the numbers are satisfactory number. Now let us come to the home textile where the big challenge is there. Yes, we have to do some capex on that to maintain efficiency and things like that to improve the operational efficiency, but capital allocation in this business is not very significant and going forward also, I have said before also our capital allocation on the home textiles till we improve and come to a respectable number, capital allocation will be only for the purpose of improving the performance. We are judicious on our capital allocation because we have to give your return, it is our responsibility as a management is to allocate the capital only when we find that there is a reasonable return on that investment and we will honour that and we will try to achieve on that those principles.

Saket Kapoor: I was just looking for the figures, how much money we have put for the spinning part also?

R.S. Jalan: We can give you offline these numbers.

Saket Kapoor: No issues and secondly Sir now with our Greenfield in court and Brownfield also which we are trying to take into account, with the Greenfield coming up how will the mix look. Now currently it is 63 to 37 towards the soda ash and the home textile. With the further expansion coming up in the next year, how will the percentage look like for the next financial year if it you take the revenue mix?

R.S. Jalan: Revenue mix as per my understanding in the next year should be slightly the soda ash can improve on the revenue mix, but our focus on the spinning side investment will continue, because this year our Air Jet spinning project is getting completed by March 2018, so that will also add into our revenue next year. Similarly soda ash, we will have an advantage of this sodium bicarbonate next year. So my essence is this number will approximately in the same range which you have seen in this year probably the similar kind of a number should be there mix wise.

Saket Kapoor: Your team has done an excellent job, meeting investors, attending conference call, I think is the good points getting from investors also of ultimate when carving out this textile part into a separate entity, this also not performing over the last one year, are the circumstances directing you for carving out, so the better valuations can be achieved if you remain close to that because for this year it is only the soda ash that has kept the concern, because no contribution is there from the home textile segment?

R.S. Jalan: I would say that it depends on every industry, be it a soda ash industry, be it a textile industry there is a cyclical impact on the industry and you do not take your decisions based on the short-term cyclical impact on the business. Give fair chance to any business to perform on the expected line; however, if the business does not perform on the expected line and you find that there is less hope on future to be on that line then you take a hard decision and which I have very categorically said in the last concall also, we are a prudent management. We will always take a right decision keeping the shareholders and other stakeholders in the mind on a long-term basis not on a short-term basis. I hope I have been able to answer your question.

Saket Kapoor: Just to conclude you will give more time that is what we can take into from your understanding that more time should be given for the textile to at least be given right.

R.S. Jalan: And Saket ji when you say long-term that is a very subjective, long time means what is the long time means. For you, the long time can be one year. For me, the long time can be three months. Two things I have said. One is, you should give a time, but you should also assess that whatever the time you are giving, what is the likely outcome of the time, you may go wrong, but you have to assess that likely chance of success. If you find that there is no likely chance of success or the probability of success is low then giving a long time is not the right decision. However, if your likely chance of success is better then definitely you should give some time.

Saket Kapoor: No issue Sir. I will be in the queue.

Moderator: Next question is from the line of Resham Jain from DSP BlackRock Mutual Fund. Please go ahead.

Resham Jain: Thank you. Just a couple of questions. One is on the textile business if you can give a breakup between your home textile and the spinning revenue for FY2017 that would be helpful so that is first. Second also on the spinning side if you can give some broad outlook given the cotton prices the way it is behaving. What is your sense in terms of spread and if you can just explain from Q2 to Q3 what kind of spread you are making on the spinning side and third question is on the procurement side of the cotton, what is your procurement cycle, are you typically long for two to three months or you typically cover for the full season, that is it from my side?

