"GHCL Limited Q2 FY2020 Results Call"

October 23, 2019

ANALYST: **MR. ROHIT SINHA – EMKAY GLOBAL FINANCIAL SERVICES**

MANAGEMENT: **MR. R.S. JALAN – MANAGING DIRECTOR – GHCL LIMITED**
MR. RAMAN CHOPRA – CHIEF FINANCIAL OFFICER & EXECUTIVE DIRECTOR (FINANCE) – GHCL LIMITED
MR. SUNIL - FINANCE TEAM – GHCL LIMITED
MR. ABHISHEK - FINANCE TEAM – GHCL LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Q2 FY2020 Results Call of GHCL Limited hosted by Emkay Global Financial Services. We have with us today, Mr. R.S. Jalan, Managing Director and Mr. Raman Chopra, CFO and Executive Director, Finance. As the reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Sinha of Emkay Global. Thank you and over to you!

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

R.S. Jalan: Thank you, Rohit. I warm you all in today’s earning call for Q2 FY2020. With me today is Raman, our CFO, along with Sunil and Abhishek from Finance Team.

We are glad to inform that in the current economic environment our profit after tax has grown by 56% compared to Q2 FY2019. This has largely been contributed by our inorganic segment delivering higher volumes and better margins over corresponding quarter of last year.

In the last five years, GHCL has achieved a 25% CAGR growth in PAT from 2014 to 2019. During all these years, our core values, governance, sustainability and value creation for all our stakeholders has remained a driving course.

As informed in our previous call, Q2 has begun with an economic slowdown, which has been quite evident across the world disrupting global trade. Also at the beginning of FY2020, I had indicated that India will be producing 200,000 to 250,000 tonnes surplus production over the demand. On top of this, we expect incremental 1.5 lakh metric tonnes of import over last year. This has resulted in an inventory build up at industry level with a price softening.

During the quarter, the price still has been reduced by about 3% and we expect another 4% to 5% reduction over the next half-year of this year. In the last three to four years, we have been maintaining our inorganic EBITDA margin in the range of 30% to 32% and despite this slowdown we expect to remain in the same range.

In the textile segment, trade war between US and China has stressed too long creating imbalance in the global trade. China has been a major buyer of Indian cotton yarn for long, which had reduced import from India. This has resulted in a sluggish exports coupled with a poor domestic demand impacting domestic industry. With the new cotton crop season we expect the situation to improve from Q4 FY2020 onwards.

We are dedicated to create a future ready organization on the pillars of sustainability, zero-harm, and social economic upliftment and since building a talent pool for the same. Our efforts will be to be reflected in our performance going forward. We are committed to create value for our stakeholders and strongly believe to maintain a growth of 20% in the bottomline over the next three to five years. I would now invite Raman to take you through our quarterly financial performance. Thank you.

Raman Chopra: Thank you very much Sir. A very good evening to all and welcome to our Q2 FY2020 earning call. With Mr. Jalan’s business overview I will take you through the financial performance for the quarter.

Our revenue for the quarter is Rs.826 Crores as compared to Rs.839 Crores of Q2 FY2019, which is down by 2% mainly due to slowdown. EBITDA has increased by 14% from Rs.179 Crores in Q2 FY2019 to Rs.203 Crores in this quarter. Our EBITDA margin has significantly improved to 24.6% during the quarter as was compared to 21.3% in Q2 of FY2019.

The profit after tax has increased by 56% that is Rs.122 Crores during the quarter as compared to Rs.78 Crores of Q2 FY2019. EPS for the quarter stood at Rs.12.42 per share whereas our chemical division has continued to outperform. Our Textile division has also delivered satisfactory performance particularly in view of the weak industry scenario especially in spinning.

In Chemicals we have recorded a soda ash production of 2.62 lakh tonnes during the quarter as compared to 2.31 lakh tonnes in Q2 FY2019. The volume increase is due to full benefit of our Brownfield expansion completed last year.

As you are all aware about the economic weakness and slowdown we have still been able to improve our sales volume by 3% to 2.36 lakh tonnes as compared to 2.29 lakh tonnes of Q2 last year. There has been an inventory built up of around 29,000 tonnes during the quarter, which we are hopeful of liquidating in the next six months. Revenue from this segment has increased from Rs.534 Crores in Q2 FY2019 to Rs.542 Crores during this quarter registering a growth of 2%. EBITDA for the quarter has increased by 21% to Rs.179 Crores as compared to Rs.148 Crores in Q2 of last year. EBITDA margin for the segment has improved to 33% as compared to 27.7% last year. This has been mainly due to higher volumes and better margin.

The Textile business despite challenging environment, slowdown and trade war between the US and China severely impacting the entire spinning industry, our performance has been on the expected lines. The revenue is down by 7% during the quarter to Rs.283 Crores as compared to Rs.305 Crores in Q2 FY2019 mainly due to lower yarn sales.

EBITDA for the quarter is down by Rs.7 Crores to Rs.24 Crores as compared to Rs.31 Crores in Q2 FY2019. EBITDA margin for the quarter stood at 8.6% as compared to 10.1% of the corresponding quarter last year. Our total debt stood at Rs.1109 Crores as compared to Rs.1292 Crores that is a reduction of Rs.183 Crores in March 2019 with net debt equity of 0.49. The ROCE for the quarter is 21% and the ROE is 21%.

The house is now opened for discussion. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Good evening friends. Namaskar to everyone. Sir firstly if you could give absolute numbers what have been the price cut we have taken for the last quarter as well as for H1?

R.S. Jalan: You need absolute numbers of per tonne?

Saket Kapoor: Yes Sir?

R.S. Jalan: I have given you kind of range of 2.5%, which has been reduced, which is approximately around Rs.500.

Saket Kapoor: Rs.500 for the last quarter?

R.S. Jalan: As compared to the last quarter.

Saket Kapoor: As compared to last quarter and for H1 the reduction has been Rs.800 or more than that?

R.S. Jalan: Overall, if you look at H1.

Raman Chopra: When you compare H1 of last year versus H1 of this year there is an increase of 5%.

Saket Kapoor: But quarter-on-quarter if we take what has been the reduction that is what my question is? Whatever price cuts we have taken in Q1 and what is the price cut we have taken in Q2 that is the simple question?

R.S. Jalan: In the Q1 of FY2020 there is no reduction. The reduction happened only in Q2 FY2020. I have given you an indication. In the last call also we had given an indication that we have already taken a price correction and that has been around 12.5% and like I have given indication that in the future, it looks to be that there will be another reduction of 3% to 5%.

Saket Kapoor: Sir generally in the cycle for soda ash, Q3 and Q4 are better quarters in terms of demand, but the slackening of demand due to geographical conditions also flooding and all and the softening of demand from the end consumers how are things shaping up in terms of the soda ash for the country and also if more idea you can give for the global scenario?

R.S. Jalan: If you look at our domestic space, which I had indicated in the past also, there are three factors, which must be taken into account. On one side, the production has gone up because a new player has come in. There was the extra production of that. We expanded and some expansion of the other competition also. Overall approximately around this year in 2019-2020 there is an extra production of around 4 lakh tonnes. Again the 4 lakh tonnes generally the demand in India the growth is around 2 lakh tonnes, so approximately around 200,000 tonnes is one of the extra supply, which is kind of temporary you can say. Next year probably that will get adjusted. The second is as you rightly said because of seasonality and because of the floods and the rain the demand in the Q2 has not been as robust as it should be. In spite of that the overall if I look at the six months of this year, the demand growth is around 4%. Our expectation is the demand growth should slightly be better in the next six months.

Saket Kapoor: Better than 4%.

R.S. Jalan: The import like I said in my speech also import has also gone up because globally there is a kind of a small tug between China and US, there is some surplus situation, that has also added some extra supply. Overall, there is a slightly oversupply situation, which will lean to a kind of a softening in the price. However, I will also maintain last time I had mentioned to that that I also maintained that our EBITDA margin is in a position to maintain the similar kind of a margin in the range of 30% to 32% going forward.

Saket Kapoor: Correct Sir and Sir the pain point is again in the Home Textile segment this time cotton also and also the yarn prices taking in account what we did for the Q2 how is the next half shaping up for Home Textiles?

R.S. Jalan: Again, if you look at first quarters the feedback, which I have given I clearly indicated in my Q1 feedback that because of the situation of US-China trade wars, because of the rural economy slowdown in the Indian demand, the surplus situation is being seen in the spinning segment and because of that and you know that in the entire spinning industry there is a pressure of oversupply situation, so this quarter if you look at the performance which you are seeing is only and only because of the spinning mills. Our understanding, which I said in my interaction, Q4 again the spinning will start performing better because of cotton prices are down at this point of time and we believe that the cotton prices will remain low and that will enhance the margin of the spinning business. Q4 should be a better quarter as compared to this quarter.

Saket Kapoor: Sir earlier in the last call you articulated that we have inventories of cotton at fairly good prices and the benefit would be accruing as going forward, so that got mitigated because of the lower yarn yields?

R.S. Jalan: Yes, basically what has happened at that time after the cotton prices had gone down, so the advantage which we were seeing because of the cotton coverage in the last three months means July to September the cotton prices has gone down and yarn prices have also gone down and yarn prices have also gone because of low demand. There is an oversupply situation. The gap between the yarn and the cotton prices has narrowed down, so that has reduced our margin and this is a common phenomenon of the spinning industry, theoretically it happens.

Saket Kapoor: Two very small points Sir. One point about the geopolitical tension at Turkey is not impacting the soda ash market in anyway the availability of the production and the dispatches are very normal from those regions because we are seeing lot of geopolitical tension in that region?

R.S. Jalan: Not yet, but probably it may happen in the future, but not immediately.

Saket Kapoor: Not immediately. Sir I am now referring to our value creation ideas for investors. Our organization has seen key changes over the last for five years. I am referring to the comment in the annual report wherein we have articulated our vision of market cap of Rs.10,000 Crores by 2022, Sir first of all what though process goes behind and how did we arrive at this number of Rs.10,000 Crores and by the year 2022 and are these changes happening in the economy or the system will somehow shaken up the entire process or are we on track. Firstly your thought process on this Rs.10,000 Crores number?

R.S. Jalan: Whenever you have any business you have to have some vision or you have to have some dream. Number first we started with a number of dream. We believe that is what this would be achieving or aiming going forward. Now second based on this dream we have started working on that. There is a clear cut roadmap in our mind. Of course, I will not be able to share that roadmap with you, but there is a clear cut roadmap in our mind that to achieve that number and that entire organization is being aligned to what we have said. We have to create a common objective of every individual in the organization, so this is a common objective we have built and our understanding is that two things, which are very important for building this value. On one side, we have to create a trust and the governance for the stakeholders so that you always get a kind of a higher respect or higher trust in your organization. That is one drive and the second is the business growth. Like I said in five years we have built 25% CAGR growth of the bottomline. Our aim is I achieve the 25% again, but if you pillar out these two probably there is definitely a possibility that we can achieve.

Saket Kapoor: Last point, your take today on how can buyback and demerger can be value creation idea and the thought process on it as on today taking into account what the situation of the organization are? How do these two events can be a value creation idea?

R.S. Jalan: Every idea has been welcome to create the value because once we have created a vision for 2022 all these ideas will always be considered and will always be done at an appropriate time.

Saket Kapoor: Right now, we are not contemplating? We will be informed definitely, but this scenario is not conducive for buyback that is what the message is?

R.S. Jalan: I will not say that way. Every environment is conducive for anything depending upon how do we look at the scenario at this point of time. It can happen anytime. I will not be in a position to say that am I doing in next month or am I doing in three months or am I doing in six months, but all these ideas are under consideration and we will definitely do at a right time.

Saket Kapoor: I will come in the queue.

Moderator: Thank you. Our next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: Sir I just wanted to understand a bit on the textile situation in US currently? Could you please tell us a bit how our new brands, etc., are moving?

R.S. Jalan: If you look at in terms of the US scenario, US few things, which are evident and it is happening and nothing new has happened in the last few months. Definitely the dot com business is going. Definitely on the other side retail are not doing well. Definitely some of the retailers are under financial stress. Definitely on the retailer side they are looking at ways and means of consolidating their business and looking to protect their margins. There is a pressure definitely on the pricing also, so all those challenges are being seen in the US market and I do not want say at this point of time any green shoot happening in the US market in terms of the volume growth because as you understand that today India is already 50% of the US volume. I am seeing in the last three to four years the volume stagnancy is there in the US, so I do not see any volume expansion will also happen in US.

Shikha Mehta: Sir our Home Textile margins have degrown this quarter and you mentioned that it is mainly due to spinning, but it could it not be due to pressure in the Home Textile division because I guess I think we had give guidance that we will be at around 10% to 15%, but do we see that happening still for the year?

R.S. Jalan: That is where the aim is and as you rightly said that is our aim is and definitely we are confident that we will be in a position to achieve those kinds of margin. This quarter was a drag from the spinning side, but probably after this Q4 I think things will improve and surely we will be looking towards those numbers.

Shikha Mehta: Alright Sir and could you give some guidance on your forex hedging policy?

R.S. Jalan: Very important. Forex, which is a very dynamic situation and we are on top of it I would say every week or every 15 days and we have a very clear cut disciplined policy I would say that we cover some percentage of that exports and some percentage of the import and we do kind of ironing manner keeping our risk ability, we do not take an over exposure on to the forex. It is very robust system and if I can say today my forex cover on the export is approximately around 40% of my total likely exports and approximately around and we do it on a scattered manner. We do a very gradual kind of a thing and for the next one year, we have a kind of month by month 40% of the forex cover. On the import side depending upon advice we will take around two to three months of the full coverage so that we can protect the volatility.

Shikha Mehta: Sir on the tax rate, I think for this quarter the total rate is coming up to around 14% or 15%, so for the full year what tax rate are we looking at and do we have enough cash?

Raman Chopra: For the full year, the tax rate will be approximately around 23% to 23.5%.

Shikha Mehta: Thank you and can you give us some guidance on soda ash realization and could you quantify it?

R.S. Jalan: Two things on soda ash. One the soda ash pricing as I said there is certainly a possibility of around 4% to 5% further drop into the soda ash prices because it is knocking of the market and may be not in the next quarter, but some commodity prices has also softened, which probably to a great extent will compensate next year on the margin, but still we believe that we will be able to maintain our margin guidance of 30% to 32%.

Shikha Mehta: Also Sir could you help me understand because you said there is an oversupply situation in the domestic market so why are imports also going up in such a situation?

R.S. Jalan: There are two reasons. Obviously, when imports are coming up because of the price advantage to the consumers and we are addressing that issue and probably going forward like I said with price correction, which we are talking about will address that issue as well, so we are aggressive in tapping that imports volume going forward and ultimately will reduce the imports going forward.

Shikha Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Swan Investments. Please go ahead.

Sachin Kasera: Congrats for a good set of numbers. My question is on the soda ash so this quarter if we see despite being seasonal weak quarter the production is higher by about 13,000 tonnes more than the June quarter and obviously we mentioned that the inventory has been built up by

30,000 tonnes, so could you give us some idea as to how we are looking at the production of the second half and when do we expect to liquidate this inventory?

R.S. Jalan: Two things. One, we are definitely looking at the production higher than last six months also because as you know that October to March is a peak period for the production so numbers of the production will be higher than the last six months and on the other side in terms of the liquidation of the inventory like I said we are aggressively looking at import substitutions and some built up of the inventory has also happened because of the rainy season because everywhere the demand was weak in the detergent and in the glass, which we believe that is likely to be revived so I am sure that the way we have planned I think we will be able liquidate this inventory in the next six months. That is the plan we have.

Sachin Kasera: So for the full year should we look at like what is the type of production and sales figure we should look at as of now?

R.S. Jalan: If you look at last year's number you add on that 100,000 tonnes, which is the Brownfield expansion we have done, that is absolute 100% of utilization we will be getting from the production and if we reach to that level of inventory which we had in the beginning of the year, we will see the similar kind of sales of last year plus 100,000 tonnes extra production we do this year.

Sachin Kasera: Secondly Sir what are the cost reduction measure you mentioned that we are seeing some pressure because of realizations? What we as a management has always been worried is that we forget that we are very operationally efficient and we focus a lot on costs and you mentioned we should be able to get margins, so what are the key areas of focus on cost reduction per se for the company?

R.S. Jalan: First of all in terms of our energy cost, which is one of the biggest cost for this business. On one side definitely there is a favorable condition for energy cost going down. We are clearly seeing with the coal prices are down and that coal price advantage will definitely come to our kitty. That is number one. So that is something, which is I would say not contribution of the management this is more of the market dynamics. Like the soda ash pricing is a market dynamic situation. The coal prices are also market dynamic situation. However our focus is more on few things, which has always been higher production. If you look at last year versus this year you will find that the addition of capacity is 100,000 tonnes. We are almost achieving 100,000 tonnes or slightly more than 100,000 tonnes because in this business the capacity utilization or the efficiency is the most important driving force for the cost optimization. That is one thing, which we are doing and obviously the second other cost also we are looking at all other cost like labour cost and your utilization of the raw material, there are many other things, which are also looking. We are doing that. In a longer term, we are looking at challenging the entire cost structure and we are looking at some help from outside as well to how do we challenge our cost into totality and probably we are looking at some help out of India because we believe always one thing is nothing is best and we need to challenge every day, so what we realized is that okay whatever we are doing currently may be good in India, but probably there is an opportunity we can get something outside India, so we are working on that also, but that will be I would say slightly longer term or medium term. It will not happen in one or two quarters, but that is a culture we are building. That is the way we are looking at the business.

Sachin Kasera: Sir you mentioned that the incremental production this year in India is expected to be 4 lakh tonnes and incremental demand will be 2 lakh tonnes so it is that every industry will work aggressively in terms of import substitution or we are the only guys working because otherwise how will the additions get absorbed?

R.S. Jalan: If you look at the total import, which is happening in India is around a million tonnes now. If you look at the last six months the total import is around 5 lakh tonnes and overall we are talking about 10 lakh tonnes approximately if we translate that number into two. Now what we are talking about only capturing out of that import, we are looking at 200,000 tonnes to be replaced and for that like I said aggression of price is the only way. So we are looking at every industry and every industry player has to do that. It is not only we. We have to tap those importers, which are currently importing, the large consumers, which are importing the products and for that like I said we are working with those consumers and hopefully we will be able to do that and nearly some volume may be have to be exported also. Exports to the nearby countries like Bangladesh, Nepal and Sri Lanka is also one of the areas where we can export.

Sachin Kasera: Sir lastly on this capex at the existing site you were looking at further capacity from this level?

R.S. Jalan: In soda ash.

Sachin Kasera: Yes Sir

R.S. Jalan: In soda ash as you know that some additional debottlenecking we are doing it in the next two years and some additional volume will happen in the next two years, 50,000 this year and 50,000 for the next year. 100,000 of additional volume we are looking at out of the Brownfield expansion, a Brownfield I would say debottlenecking.

Sachin Kasera: I will come back in the queue.

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

Jatin Damanya: Just wanted to check on the import front, as you said in the last six months, there was import of 1 million tonnes and probably you are estimating that is for the year it can be around 1 million tonnes tonne and Turkey has become one of the largest, so if you can help us in terms of the price coming as compared to the previous quarter and how aggressive we as an industry can go in terms of price cut in the next six months or for the year in order to liquidate our inventory?

R.S. Jalan: I have already given the case of around 4% to 5% of the price reduction probably will happen and this 4% to 5% of the price reduction will definitely achieve our objective of catering the additional volume of 200,000 tonnes.

Jatin Damanya: What is the current imported price is coming from Turkey for any other country as of now?

R.S. Jalan: I think the price difference both the price which I am talking about, this 4% to 5% will take care of that different season.

Jatin Damanya: This 4% to 5% will take care of the entire team.

R.S. Jalan: If it is Turkey, Russia or China or for that matter US, it depends from the customer to customer. It is not something which is a very uniform pricing that every consumers have pay the same price depending upon the volume, depending upon when the contract has been made and things like that despite has always been there.

Jatin Damanya: This 4% to 5% you are talking in the next six months that has been taken any price cut in the month of October?

R.S. Jalan: No, not really, but definitely going forward that will happen.

Jatin Damanya: Sir coming on to the textile segment, on the soda ash and you have answered, coming on the textile segment if I want to understand how was the performance has been Home Textile because spinning was anyway weak will continue to remain weak for another one more quarter, so where do we see our Home Textile business going ahead and how do we as a management we are expecting 11% margin for the full year, so are we still maintaining that or we might be a downward revision in our guidance as well?

R.S. Jalan: Overall, if look at the Home Textile business, which I have been briefing over a period of time we have seen that worst part after the business few quarters back, but gradually that is improving and the way that we are positioned this business, we definitely see going forward things will be better. As you must have seen that lot of innovative products has been launched, we have taken that clear cut branding strategy in that and we believe that things will improve going forward. In terms of our guidance of the margins, I think still we are maintaining those kind of a guidance in the margin and of course it all depends on how the fourth quarter goes in terms of spinning and things like that, but at this point of a time we believe that we should be in a position to achieve those kind of a number which we have said in the past.

Jatin Damanya: Despite that third quarter likely to remain on the similar line we expect that 11% margin will be maintained right?

R.S. Jalan: It can be 10%, it can be 11%. I think it is double digit kind of a target which we have at this point of a time.

Jatin Damanya: That is all from my side and I will come back in the queue again.

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Shubhkam Ventures. Please go ahead.

Dikshit Mittal: Good evening Sir. My question is on soda ash margin like in spite of Rs.500 per tonne cut, in terms of per tonne we have maintained EBITDA at around 7600 for this quarter as well. So is it due to lower cumulative prices that were due to last quarter?

R.S. Jalan: Primarily, because of the better volume better efficiency, and not because of the lower pricing and let me clarify one thing which is very important. If you compare last year versus this year as a whole you will find that last year has happened, so that prices in the after the second quarter has gone up. We have almost taken around 9% increase in the soda ash pricing last year whereas the cost has not gone up, so there was a margin expansion for few quarters. Now some correction is taking place in that and let me again clarify this. If you look at 5, 10 years of the data of the soda ash business, you will find that a very consistent margin in the business in the range of around 32% or 33% which we have been maintaining always. This is a very consistent business may be one quarter or two quarters there have been some jump or some reduction, this year we are also talking about year as a whole we will be able to maintain this margin what we have achieved last year, so that is way if you do not look at quarter like quarter, if you look at year as a whole, we are doing good.

Dikshit Mittal: I was coming to that only because if I see first half we are doing more than 32% kind of margin right, in first quarter we did 32% and second quarter 33% and historically we have seen that second half is better at least by 200-BPS to 300-BPS as compared to first half. So I was trying to understand even if we do not expand this because of the price cuts, so I think your guidance of 30%, 32% seems very conservative in terms of EBITDA margins for the full year?

R.S. Jalan: That depends on how do you look at that number first, but we would always like to be more conservative and we would like to always be realistic of what we have believed and markets are volatile, we must understand that, markets are volatile, so we have to be always been careful in what we tell you.

Dikshit Mittal: Thank you Sir.

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

Sarvesh Gupta: Thank you Sir for taking my question and congratulations for a good quarter. So broadly wanted to understand what can be the split of debt between Home Textile and Soda Ash business?

R.S. Jalan: 650 is Soda Ash and 450 is Textile. I just want to highlight here. This year or this six months we have reduced our debt by more than Rs.180 Crores, so our journey towards the debt reduction is going as we thought of, a very focus now our debt equity ratio is only 0.46 or 0.45.

Sarvesh Gupta: Yes Sir that point well taken. In fact debt to EBITDA is even more important and I guess that is also looking good.

R.S. Jalan: It is 1.2x now.

Sarvesh Gupta: Yes Sir.

R.S. Jalan: Going ahead we have discussed in the past, capital allocation which is and somebody asked me also this question, our entire focus at this point of a time our capital allocation more towards soda ash and we are only spending marginal investment which is the modernization and other businesses particularly in the spinning side and our focus on reduction of the debt is one of the prime importance for us.

Sarvesh Gupta: Understood. Sir, can you give us some color on the Home Textile business in the US with REKOOP and everything that we have done, how are things shaping up at that side and what kind of growth you are looking at?

R.S. Jalan: Two things, I just want to add; one that we have started this journey of branding with the kind of innovation. We have been considered today one of the most innovative companies into the Home Textile segment by the consumers. However, this business is not as easy as that okay if somebody likes you and tomorrow they do not, because on one side they are struggling and they want to have vendor consolidation, they want to deal with few people, their margins are under pressure, all the challenges are also there and they do not allow the entry as easily as possible, not that way, so that way is not something which we can achieve in one go, but in terms of perception, in terms of understanding or in terms of the customer’s perception about that, there is a huge change in the last one-and-a-half years and definitely that will have good result going forward, but how much time it will take may be it will take another six months’ time. First time I think we are happy that one of the products of REKOOP we have been able to place with our own brands in one of the retailer in UK, so that is a good sign for us. So business dynamics for it is not that easy also that we can give me some kind of guidance when this will add it or big traction on this.

Moderator: Thank you. The next question is from the line of Siddarth Mohta from Principal India. Please go ahead.

Siddarth Mohta: Good evening Sir. You have mentioned that there has been reduction in soda ash price by 2%, 3% in Q2 and further reduction between 4% and 5% it may happen, so how much of this reduction it is going to come from decrease or the fall in the raw material price and how much was it from demand slowdown or increase in import that is question one and second is some update on this antidumping duty if there is any?

R.S. Jalan: Let me answer the last question antidumping, there is no antidumping duty at this point of a time. That is number one. We are definitely looking at the possibility because the case is under litigation. We are also approaching the government also for a revival of our antidumping duty, but when it will happen I do not know. Now coming back to the first point which you said when I am talking was this 4% to 5% reduction, we are talking about entire production of soda ash and that is primarily to kind of short-term more availability of the products into the Indian space. This price correction will help us to capture 200,000 tonnes with extra production that we have achieved in India, but my belief is may be next year probably the things can change, but who knows.

Siddarth Mohta: Correct, but Sir something on this raw material prices, you have mentioned that the coal prices it has gone down so what about the other prices whether there is some reduction in the raw material cost also?

R.S. Jalan: The coal price reduction the benefit to us will come in next year, major benefit will come to us next year because some coverage of the coal and the inventory which we have will not give us that benefit during this six months, some benefits will be there, but not significant benefit. In terms of other raw material if you look at in terms of like salt I do not think there is any reduction in the salt prices or in limestone we do not see any reduction or upside on the raw material limestone so basically the energy, which is coal, which has been a major part about the business, major part of our cost we are seeing the reduction in the price.

Siddarth Mohta: That is very helpful and best wishes for upcoming quarters.

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

Rohit Nagraj: Thanks for the opportunity. Sir your presentation mentioned about China that there is a higher soda ash production and the dull domestic demand in China so is it having any impact in terms of the global pricing and imports coming from China?

R.S. Jalan: See import of China is not very significant and the major import which is coming in India at this point of time is from US and Turkey; however, in terms of pricing definitely there is a softness in the price that is why I said that we are looking for a reduction of 4% to 5% in the pricing going forward.

Rohit Nagraj: Right and Sir you have given reasons for maintaining the EBITDA margins in the second half so if I take 4% to 5% reduction in soda ash prices that accounts for about Rs.1000 plus or minus so we are able to arrest this deadline through taking the cost measures that are in one is coal prices as you mentioned and the other efficiency cost that we are targeting?

R.S. Jalan: Yes.

Rohit Nagraj: Sir in terms of the downstream demand in the domestic market, which particular segment has affected significantly in the first half and in terms of user segment and we are expecting probably growth in the second half and a question aligning to that we have said that 200000MT is incremental demand we are expecting for FY2020 how much of incremental demand has been served in the first half of this financial year?

R.S. Jalan: First let us answer first question. In terms of the consuming industry detergents in the first quarter or first three months, everything was good. The second quarter there was an impact because of two reasons one it being rainy season, a lot of challenge was there in terms of sale of detergents and the second was because the rural economy, that rural economy something great because also there was slowness in demand. Our understanding is November onwards October being a festival month that kind of impact will not be seen but November onwards even on one side the crop this year is good so therefore the rural economy will have kind of money to spend so that will help to improve the demand of detergents and similarly the government is also working on lot of things so probably we see November onwards improvement is the demand of the detergent. In terms of the glass, flat glass some challenge seen at the time because of the automobiles sector and construction sector; however, bottle glass is doing fairly good. Overall, if I can say like I said in the past also in spite of the slow down overall in six month of demand growth in India is 4%. This is not a bad number. We expect that this demand growth of 50% so enhanced 5% in the remaining six months.

Rohit Nagraj: Sir I will just move last question what is the progress on our Greenfield project so last quarter I think we have said we have acquired land anything beyond that which has happened?

R.S. Jalan: See if the process of land acquisition in India is the acquisition of land is simple as it is abroad, I think the consolidation process is going on in the land acquisition. On the other side all regulatory approval, all the study which has been required for the regulatory approvals that work is under progress and we are hopeful that in next six months we will be in position to kind of close the land parcel and then after that by the time you will have ready with all this studies I think like that so I will say that we are reasonably okay in terms of other schedule.

Rohit Nagraj: Thanks a lot and best of luck Sir.

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

Riddesh Gandhi: Congratulations on your numbers. Actually quick question how much was the operating free cash flow generated in H1 of this year?

R.S. Jalan: See, overall if look at total we are around Rs.289 Crores of the cash profits out of this we have spent around Rs.124 Crores into the capex and we are repaid the loan to the extent of around Rs.183 Crores and we have paid the dividend of Rs.59 Crores and we also have been able to reduce some of the working capital, balance amount is being released from the working capital.

Riddesh Gandhi: Any actual capex which we are doing is expansionary capex which will earn high return on capital or is it routine maintenance capex, which we are looking at?

R.S. Jalan: You are very right out of this total cost if you look at Rs.124 Crores you will see that one of the biggest investment which you made was a boiler installation into the soda ash business, which is in the range of around Rs.73 Crores, Rs.75 Crores. Organic chemical is Rs.104 Crores out of Rs.124 Crores so it is largely towards the Brownfield expansion so, like you said rightly that this boiler expansion will have a huge advantage to us in terms of our efficiency of fuel, we can use the lower quality of the fuel so that will enhance, if you say much bigger return on capital employed if you can say on this Rs.71 Crores and like Raman said total out of this Rs.124 Crores the major portion has gone including boiler advance or for the Brownfield expansion like I said 50,000 tonne of extra volume will be coming next year so this will definitely have much bigger return on capital employed as compared to the normal capex.

Riddesh Gandhi: Despite at the start of this quarter you could have guided towards margin decline, absolute numbers are extremely attractive so do you expect can going ahead even though we have if 4% to 5% decrease in prices you have actually maintained that EBITDA margin will remain the same but absolute EBITDA will also grow in comparison till last year because of the enhanced capacity?

R.S. Jalan: Yes, very rightly said, because 100,000 tonnes of extra volume will be coming and that will definitely be margin remains the same but absolute EBITDA will be much higher compared to last year.

Riddesh Gandhi: Just to understand is because historically we have not seen decrease of large amounts happening for long periods of time in soda ash so when do you see that trend of again extra price increases kicking in terms of both global and Indian capacity being absorbed and therefore prices again going because the way I am seeing right now is that these numbers are close to as low as we could be.

R.S. Jalan: No, you are right Mr. Gandhi. Let me give you that we have recently attended a global soda ash conference and there the unanimous view was that is going forward in the next two, three years there is a very unlikely chance that there is a new capex is coming in globally. So whatever Turkey which has come in after that there is no major new investment are coming in soda ash barring little bit from here and there. So the view globally was that the prices should be on the firmer side three year later and that should be kind of a scenario for the next two, three years, till the new investment is in because what has happened is when the Turkey production was coming in nobody else had made a major investment into the soda ash business and that advantage probably will be seen by the all the soda ash producers and may be three year later. You are right that probably the firmness in the prices which is a global view and I am sure that should become mature that next year onwards there should be some kind of a firmness in the price of soda ash globally.

Riddesh Gandhi: Sir I think that the only suggestion then would be that given we are looking at the crux EBITDAs both in Home Textiles and in terms of Soda Ash and given the prices at which we ask currently trading I think it wo1uld become beneficial to maybe we utilize some of the free cash flow towards the buyback given our attractive rate is existing that is the suggestion I would make, but all the best.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Thank you for the opportunity. Sir I had just two questions. One is the power and fuel cost, if you just look at compare to last year second quarter has actually gone up while as you mentioned coal prices since last one year has been coming down and again on the other expenses side there has been a significant reduction as compared to the same quarter last year so just wants to understand why these changes over there?

R.S. Jalan: Yes, if you look at in terms of the utility cost, it has gone up similar to the last quarter primarily because of the volume expansion because you look at the production it was 230 versus now 260, 30000 tonnes of extra volumes and in terms of the prices which is coal, I just clarified in point that some old coverage was already there and that will not have any major significant advantage to us in another six months as well and the major advantage of this coal reduction will be seen next year that is the major portion of increase in the utility cost and the second point which you said say in the other operating cost, one of any expense what is the reason of this reduction in the other operating cost.

Raman Chopra: This is largely due to Home Textile. Earlier, we were doing, we were mentioning that we are doing this strategy customer focus so over a period of time we have reduced those volumes, we were doing large job work, work so relating to that there was an expenditure that has come down so that is the reason that the other expenses has come down and then there is some shifting of the expenses as per the new accounting norms on the freight side which has been taken out from this. These are two reasons for the other expenses have come down.

Resham Jain: Sir my question is on capex, we have then Rs.124 Crores in the first half, second half what is the kind of capex which we are looking at from cash flow perspective?

Raman Chopra: For this year, our total likely capex spend should be in the vicinity of around closer to around Rs.300 Crores and this includes Brownfield capex was around Rs.200 odd Crores and then Greenfield we will be spending another there will be an outflow on account of the land parcel, largest payments that we have targeted around overall Rs.60 Crores that includes that and in addition to that there is on the spinning side we will be doing approximately around Rs.30 Crores spend so all put together closer to around Rs.300 Crores.

R.S. Jalan: See out of these Rs.300 Crores to like Raman said approximately around Rs.60 Crores comes towards the Greenfield project, which is the land acquisition, the balance Rs.240 Crores in that roughly around Rs.40 Crores goes to the spinning and home textile, which is bare minimum required and balance Rs.200 Crores for the Brownfield expansion.

Resham Jain: Sir just I think an earlier participant also highlighted in terms of the capital allocation in terms of buyback versus dividend because both have similar tax structure so just would like to understand the thought process of the board what are they thinking on this line?

R.S. Jalan: Buyback is definitely under consideration of the management. Of course, we have not yet discuss at the board level but that is definitely under consideration at the management level.

Resham Jain: All the best Sir. Thank you.

Moderator: Thank you. The next question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

Tarang Agarwal: Good evening. Congratulations on your performance in soda ash business despite the slowdown that we have witnessed across the country. That being said you suggested that additional imports to the tune of 150,000 tonnes are anticipated. This on top of 400,000 tonnes of production would imply a supply of 550,00 tonnes, is it correct?

R.S. Jalan: Yes, 400,000 is the extra production in India and 150,000 tonnes coming from additional imports that is around 550,000.

Tarang Agarwal: Thank you. Sir the next question is you had earlier guided that you will reduce your debt in FY2020 by almost Rs.100 Crores but you have already delivered to the extent of Rs.183 Crores, so should we expect your debt to go up from current levels or can we anticipate further reduction?

R.S. Jalan: We are not looking at a further reduction.

Raman Chopra: We approximately are may be Rs.50 Crores kind of here and there the debt position will change. We are not looking it any further reduction from these.

R.S. Jalan: The second thing which is very important, I just wanted to clarify that we are aggressively working on that interest cost reduction. See recently we have launched our commercial papers and gradually we have been able to reduce the interest cost on the commercial paper to the level of around 7.7. The last reduction which we had done is 7.7 and our interest cost overall is going down significantly and level for.

Raman Chopra: For the first six months our interest cost has down by Rs.10 Crores compared to the last year, so we believe that trend will continue going forward.

R.S. Jalan: And interest rate also we are aggressively working on reducing the interest rate as well.

Tarang Agarwal: A small accounting question, I was going through cash flow statement and when I look at the financing activities the net debt reduction which I see in the financing activities comes to around Rs.137 Crores whereas in the presentation you have indicated Rs.183 Crores so.

Raman Chopra: I said it very clearly. Some portion of that gets because there is a buyers credit that gets covered in the creditors side so therefore wherever that particular debt is appearing the reduction will happen there. Overall, there is a reduction and for our purposes we have taken even prior buyer credit as our loan also so that gets to overall there is a reduction of Rs.183 Crores.

Tarang Agarwal: Thank you Sir and all the very best.

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

Sarvesh Gupta: Thank you Sir for taking my followup. On the Greenfield expansion in terms of the capex is split for the Greenfield, you know then are you likely to meet the major investments in which financial year and when can we see the benefits flowing from those investments as in the utilization what can be the utilization ramp up for Greenfield of 5 lakhs MT and since that you are contemplating?

R.S. Jalan: At least, I am seeing three years' time before the new Greenfield expansion will come into the production and now based on this new structure of the tax, which has been just announced by our respected Finance Minister becomes more attracted that we are talking about kind of a lower rate of tax on the new investments. The second in terms of the capital allocation to this project, I do not see any major expansions happening in next one year time except this capital of the land acquisition will be the reason you just said in this capex. The major investment will start I would say at the fag-end of the Greenfield of course, some advantage and something will happen but at least I would say that at least for next one year, for the next 18 months there will be no major capex. I want to clarify again two things on this, on one side we will maintain our debt-equity ratio of 1:1 and we will not go beyond that. That is number one. That means we will create a kind of leverage, overleveraging ill not happen and because the way we look at our cash flow, we find that we will have a surplus situation of the cash flow in next three years with that along with the debt of 1:1 we will be able to fund this project very efficiently.

Sarvesh Gupta: What can be the utilization ramp up from Greenfield is expected to be, if you can give us?

R.S. Jalan: Normally what happens is that for new players when they setup the plan it takes around two to three years of time to stabilize a plant. In our case I would gauge the kind of experience we have, it should not take more than 15 to 18 months maximum or may be this can happen in one year time but we will reach to the level of around 80% and of course from 80% to 95% or 99% we will take another one or two years, but 80% I think in a one year time, we should be in the position to achieve which kind of my understanding should give you kind of a stable not a loss making proposition on that business.

Sarvesh Gupta: Understood Sir and Sir there are various methodologies being followed world over by Solvay, synthetic, natural so what are we thinking and if you can give us one or two reasons behind the same because obviously there are concerns that one process can become more dominant over the other going forward and we may be at the receiving end of the same trend?

R.S. Jalan: Very valid question, very right question. First let us clarify that there are only two types of synthetic soda ash products in technology. One is the Solvay process which is globally being followed. There is another technology which called HOU process that is only available in China, which cannot done in other part of the world in that there is a coproduction of fertilizer, ammonium chloride which is a low-grade fertilizer. That is only thing used in China, not anywhere else so therefore for the world there is only one process which is the Solvay process by which the soda ash can be produced. There is another which we call it as natural soda ash. Natural soda ash is nothing but a reserve, which you mine it and then you sell it. Unfortunately, in India you do not have any natural reserve and except Turkey and US and some portion in Magadi, Africa these are the only three places we are currently at this point of a time the natural soda ash has been seen beyond that nowhere else, so for the products there is a only one technology which is Solvay process and which is what we have to follow, no other way and today around 75% of the production happens only with synthetic soda ash production. