



# “GHCL Limited Q1 FY16 Results Conference Call”

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**MODERATOR: MR. ROHAN GUPTA – RESEARCH ANALYST, EMKAY GLOBAL FINANCIAL SERVICES**



**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY16 Results Call of GHCL Limited hosted by Emkay Global Financial Services. We have with us today Mr. R.S. Jalan – Managing Director, Mr. Raman Chopra – CFO & Executive Director, Finance of GHCL Limited. As a remainder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today’s presentation. If 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. Rohan Gupta, Research Analyst of Emkay Global. Thank you and over to you Mr. Gupta.

**Rohan Gupta:** Good evening ladies and gentlemen, on behalf of Emkay Global I welcome all the participants logged in for the conference call of GHCL for Q1 FY16 Results. From the management we have Mr. R.S. Jalan – MD and Mr. Raman Chopra – CFO & Executive Director, Finance. Good evening sir.

**R. S. Jalan:** Good evening Rohan, thank you.

**Rohan Gupta:** First of all thank you very much for giving us the opportunity to host this conference call. I believe that this is the first time company is doing any conference call with their investors and I welcome that encouraging move from the management. First I will request if you can take our investors through you quarterly results and also if you can spend a little bit time on industry dynamics and then we can follow it up with the question and answer session, over to you please go ahead.

**R. S. Jalan:** Thank you Rohan and good evening ladies and gentlemen. On behalf of GHCL I welcome you all to this call. I have with me Mr. Raman Chopra, our CFO & Executive Director, Finance.

GHCL is a professionally managed company in existence for almost 27 years. To begin with, I would like to share a brief outline of our business followed by our quarterly numbers. We have two business verticals, inorganic chemical and textile. Our total top line last year was around 2400 crores. Inorganic chemical has contributed 60% and 40% came from Textile. Our Soda Ash facility is located in Gujarat and Textile Division is located in Tamil Nadu and Gujarat. Our top line growth in last 5 years is a CAGR of 13% and our EBITDA has grown by 12% CAGR same period. This growth is primarily because of the better utilization, continuous quality improvement and higher realization. We have continuous process improvement programs in all other divisions that has led to record capacity utilization. We have expansion plans in Soda Ash and Textile Division in the next three years.

Now I would like to go through the Soda Ash industry. Globally the Soda Ash capacity is around 67 million tons and production is around 56 million metric tons which is almost around 80%. The industry is growing at the rate of around 3-4% and 25% of the total Soda Ash demand comes from the natural Soda Ash which primarily gets produced in the US and Turkey is also recently emerging as a major producer. Balance 75% comes from the Synthetic Soda Ash. China is the largest Soda Ash producer with a capacity of around 32 million and India has only 3.1 million metric tons of capacity. In India the major players are Tata Chemicals, GHCL, Nirma. Along



with that there are two small players, DCW and TAC. GHCL has 24% market share in domestic Soda Ash industry. Imports also contribute around 23% of the total demand of Soda Ash which is primarily being catered for South and East of India. GHCL is one of the lowest cost producer of Synthetic Soda Ash with a capacity of 8.5 lakh tons. GHCL is working with an 87% capacity utilization which is the highest in the industry. Generally as I said, subsidiary utilization is around 80% but GHCL is working at a capacity utilization of 87%. The major raw material for Soda Ash is Limestone, Salt, Coke, and Coal. We have approximately Salt cost is around 15% of the total cost, Limestone is around 17-18% cost and Coke is around 20% and fuel which is for producing steam and power cost around 40%. We have our own captive lignite mines and briquetting plant which gives us a major cost advantage. We produce then Soda Ash which is normally used for the glass industry and live Soda Ash we produce which is normally used for the detergent.

Our customer list includes Hindustan Lever, Gujarat Guardian, Gujarat Borosil, Philips, L&T and so on. We have an expansion plan of around 100,000 tons in Phase 1 which will be implemented by FY17 with estimated cost of around 375 crores. Then we have a plan of 1.5 lakh metric tons an estimated cost of 575 crores in Phase 2 which is likely to be completed by FY19. With our cost competitiveness we enjoy EBITDA margin of around 34% which is best among the industry. Overall we believe that the industry will grow at the rate of around 5% over the next three years.

Now let me take you to the textile business. We have integrated textile division, our spinning facility in Tamil Nadu with a total installed spinning capability of 175,000 spindles and 3320 rotor where produce 100% cotton and blended yarn. The production during the last year was around 21,000 tons, our Home Textile plant which is located in Vapi near Mumbai in Gujarat with 162 Air jet looms and 36 million meters of processing capability. We also have around 30 million meters of stitching capability. Out of our total Textile business 68% of our product we export it to US and 18% to Canada. Our client list includes Bed Bath & Beyond, Target, CES, Kmart, House of Fraser in UK, etc. We are improving our production processes to reduce the cost which is evident that last year our EBITDA margin was around 10.5% which has gone to now 13.8%. We foresee a good demand in the business in coming years and see a huge demand coming from our existing clients and new clients. We expect improvement in both top line and margin going forward. We target to invest 100 crores over next two years in this business. We see a huge opportunity in the textile business as industry is likely to grow from US\$ 60 billion to around \$ 140 billion by 2020.

Our strategy going forward is to commit ourselves to growth CAPEX along with the Green Energy initiatives to focus on effectively reducing our power cost. In addition to this, we would continue or focus on deleveraging ourselves from the current level of debt equity ratio of around 1.72 in March 2015 to 1.4 to 1.45 by March 2016 and below 1 in the next three years.

Now I would like to hand over to Mr. Raman Chopra to run through the quarterly results of Q1 2016.



**Raman Chopra:**

Thank you Mr. Jalan and thank you Rohan and good evening to all the participants. I would now present you a quick recap of our performance for the first quarter ended June 30, 2015 on a stand-alone basis. Our revenue for the quarter has increased from Rs. 562 crores last year to Rs. 588 crores registering a growth of around 5%. Our EBITDA has grown by 13% by Rs. 18 crores from 134 crores in June 1<sup>st</sup>, first quarter of last year to 152 crores in Q1 of this year. Our EBITDA margin for the same period has increased by 190 basis points from 23.9% to 25.8%. Profit Before Tax and before the Exceptional Items has shown a robust growth of 19% and has increased by Rs. 14 crores from 75 crores last year to Rs. 89 crores this year. During the quarter we have reported an exceptional item of around Rs. 14 crores which pertains to VRS settlement at our Soda Ash factory wherein 142 workers have availed the benefit of this scheme. We expect that the company shall be significantly benefited from this scheme in terms of lower wage cost going forward. Therefore our PAT which is Rs. 61 crores has to be seen in light of this Exceptional Item of Rs. 14 crores which was not there in Q1 of last year. On a segment-wise insight our both businesses have done quite well in the current quarter and posted a robust growth. In the inorganic chemical segment the revenue has grown from 343 crores to 347 crores during the quarter. This is due to the fact that our Soda Ash plant has taken a maintenance shut down which was taken after 18 months during this quarter which was not there in Q1 of last year. This has resulted in a lower production and sales of around 13000 tons which is 7% lower. Despite this our EBITDA from Inorganic Chemical Division has increased to Rs. 118 crores in current quarter as compared to 111 crores in Q1 of FY15. The increase in EBITDA is mainly contributed by increase in EBITDA margins by 180 basis points from 32.3% to 34.1% which is owing to both higher realization and lower operating cost. Our Textile segment has also contributed significantly with top line increasing from 217 crores in June 2014 to 240 crores in current quarter registering a healthy growth of 10.6%. Our exports during the quarter has increased to 161 crores as against 128 crores in the corresponding quarter. EBITDA in Quarter 1 from Textile Division has also increased by 11 crores, from 23 crores to 34 crores registering a growth of 46% and EBITDA margins has increased from 10.5% to 13.8% in this quarter.

I would now request Rohan to take this call forward. Thank you.

**Rohan Gupta:**

Thank you sir. Can we open the floor for Q&A session?

**Moderator:**

We will now begin with the question and answer session. The first question is from the line of S Kapoor from Maple Vyapar Pvt Ltd. Please go ahead.

**S Kapoor:**

First of all coming to your debt level which you have very well categorically mentioned at 1.7, could you clarify more on what is the net debt level as on June?

**R. S. Jalan:**

As of June it is around 1334 crores to be precise.

**S Kapoor:**

And second, split it up into the long term borrowing and the working capital requirement?

**R. S. Jalan:**

Long term borrowing is roughly around 838 crores and working capital is around 496 crores.



**S Kapoor:** And the capacity expansion which we are taking up now that will need additional capital, so what is the way forward for it? We are going to take more debt for it?

**R. S. Jalan:** Basically as you know that we have the cash generation as well. If you look at last year of cash generation was approximately around 300 crores, so we believe that going forward our total debt level will not go up and in spite of that we will be able to meet our CAPEX requirement. That is why I said debt equity ratio will further go down from 1.7 to 1.42 to 1.45 by March '16 and going forward it will be less than 1.

**S Kapoor:** The name of our company is GHCL Limited which stands for Gujarat Heavy Chemicals Limited. There is no mention of Textile even in our company's name. Even though it is contributing to the revenue as well as to the EBITDA we are not reaching to investors as a composite company of Chemical and Textile, so something should be done so that in the name itself the Textile part is also mentioned otherwise it is just a Chemical company as by the name goes.

**R. S. Jalan:** I appreciate your suggestion and definitely we will take a note of it but let me tell you the background. When we started our journey, of course, as you rightly said name was Gujarat Heavy Chemicals which was representing the chemical business and subsequently we changed this name to GHCL Limited primarily to take care of our diversification. Now question remains is as you know that people historically know you from your past name, like even in the childhood if some name has been given to you in spite of that have a new name. If you look at even the street names also.....this kind of a call and this kind of a representation will definitely help us to make the investors aware that we represent both the industries, Textiles as well as Chemical business. But your suggestion is well taken, we will definitely deliberate on that.

**S Kapoor:** My question is pertaining to your Textile segment, who are our nearest competitors just to get an idea of how are we basing in the same business, whether Indo Count, Himatsingka are we competing with them in the markets or are we of differently?

**R. S. Jalan:** You are right, in terms of if you look at broadly our competitions are Indo Count and Welspun and of course, Himatsingka as well. Of course, Himatsingka is slightly different in terms of their market positioning whereas we, Welspun and Indo Count on the same market space. However, in terms of the strategy if you look at maybe slightly different for the different competition. Like for us, we believe in a complete integration kind of a model whereas our competition sometimes believes that complete integration may not be a good idea. So depending upon the business strategy of various competitions obviously the margins also changes. Now, if you look at our margins of course at this point of time in our Textiles, because we are new entrants, our margins is not matching with our competition and that is the reason we are continuously focusing on that and we are very sure that in the near future we will be able to benchmark ourselves with the competition.

**S Kapoor:** They speak of a very light.....



**R. S. Jalan:** You might be referring today's newspaper article of Business Standard where Indo Count is talking about a light CAPEX. You see basically like I said, every business mix or every business strategy has plus and minuses. On one side when you say light, there can be some challenges also in that. But if you look at Welspun they are more on the kind of a strategy what we have, it's a complete integration. Because you see in the market dynamics of a commodity if your backend and forward end is also covered your margins are more protected in a long-term perspective, this is what our belief is.

**Moderator:** Our next question is from the line Saket Kapoor from Suyash Finance Pvt Ltd. Please go ahead.

**Saket Kapoor:** My question is regarding the different policy of the company which brings you running in the ratio of say, earning per share is Rs. 18, still then you have just increased the dividend by 20 Paisa. What is the actually the policy of the company?

**R. S. Jalan:** I agree with you that at this point of time we don't have any stated dividend policy; however, if you look at historically till FY14, our dividend payout was almost around 18-18.5%. Of course in FY15 our percentage is lower but if you look at our dividend yield to our investors that is very good. Now coming back to our future policy, definitely this question has been raised by even our shareholders in our last AGM. We are definitely going to take up this matter and definitely our objective will be to reward the shareholders but the for rewarding the shareholders I am looking at from both sides, one is from the dividend payout and the other side also a growth so that their overall growth in the business gives them higher returns on their overall investment.

**Saket Kapoor:** Buyback is one of the policy of the management also where they can create value for the shareholders?

**R. S. Jalan:** No really, at this point of time I don't think we have any policy of a buyback.

**Moderator:** Our next question is from the line Nilesh Doshi from Techno Shares & Stocks Ltd. Please go ahead.

**Nilesh Doshi:** Once again thank you for hosting this call and I hope that you will continue this uninterruptedly on a longer term basis. Sir, first question is on the margin side, can you elaborate that why are margins in Textile much lower than our competitors in spite of we having one of the best facility in the country?

**R. S. Jalan:** Nileshji, thank you very much for asking this question and let me explain to you but before I answer this specific question let me tell you, this call which we have started in this quarter we are sure that we are going to have this for indefinite period. Definitely our objective will be to inform our investors on regular basis either the good days or the bad days. And now coming back to your specific point on the Textile, as I said, I do admit that our margin at this point of time is not matching with the competition. Primarily there are two reasons for that. One, at this point of time we believe that we still need to improve our customer mix. And secondly, still we need to work on our cost and capacity utilization. Our capacity utilization as this point of time



is not more than I would say 80% whereas competition is (+) 90% so obviously we need to improve our capacity utilization plus we also need to improve on our customer mix. These two things definitely will lead, plus the third which I just said our cost. Definitely we are working on these three like you see last year it was around 10.5%, this has been improved to 13.8% and we are very confident going forward we will be able to improve on overall margin. This year looks to be good, 15-16 looks to be good and we believe that the margin should further improve going forward.

**Nilesh Doshi:**

Second is on the strategy as you explain with respect to the competitors. Don't you think that with the yarn being a very commoditized product today and including the Grey Fabric, it's wiser to go only for processing and stitching where your ROCE will improve substantially and that is the need of the day today that you improve the capital efficiency of the company. So are you not looking on those lines to improve your ROCE then going into... all the time backward into yarn and weaving, etc.?

**R. S. Jalan:**

Nileshji, like I said every company has their own different experience and expertise. If you look at the GHCL journey, we have started our journey from the spinning. I can only tell you today our spinning margins are really very healthy. It is wrong to say that spinning margins are lower on the home Textile. It depends on how do you operate, so our experience at this point of the time is spinning is really worth making an investment. I can give you two different counters like Welspun if you look at, recently you must have noticed that they have gone for a huge investment in the spinning and weaving as well. Recently another company which is your Punjab-based company, Trident; they are also coming and they are talking about the backward integration. I can share with you some of my experiences in the past. I remember distinctly 3-4 years back, there was a spurt on the cotton prices and the yarn margins were very healthy and people who are not backward... I would not say fully backward... not protected from the backward integration, they had to suffer a huge bottom line hit as well as they had to suffer the customer relationship as well because they have not been able to deliver to the customer in time. Like I said, everybody has a different belief; everybody has a different kind of a thought. We believe that, not 100%, but some amount of backward integration is very important. I remember distinctly one of the call which around 5 to 6 years back, we were talking to one of the largest textile company in the world and their CEO was talking about that we must have around 25% of our capacity minimum, you should have the backward integration. We would have timely delivery to the customers because in this business your customers prices are fixed for a longer period of time that will not fluctuate the way the commodity prices fluctuates.