R.S. Jalan: I will try to answer the last question the first. We have already covered my cotton for more than 85% of my total requirement up to November. So we in the cotton coverage which is one of our biggest strength, we always look at a long-term view on the cotton. The second question which you had which is in terms of the Q2 versus Q3 performance of the spinning. Our revenue in the spinning has grown by 31%, this is primarily you remember because of the GST there was some kind of destabilization in the Q2. So this increase of 31% is primarily because of reduction in the inventory or I would say impact of the GST has been neutralized. Even if you look at as compared to Q3 FY2017, the revenue growth in the spinning is around 8%. Now having said on the EBITDA, you will find that the EBITDA in Q2 versus Q3 is approximately down by Rs.4 Crores to Rs.5 Crores that is primarily because in the Q2, there is a wind season that has something around Rs.7 Crores benefit, the impact is around Rs.7 Crores because of only seasonality of the wind. If I remove that abnormal impact of the seasonality then our performance on the spinning side Q2 FY2018 versus Q3 FY2018 is better. Now in terms of first question if you can repeat your first question?

Resham Jain: The revenue of home textile and spinning if you can breakup for FY2017, you had Rs.1226 Crores revenue in FY2017?

R.S. Jalan: Yes, I will give you that number. In spinning, our revenue is after net off of... Raman will give you that number, because we have some internal transfer also, so he will give you that number, but broadly I can say approximately around total production I would say gross revenue of spinning is around Rs.550 Crores out of that approximately around Rs.150 Crores gets transferred to the home textile. So if you take a net off of 1200 you have to pay 400 from the spinning , and around Rs.800 Crores you will have to pay for home textiles.

Resham Jain: Has the spread been improving for you in the month of January as compared to in the month of October when you were using your last year’s frozen inventory?

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

Resham Jain: In the spinning segment as compared to October or November 2017, has the recent month like January has the spread improve in the spinning side?

R.S. Jalan: Definitely in this quarter which is January, March quarter and January has already gone. I would say that we see a positivity into the performance of spinning as compared to which was there when we were using the old cotton up to October.

Resham Jain: Okay, thank you Sir.

Moderator: Thank you. Next question is from the line of Rohit Sinha from Emkay Global. Please go ahead.

Rohit Sinha: Thank you Sir for taking my question. Most of my questions have already answered. Just want to clarify one question that since you were saying that raw material prices have increased, so on what front and what is the main components which have increased and especially on the coal side what was the, I mean how much was the sourcing of coal from outside?

R.S. Jalan: Sourcing of the coal is primarily approximately around 3 lakh tonnes we import which is percentage wise will be how much will be… approximately around we import 60% to 65% of our total requirement and balance 35% we source locally and out of the 35% we have our own lignite, we used some percentage of our own lignite also. Now you asked for the cost wise. Cost wise generally as you rightly said the major impact is primarily because of the energy, energy coal or your coke which we use primarily, there is a increase in that cost which has made an impact of approximately around 3%, 3.5% of the revenue and approximately in other raw material like salt, limestone there is a impact of around 2%, all put together we have mixing in chemical also some percentage, all put together out cost has gone up by 7% as compared to last year FY2017 versus FY2018. But we have been able to recover because of our expansion, because of our volume growth; we have been able to recover approximately around 3% to 4%. We have been able to mitigate this cost by my expansion or the better efficiency that is why you see overall my absolute numbers of EBITDA has gone up.

Rohit Sinha: Okay.

Raman Chopra: For the quarter as well as for the full year.

Rohit Sinha: Fair enough Sir and do you see any further uptake in your raw material sourcing?

R.S. Jalan: At this point of time it is anybody’s guess that how the energy situation will be, because you are seeing that petroleum prices with the way…but my sense will be we in June, our energies are already at kind of I would say that reasonably well priced, so I personally do not believe that there can be too much of increase should happen into the raw material prices which is prevalent at this point of time.

Rohit Sinha: Thank you Sir. That is all from my side.

Moderator: Thank you. Next question is from the line of Sam Patel from AUM Fund. Please go ahead.

Sam Patel: Sir I am not completely aware of you said you have discussed some of the issues facing the textile business. If you can really enumerate what exactly that you are facing on the bedsheet side of the business, you said spinning is doing well. On the bedsheet side of the business, what exactly the issue because we are not finding yet overall the industries in a bite of stress but not margins of 1% etc.

R.S. Jalan: Like you rightly said on one side industry has headwind, but our impacts are much stronger on us, because historically we were not closer to the industry benchmark into this business even in the previous when the situation was buoyant or there was a tailwind in the business. Our margin gap was already there and that margin gap was primarily because we were the players, which have not been able to cater to that kind of a segment where the margins are good and the second was that our customer mix was also not as it should have been. The third even in the operation side probably we have not done the kind of a job which the benchmark industry has been able to do it which a few quarters back I have explained to our stakeholders that we are taking corrective action on that and as I said that we have taken some corrective action on this account by changing the management team there and we are hopeful then probably going forward, we will be able to improve upon on that. To summarize what I have said yes, we are not closer to the competition on the margin front and our impact because of this headwind has been sharper in our case as compared to the competition, but we are taking all steps to improve upon our performance.

Sam Patel: The related question then is why are margins dipping so shortly you explained, but what about sales, so are you finding it difficult to maintain even sale levels margin obviously because of pricing pressure etc but what is the issue with maintaining sales?

R.S. Jalan: There are two reasons. One is that we are rationalizing our customer mix; we are trying to exit from those customers which are not adding to the bottomline in our business, so we are trying to exit from those businesses which is making our revenue degrowth. Second some of our customers where they are facing the financial difficulty so we have to necessarily adjust on those business. On one side averaging the sales, on the other side, customer side because of the financial difficulty we had to adjust on those customers. So these are the two primary regions of our revenue degrowth is happening and there is no growth in the market itself and therefore we are not getting any additional volumes from many customers.

Sam Patel: So just to continue that line of questioning, so basically about a few quarters ago if you look at your results though your margins were not in line with the rest of the industry players which were more in the 18 to 21 range but you were in the sort of high single-digit margins or low double-digit margins. Are we to understand that you lost some of your… or you rationalized out of your best customers which are giving you reasonable amount of margin and now you are left with those set of customers were earlier you are not making good margin and hence your margins have depleted quite dramatically?

R.S. Jalan: Yes, what you are saying is 100% right. A few of the customers where… because in this business it happen that customers shifts from one manufacturers to another manufacturers, this is a common phenomena in this business, so yes some kind of a shifting do happens, in our case also it will happened, but primarily like I said primary region we are trying to restructure and we are trying to make sure that we deal with those customers where at least we have reasonable kind of a volume as well as reasonable amount of margins.

Sam Patel: But even that Sir is going to be slightly longer process given that there is a lot of capacity even in India everybody has expanded and they already have relationships, the big bedsheet manufacturers in India, how does that position you and what leg hold you have to get into some of these better paying higher margin customers?

R.S. Jalan: Very right question and like I said in my speech also that the process which I have just explained that your RPET or which we called is a recycle polyester. You know that the millennium customers at this point of time every part of the world, more particularly the main market is US, are very concerned about the environmental impact, so we have come up with a product, which is in association with Reliance and there is a very-well reputed organization in the US, which is a research organization with the product which is made out of the recycle polyester where the product will be the same in terms of the quality, in terms of the feel, in terms of everything, but it will be milled out of the recycle polyester. Now that has a differentiation which I can say so vis-à-vis the commodity because our millennium customer would like to have something at the same price where the impact on the environment is better. Now this product, we have a hope from this product. In addition to that one of two new innovations also we have done which are launching. Now all these things along with marketing which probably what somewhere we were missing in the past, the branding of this product, which I have just explained we are doing, so this can change our dynamics and that is we are hoping for.

Sam Patel: Okay Sir. Thanks.

Moderator: Thank you. The next question is from the line of Amit Kadam from LIC Mutual Fund. Please go ahead.

Amit Kadam: Again on this textile, so when this particular thing is happening, the competition is steep and plus we are exiting from a few of the clients, which are into financial trouble, so is there like receivables have got elongated or maybe like some of the debts are like good to be categorized under bad debt in the times to come?

R.S. Jalan: As per the policy of the company we always cover whatever the receivable we have, we have an insurance cover on that. So we try to protect our receivables by covering by the insurance.

Amit Kadam: So at least no threat on the receivable side because of this rise in competition to us, right?

R.S. Jalan: Yes.

Amit Kadam: Thank you Sir.

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

Rohit Nagraj: Thanks for taking my question. A couple of questions on the soda ash front have we seen any closures in China and are there any new project announcements in China?

R.S. Jalan: Yes some of the small soda ash plant in China has got closed and because of this new policy of the environment there are a lot of disturbance into the plant or the capacity utilization of many of the plant in China. In terms of new Greenfield project, the kind of a base, which they have even if they come with a million tonne plant in a year that is not going to make any major impact on the global demand-supply situation because their total demand is something around 24 million. Like I said even if I take 5% of their growth, they require a million tonne and overall their export into the other part of the world, which is only 2 million, 1.5 million, not even now… used to be 2 million it is only 1.5 million, so that way the Chinese, even if they come with a million tonne plant probably the impact on the global demand-supply situation will not be alarming. We do not see China as a threat in the global demand-supply situation disruption, rather we see China as a facilitating factor to improve the sentiments of this commodity.

Rohit Nagraj: How much would have gone off stream you said there are small capacities, which have been shutdown, so approximately what could be the number?

R.S. Jalan: No at this point of time I not am able to have that number in front of me, but I can give you the off line, you do let us know I will send you that number.

Rohit Nagraj: Sure. Fair enough Sir. Other question is in terms of contracts for soda ash, now we have taken price hike yesterday, so how long are those contracts valid for our customers?

R.S. Jalan: There are different customers has a different contracting this thing, but by and large barring few large customers the contracting is not very long, it is on the spot price kind of a thing, but yes in few customer definitely it happens.

Rohit Nagraj: All right and Sir last question in terms of market share we have gained about 1% market share, so who has lost it in terms of, we have gained it because somebody must have lost it, so who is that?

R.S. Jalan: This kind of dynamic change in the market demand-supply situation happens, whoever increased the production he gets the market share, so we have increased the production and therefore we got the market share. Obviously the people who has not increased the production, they have lost the market share.

Rohit Nagraj: All right. Fair enough Sir. Thank you so much for taking the questions.

Moderator: Thank you. Next question is from the line of Sagar Shah from SK Analytics. Please go ahead.

Sagar Shah: Good evening Sir. My first question was regarding the home textile business in US, I know someone has already asked you the question, I was listening to your answer, but according to you if we have lost that business in the home textile business in the US, which is predominantly I think if I assume it was higher margin one since our margins have dropped to nearly 1% now if we calculate the nine-monthly earnings, so we are finding some good opportunities in US, but according to you instead of US are we seeing opportunities in other parts of the world or in India to at least duplicate that business or may be to substitute that business?

R.S. Jalan: Two things, one is in the US market itself like I said the new innovation which I have just spoke about, two new innovations, we see good possibility that we will regain our volume into the US market itself that is number one. Second definitely on the Europe we are working very aggressively with some people in the Europe, again which is always led by the product innovation, so some amount of job in the Europe is also being done. So probably that some good news should also come from that market as well, even like you said Indian demand growth is good, the organized players are getting a footholds into like organized retail segment is expanding their base and we see a good opportunity there and we are supplying to the large retail into the Indian market as well. So probably all these three counters definitely should allow us to retain our lost ground.

Sagar Shah: So according to you the next year would be at least better than this year in terms of textile division?

R.S. Jalan: Sure, it should be.

Sagar Shah: It should be in terms of sales and margins both you are saying?

R.S. Jalan: Sure.

Sagar Shah: My second question was regarding that since we have doubled our sodium bicarbonate expansion and also in your investor presentation it has been written that the Air Jet spinning project will be commissioned till March 18, so since you have doubled the production of sodium bicarbonate so in the next year are you seeing some heavy demand from that side basically, from both of the side one more segment?

R.S. Jalan: Sodium bicarbonate yes there is a good demand. Growth is being seen in this segment, number one. Number two, today also a lot of import is coming in that segment, so definitely this expansion will help us to cater to the increased demand as well as to reduce the import in the country. So we are hopeful that that will help us in terms of overall growth. The second on the Air Jet Spinning this is a new technology, which we are coming with and definitely there is a good efficiencies in this business this is growing. So this also will help us to increase our topline.

Sagar Shah: So according to you both of these would be, demand would come from the domestic market or some from the international market you think?

R.S. Jalan: Only domestic market.

Sagar Shah: Only domestic market?

R.S. Jalan: Yes.

Sagar Shah: So the FY2019 numbers will something like that will be addition of these two business segments you think something like since you have doubled the capacity and also with the Air Jet spinning project, which is a new technology altogether.

R.S. Jalan: Yes it will happen.

Sagar Shah: Thank you Sir.

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

Amar Maurya: This is Amar here. Congratulation for good set of numbers, so Sir if I want to understand from a global dynamics perspective and primarily focusing on the pricing, so how do you see the sustenance of this from at least two and a half to three years' perspective and secondly given the demand supply gap, which is happening primarily because of China and somewhat because of the US, do you see that in this commodity also, the price where which we are today in terms of the realization can sustain and can it go further?

R.S. Jalan: Let me give you some dynamics and probably that can help you to understand because nobody can guess what is likely to happen. Only the logic of how the dynamics of this business is playing out you can assess what could happen. If someone is coming with a Greenfield project at this point of a time whether this pricing can sustain and he can make a margin out of this business my answer is no. So therefore this gives you an indication that if the pricing does not improve, new capacity will not come and if new capacity does not come, supply situation will become worsened and that will lead to the price increase, so this is the dynamics of this business. Now to give a second answer on this is, last 10 years to 15 years this soda ash prices has always been increased and if 10 to 15 years it can happen, in the longer term as you rightly said three years, two years, four years down the line, there is no reason the prices should not go up.

Amar Maurya: Basically what you are saying here is that Sir two things, one thing is that if the realizations go up from here on it is most likely that lot of this unproven plant or unviable plant will become viable, so their capacities will come once the prices goes up? If price realization remains at this level, we will not see any new addition happening? Is that a fair assessment?

R.S. Jalan: First of all let me tell you there is no plant in the world shuts closed and it can be revived.

Amar Maurya: New capacities meaning Greenfield only will come?

R.S. Jalan: It has to come and one plant other than I would say China, which is an exception even in China cannot come in less than three years' time.

Amar Maurya: Okay and Sir the issues, which are there in China today say like smaller facilities getting closed down because of the pollution control reason and all those things, first thing is are these plants meaningful plant and is there any meaningful plant, if they face the heat of the government protectionism against the pollution control, do we see a significant improvement in the realization because of that?

R.S. Jalan: It is anybody's guess because I always look at the long term. I never looked at a short-term scenario. In the long term like I explained to you there is a good chance that this business has to justify the investment and from that perspective definitely there is a good chance of the prices would be up. However short-term many things can play. On one side like you said China, environmental impact can plan. On the other side, Turkey is coming up. That can make an impact. In India, Gadi is coming with a new capacity, so all these demands-supply situation on a temporary basis can make an impact.

Amar Maurya: But Ghadi I believe will come only after one and a half years right Sir?

R.S. Jalan: No Ghadi will come may be in the last quarter or say third quarter of this year 2018-19.

Amar Maurya: Ghadi happens to be a client of yours today?

R.S. Jalan: Yes.

Amar Maurya: Sir last question on a ballpark if you have some idea that at least how many metric tonnes of the capacities in China got closed down and what would be the world's contribution of China in terms of the soda ash today?

R.S. Jalan: Like I said I do not have a specific number that how much soda ash capacity has closed down, but if you look at the total global demand, global production in China, this is almost around 40% of the global demand and also a 40% and there was supply also of the 40%. Another thing let me clarify in the industry historically I had seen gap in the long term may be a quarter or two quarters or the three quarters can be slightly different, but in the long-term the demand comes first and the supply comes later. It is the supply follows the demand. That is the reason there is stability in the prices.

Amar Maurya: Got that Sir. Thank you Sir. Thanks a lot.

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

R.S. Jalan: Thank you very much all of you. Your questions have always inspired us to look at differently and your appreciation has always helped us or motivate us to do better. On behalf of the entire GHCL management, I can promise you that we will do everything possible to create a value for our stakeholders. Thank you for participation.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Motilal Oswal Securities that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.