The second thing which is again very important is that in the next 2-3 years time we are increasing our production capacity of the process. We are also increasing our capacity on the stitching because that is a very critical component of the overall on-time performance to the customers. We are also investing in the wind power; we are making a good amount of money in power. These three things if you look at, of course, process capability will increase our top line as well as bottom line whereas we are not talking about a major investment in spinning. In terms of percentage our captive spinning ratio will come down. But still I believe that certain percentage of spinning and weaving is must to have a consistent track record of your return.



- Nilesh Doshi:** But currently how is this spinning business doing because we to sell large quantity of yarn so how is the margin panning out in this spinning area?
- R. S. Jalan:** Last year margin was slightly lower and basically for both companies which covers the cotton for a longer period of time but now I will say that since the cotton prices are also lower, yarn prices are also lower, the margins are reasonably okay.
- Nilesh Doshi:** How do you see Soda Ash business panning out and how sustainable these margins as we go forward?
- R. S. Jalan:** In terms of the growth opportunity in the Soda Ash business, we see definitely a good future for Soda Ash, but a couple of things are important for the Soda Ash business. It is very difficult to enter into this business because you need to take care of lot of things. That's the reason if you look at last 15 years not many players have come into this business. The demand growth is roughly around 5% going forward. We see a robust growth in this. And second like I said, of course there are lot of imports coming but that import is coming primarily because there is no capacity in India at this point of the time. We see a great future for Soda Ash business that much I can only tell you.
- Nilesh Doshi:** Are we looking at any expansion or debottlenecking or something?
- R. S. Jalan:** Yes we are looking at an expansion; like I said we have already started one phase where my production capability will go up by 100,000 tons and with the capital cost of around 375 crores which will get completed by March '17. Then in second phase we are going to another 150,000 expansion which will be completed by March '19.
- Moderator:** Thank you. Our next question is from the line of S Kapoor from Maple Vyapar Pvt Ltd. Please go ahead.
- S. Kapoor:** In your press release under the column growth, plans and opportunity have particularly spoken in the Soda Ash segment tie-up for international sourcing in Elite Chemicals.
- R. S. Jalan:** Very good question. Basically as I mentioned in the corporate presentation which has been uploaded, if you look at what we say is that southern and eastern market in terms of the logistic because Soda Ash is the logistic game as well. In a long-term basis it will be difficult to service that market from Gujarat because of the logistic cost. Its cost is something around \$80. \$80 is the cost of transportation of the Soda Ash from Gujarat to the Southern market whereas the import comes where the logistic cost of Chinese goods or European goods is something around \$ 30-40. Now that is the cost advantage for import. Therefore, what we are talking about is two things, we want to cater that market by strategic sourcing of our chemical Soda Ash as well as we are adding some portfolio of other product chemicals as well to create a basket of a chemical into these two markets. We are talking about at this point of time STPP and Soda Ash and also we are talking about Sodium Bicarbonate which we are producing in our plant. These two





markets specially want to.... and some portion of the Western market also we want to feed from the strategic sourcing from outside India.

**S. Kapoor:** What will we be particularly sourcing from there I missed your point?

**R. S. Jalan:** Soda Ash.

**S. Kapoor:** Soda Ash, we will be importing it?

**R. S. Jalan:** We will be importing Soda Ash from these two markets and we also will be importing Sodium Bicarbonate for those two markets and STPP we will be importing not only for these two markets, we will be importing for other markets as well.

**S. Kapoor:** STPP means?

**R. S. Jalan:** This is basically used for the same kind of a customer like it is being used in the detergent.

**S. Kapoor:** We will play a role as a trader there?

**R. S. Jalan:** I would not call it as a trader, I would be saying strategic sourcer and to fulfill the need of our customers because ultimately our objective is to fulfill the need of our customer as well because we have a customer base in the South and East also.

**S. Kapoor:** You earlier informed about 838 being the long-term debt and around 496 as the working capital requirement.

**End of file: 30.00**

**30.00**

**S. Kapoor:** Sir if we further split it up into the segment wise working capital requirement, do you have the figures for how much working capital is required for our Soda Ash business and what is the requirement for our textile part kept segregated?

**R. S. Jalan:** If you look at our total 496, our short-term borrowings for chemical business is something around 158 whereas in the home textile is around 338 crores.

**S. Kapoor:** We posted a top line last year of around 1100 for the textile division, something around that only, how much have we posted?

**R. S. Jalan:** Roughly around 1000 crores.

**S. Kapoor:** Working capital requirement of around 338 crores?

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



**S. Kapoor:** That is very captive intensive and you in your earlier speech have explained that you're working to this portion also diluted going forward.

**R. S. Jalan:** Correct. See basically as you rightly said the turnover cycle of the textile business particularly the home textile is slightly longer because by the time you get the order, by the time you execute the order its almost takes around 4 months. You have to source the raw material, you have to produce the raw material of Grey Fabric and then you have to do the stitching and then you have to ship it. The shipping time itself is around 25 to 30 days in the various markets. After that you have the trade receivables as well. All put together and some of the customers where we have to service them by keeping their inventory in the US market, in the US warehouse, all this put together increase my or reduce my turnover ratio. However we are working towards this to reduce and the overall working capital deployment in this business.

**S. Kapoor:** Could you please more elaborate on the textile business opportunity which you have already mentioned... some hints you have given about the textile business, how well are we positioned and what is the business potential there in this segment if we take ourselves as a very small player in comparison to others like Welspun and Indocount? We can go by leap and bound because some other big players also we have read in newspapers like Alok and others are losing their market due to cash liquidity problem with them. How are we positioning ourselves to take advantage of this green shoot that is appearing in this segment?

**R. S. Jalan:** Like I said Saketji that definitely we look at a good opportunity in this business. Currently if you look at our capacity is almost around 80%-85% we are utilizing, the balance around 10% to 15% which we are trying to cater to this thing. By next year we are looking at an expansion in this business. We definitely see a good opportunity in this business going forward. In terms of the positioning if you say because this business is also primarily towards the cost leadership and we GHCL definitely are very good at cost leadership. We are definitely putting ourselves on the right path for this business.

**S. Kapoor:** Can you give any idea about what order book are we currently booking?

**R. S. Jalan:** Let me tell you, generally what happens is definitely you have the clarity of next 6 to 8 months of time you have a very clear order booking positions. However some on the customer because this is going on the basis of the programs like we had one program from a customer called Bed Bath & Beyond. This program runs on year-to-year basis, 2 years, 3 years kind of a thing. Of course they don't give you what you call a commitment that this program will run for 3 years or 4 years or 2 years or 1 year. If the sales are good their program continues day in day out. Basically what happens they sell and they buy. If you look at many of the programs they are running for last 2 years, 3 years, and 4 years kind of a thing. In some of the competition if I can say so those programs are running maybe 7-8 years. Basically what I'm trying to say in this business the long-term visibility is there from the customer.

**S. Kapoor:** As you informed right now that we are 80%-85% of our capacity is being utilized in the textile segment. Taking the revenue part there is no larger scope of building greater revenue in the



segment. I mean to say if you have capacity is 80-85 then you can only get the buildup of 15% going forward.

**R. S. Jalan:** No Saketji there are two possibilities in this, one possibility is like I said next year expansion which will add to another I would say 20% of my revenue will grow, number one. Number two is the value mix, currently the kind of a business mix which you are doing and the business mix which you do tomorrow. If I can say so today our home textile revenue is something around 600 to 650 crores. We have a potential without any capacity expansion, this will go up 800 crores to 850 crores then if you add to that another 20% of the capacity then you can imagine the kind of a potential we have. Like I said if you take a long-term perspective on this business, we see a good opportunity in this business because one thing I also want to mention here is till now the Indian markets are being fed by the unorganized sector. But the way this spending trend is changing in India, the way I would say that middle class and the rural population, their disposable income is going up, we see that there is an opportunity in Indian space as well. Lot of retailers will be coming to India and organized retail will take place in India. We will get an opportunity also to supply to these retailers in India as well.

**Moderator:** Thank you. Our next question is from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

**Rajesh Kothari:** The first is if you can just little bit explain in detail in Soda Ash business, what is our cost per ton and if you can do further breakup of that cost per ton, number one. Number two whether it is better to look at EBITDA per ton rather than cost because I am not too sure how frequently you get pricing revision on both raw material as well as finished goods price. Third on the Soda Ash business is what is the Soda Ash finished goods price outlook considering the China impact? Once we complete Soda Ash we will move to textile.

**R. S. Jalan:** Basically the competitive numbers I would like to stick myself on the EBITDA margin. I can only tell you that in terms of historically if I can go for last 5-7; the margins are quite healthy in the Soda Ash business. Generally what happens you get historically again if you look at you generally get the price revision if your cost goes up, generally that what I have seen. If you look at in April 2015 we have taken the price increase. Now this trend if you look at 5 years of my track record you will find that those kind of price increase which got nullified the cost implication barring I would say some small aberration in the whole process you get increase in the cost. Now in terms of the second question which you asked, if you look at like I said my salt cost is around 15% of my total cost, my limestone cost is around 17% to 18% cost, my fuel cost which is coal and lignite is roughly around 40% of the total cost and roughly around your coke is around 20%. The cost breakup is like that and broadly if I can tell you my EBITDA margin is around 34%.

**Rajesh Kothari:** Basically considering the China is right now...

**R. S. Jalan:** Basically you know that China is a huge capacity around 31 million which they produce around 26 million. Of course in terms of the cost of production of China if you look at their costs are



matching with our cost of production. We don't see any major reduction in the pricing of China because of the cost pressures.

**Rajesh Kothari:** Whether we have antidumping duties and like that, what are the duties?

**R. S. Jalan:** Currently we have an antidumping duty Rajesh which is starting on June '17.

**Rajesh Kothari:** How much is the antidumping duty?

**R. S. Jalan:** On China it is roughly around \$36-\$38 and in the US it's around same level.

**Rajesh Kothari:** \$38 per ton?

**Raman Chopra:** \$36 to \$38 per ton of Soda Ash.

**Rajesh Kothari:** And what are our fuel linkages?

**R. S. Jalan:** Fuel linkages you mean fuel sourcing?

**Rajesh Kothari:** Yes.

**R. S. Jalan:** Fuel sourcing, we have a strategic advantage that we have our own lignite mines. Roughly around 20% we use our own lignite and we have a sourcing arrangement with one of the vendor where we have an agreement for 3 years of contract, of course the pricing depends on the international prices which are ruling at the time when we book the consignment. But we get the consistent quality from the same source and same vendors.

**Rajesh Kothari:** Pricing varies every month, every quarter?

**R. S. Jalan:** I would say depending upon yes because you are linked with the exchange and therefore at the time of booking definitely your price gets ruled. But generally we keep coverage of something around 9 months to 1 year. We forward book for almost around 9 to 12 months.

**Rajesh Kothari:** What is the reason for recent increase in Soda Ash prices despite China is going through significant slowdown?

**R. S. Jalan:** Like I said demand is really robust and almost we are fully sold out and because of the demand supply situation recently you can say in China it's slightly soften but otherwise China prices are also firm.

**Rajesh Kothari:** Is it that lot of capacities are going out because of the unprofitable business in last few years because you are saying industry is growing only at 3% to 4% globally, am I right?

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



- Rajesh Kothari:** What lead to significant demand because the industry demand growth is only 3%-4% so is there any supply which is going out from the system?
- R. S. Jalan:** No I would say that supply disruption is only in the Europe because of some natural Soda Ash has come into the Europe and the demand was lower in the Europe and because of that some of the competitions plant also in the Europe has got closed, some of the other competition also, players also there some of the plant has closed. However we believe that going forward we don't see any major disruption in the supply side except in China, they are running at a lower capacity because of their cost pressures and they don't want to reduce the price because of the cost.
- Rajesh Kothari:** It is more like controlling the pricing kind of thing.
- R. S. Jalan:** I would not say that they are controlling the price because it's a cost pressure in China. It is only in China at this point of time because of their cost pressures because there is another technology which is (HAU) process, there the other chemical which they produce out of (HAU) their prices are also on the lower side. Keeping overall cost they are forced to reduce their production.
- Rajesh Kothari:** In terms of, therefore, PBIT margins if I look at inorganic chemical and it has been very volatile if I look at last quarter-on-quarter, last 18 quarters if I see it has been quite volatile from as low as 15%-17% to as high as 32%. How do you see margin in this segment?
- R. S. Jalan:** I don't think our margin has ever been 15% to 17%.
- Rajesh Kothari:** If you look at September '12, if you look at September '11 something like that then it would be lower?
- R. S. Jalan:** No I don't call that as in history.
- Rajesh Kothari:** But being a commodity I'm just looking last 10 years trend where your sales have remained almost constant over the company level? I'm just going through that because being a commodity cycle it can go up as well as down, am I right? I'm just trying to understand would you see the margins outlook in the segment?
- R. S. Jalan:** If you look at our last 5 years of the data as well like I said our margins are not I would say lower than something around 27%-28% to 34%-35%. I don't know we need to look at your number how you have calculated that. But our understanding is our margin has been around 27% to 28% to 34%. Obviously some fluctuation in the commodity business takes place. But in the near future at least in a 1 year period of time and the way the material prices scenario is at this point of the time and the second thing I think probably you must be referring on one thing which my colleague has just highlighted. If you look at quarter to quarter basis there is seasonality in the Soda Ash business. In the 2<sup>nd</sup> Quarter normally what happens because of the rainy season generally the industry, the production in the second quarter is lower number one. Number two, you need to consume different kind of raw material with sometime reduce the margin in the Quarter 2. But if you look at the Quarter 3 and Quarter 4 margins, Quarter 4 margins will be higher because the production is the highest at this period of time.



- Rajesh Kothari:** What is the current year volume growth you are looking for in the Soda Ash business?
- R. S. Jalan:** In terms of the volume growth I don't think because our expansion is going to take place only next year by March '17 so any volume growth will be likely in the next March 17-18 only, we will be only talking about the EBITDA margin improvement
- Rajesh Kothari:** Basically FY16 as well as FY17 you don't see any volume growth but it is more of a pricing?
- R. S. Jalan:** I am talking about 16-17, 2 years.
- Rajesh Kothari:** Correct, FY16 as well as FY17 there is no volume growth but you are looking at improvement in EBITDA margin?
- R. S. Jalan:** But not much.
- Rajesh Kothari:** An improvement in EBITDA margins should be driven by what?
- R. S. Jalan:** Obviously because of our cost implications?
- Rajesh Kothari:** How much cost you are planning to reduce?
- R. S. Jalan:** Recently we have invested into the condensing turbine that will reduce my steam cost and we have also made an investment into briquette dryers because like I said briquette is one of the unique advantages to the GHCL that will also reduce my cost of coke so these are the two cost advantages. Plus overall you know that coal prices are also on downward trend for that will also help us in terms of improving the margin.
- Rajesh Kothari:** How much cost per ton can go down?
- R. S. Jalan:** I don't think we have worked out that number. We will refrain of giving a kind of guidance on these numbers.
- Rajesh Kothari:** Coming to textile business, last year's margins have seen significant decline so what is the reason for decline in margins if I'm not wrong?
- R. S. Jalan:** You are talking about 15, right?
- Rajesh Kothari:** Yes.
- R. S. Jalan:** Last year for the spinning industry because the industry which was covering the quarter for a long term period, the cost of raw material was slightly on the higher side whereas the selling price had dipped and because of that overall the margin of the spinning has come down which is basically true in all the spinning industry. But now the cotton prices are stabilized and therefore we are coming back on the normal margin on the spinning. Even if you look at on the home textile business, last year our margin was on the lower side because we lost some volume to



some customers which we have been able to regain now so therefore last year the margin on the home textile was also on the lower side.

**Rajesh Kothari:** How much of your yarn is captive and how much is outside you sell?

**R. S. Jalan:** We roughly use something around 30% to 35% of our yarn in-house and balance around 60% to 65% we sell outside.

**Rajesh Kothari:** Basically the incremental CAPEX what you are doing in your home textile, that is for home textile business or is it for spindles?

**R. S. Jalan:** Mainly for the home textile business as well as we are going to make an investment into the wind power which will be used for the spinning to reduce our power costs.

**Rajesh Kothari:** How much CAPEX you're planning in textile?

**R. S. Jalan:** Next two years we are talking about 100 crores, out of that around 50 crores will be in the home textile and balance 50 crores will be in the spinning on the wind power.

**Rajesh Kothari:** What is the current margin in the home textile segment because what we get is the composite, am I right? If you take out the spindles margin than what will be the margins of your home textile business?

**R. S. Jalan:** Normally if you can look at my home textile margins, will be something around 11.3% in the current quarter.

**Rajesh Kothari:** That is at EBITDA level or EBIT level?

**R. S. Jalan:** I'm talking about EBITDA.

**Rajesh Kothari:** And EBIT?

**R. S. Jalan:** EBIT will be something around if you reduce around 8.8% roughly; we are talking because depreciation is around 3.3%, right?

**Rajesh Kothari:** No what I understand is that in your segment wise what you reported, the home textile business which is 26 crores in June quarter that is only home textile or it is a total textile?

**R. S. Jalan:** We are talking about the total.

**Rajesh Kothari:** Out of that 26 crores EBIT, my question is how much would be for actually home textile and how much would be for spindles?

**R. S. Jalan:** 15 crores is the home textile.



- Rajesh Kothari:** What is the revenue of home textile?
- R. S. Jalan:** Revenue is around 163 crores.
- Rajesh Kothari:** Your margins are almost similar in both the segments?
- R. S. Jalan:** Yes almost.
- Rajesh Kothari:** The yarn is little bit higher because of seasonal so your home textile is actually 9% margins?
- R. S. Jalan:** Yes roughly if you look at 9.3%.
- Rajesh Kothari:** Why you are planning to do such a huge CAPEX over the next 2 to 3 years? Don't you think that first let the company come back to the healthy situation of reducing debt-equity to less than 1 because if we do such a big CAPEX then again your debt-to-equity will increase because even if you look at internal accrual based on your 1<sup>st</sup> Quarter that will not able to match up am I right? You're working capital requirement will also be higher as your revenue keeps growing.
- R. S. Jalan:** Our objective is very clear and whatever this CAPEX which we are talking about is primarily keeping into mind that overall our debt levels should not go up, number one. In the next two years we are planning to reduce our debt level and whatever the investment we are making, that investments we are making primarily in the Soda Ash which is a major portion which is very important keeping the growth opportunity into the market. But overall in next 2 years' time we are talking about reducing power debt-to-equity level to less than 1. That objective is also very clearly defined in our objective. If you look at from 1.72% of debt-to-equity level in the last year and in March '16 we are talking about 1.4 and next two years we are talking about this less than 1. Both these objectives are very clearly defined. Those investments are important Mr. Rajesh because if we don't know that you'll be missing the opportunity at the market.
- Rajesh Kothari:** What is the promoter's stake right now?
- R. S. Jalan:** Promoters stake is around 18.5%.
- Rajesh Kothari:** It has been this for very long time or it has increased-decreased in the last year any idea?
- R. S. Jalan:** Marginal increase has happened last year but not very significant.
- Rajesh Kothari:** Why such a low I mean at any point of time because it's a very low stake, am I right, it's just even below 25.
- R. S. Jalan:** Mr. Rajesh I always believe in two things, if you look at history of GHCL. GHCL is always been a professionally managed company. We have always been independently worked on overall and if you look at last 4 years of our track record in terms of the support of the investors, we have always been getting a support of around 40%-45%. Last year means I am talking about last AGM; we have something around 45% of the support of the investors. We believe that we are





quite stable in terms of the support from the investors and we are not worried about what is the promoter holding and when the promoter is going to increase their equity. We believe on a professional managed company and we will continue to that.

**Moderator:** Thank you. Our next question is from the line of Dhwanil Shah from IWealth Management Pvt Ltd. Please go ahead.

**Dhwanil Shah:** My question was mainly in terms of Soda Ash as you said that you will be doing CAPEX in next 2 years. If you just tell us what kind of volume growth you are expecting after everything is done? The second question is in home textile as we said that our current utilization is bit lower so once it goes to around 90%-95%, what kind of margins we can see?

**R. S. Jalan:** I would always like to refrain of giving guidance but just to give an objective of management. On the Soda Ash side, today our current capacity is around 850,000 tons and in the first phase of expansion we will have 100,000 tons of volume growth which we will be completing by March '17. If I take that into account our total capacity will be around 950,000 tons which is almost you can say is around 12% of the current capacity. Then in the next phase we have another 150,000 tons which will lead us to around 1.1 million tons of the plant. This is what the volume growth which we are talking about in Soda Ash. If you look at the textile what you rightly said at this point of time our margin is little bit lower and we are working towards that. Our expectation is going forward the margin should be in the range of around 15% to 18% that is what is our target for the home textile, the total textile business.

**Dhwanil Shah:** That is one so we utilize around 90%-25% then.

**R. S. Jalan:** Not only that, the utilization of 90%-95% plus proper customer mix and focus on the cost at some project like I said wind, power cost and process improvement and things like that. It's a journey but we are sure that in next 2 years' time we will be able to achieve this 15% to 18% of the margin in the textile business.

**Dhwanil Shah:** This year sir, are you seeing any better utilization or the more or less it will be similar?

**R. S. Jalan:** This year in the home textile we will have the definitely better utilization as compared to last year.

**Moderator:** Thank you. Our next question is from the line of Abhijit Akella from IIFL. Please go ahead.

**Abhijit Akella:** First of all just to understand that on the capacity expansion in Soda Ash what would be your expectation of the return on capital employed in that project?

**R. S. Jalan:** Basically if you look at in terms of management decision about the return, we always look at IRR because with the timeframe IRR is better as per our understanding. We expect around 18% to 20% of the IRR in any of the investments which the management makes it. Our overall return on capital employed is roughly around 21%. I would say that in the Soda Ash expansion which we are doing, it should not be less than that.



- Abhijit Akella:** The reason I asked is because if I look at your CAPEX of 375 crores for the 100,000 tons I guess it will probably generate revenues of maybe 170-180 crores or so.
- R. S. Jalan:** No this will be more. I think you are right, it will be 170-180 crores, correct you are 100% right.
- Abhijit Akella:** If I assume around 33% or 35% EBITDA margin that works out to maybe around 60 crores of EBITDA.
- R. S. Jalan:** No Abhijit the margins will be slightly better on this because my overheads will not go up, my labor cost will not go up and only my raw material cost will go up. EBITDA margin on this incremental production will be on higher side because my overheads and things like that will remain as it is. My labor cost which is a very significant cost also in that will also be the same.
- Abhijit Akella:** This should be a double digit ROCE investment according to you.
- R. S. Jalan:** Yes it should be something around 20%. 18% to 20% of the IRR definitely will be there even the capital employed should also be not less than 20%.
- Abhijit Akella:** On the textile business, what would be your expectation of the ROCE that can be reached once you scale up and increase your margins?
- R. S. Jalan:** At this point of time EBITDA margins will be the right numbers because we are not looking at major investment into this textile business, our EBITDA margins should reach to the level of around 15% to 18%.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Rohan Gupta of Emkay Global for closing comments. Thank you and over to you sir.
- Rohan Gupta:** Thanks Aman. Thank you sir for I think we had a very fairly detailed discussion and investors have covered almost all the points. Just only I think on behalf of each and every investor I would like to ask last question and then we can wrap it up. Sir when we can expect a higher dividend payout for our investors?
- R. S. Jalan:** Rohan very valid question but let me tell you at least one year still we have to wait because the dividend will be coming only on the next year. Surely we would like to reward the shareholders and definitely we will be taking the matter to the board because you know that this decision has a prerogative of the board. But definitely is a management we will be definitely pitching for a better reward for the shareholders.
- Rohan Gupta:** Will be the following any strict dividend payout policy going forward I think which is right now not in place?
- R. S. Jalan:** We will be debating on this point with the board and definitely will make some recommendations on that and once we are ready with that we will come back to the investors in my next call.



**Rohan Gupta:**

Thank you sir and all the best for your future performance and very healthy discussion. On behalf of Emkay Global Financial Services I thank all the participants for engaging in the conference call and having such a healthy discussion. Once again a special thanks to the management, Mr. R. S. Jalan and Mr. Raman Chopra. Sir thank you both of you very much.

**R. S. Jalan:**

Thank you Rohan and thank you everyone because one thing I definitely want to say here that you people have supported us and on behalf of the management it is my obligation on the part of management to make sure that we reward our shareholders appropriately on all our decisions and do everything right. We will endeavor to do that and make sure that our investors have a valid or reasonable share.

**Moderator:**

Thank you gentleman of the management. Ladies and gentleman, on behalf of Emkay Global, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.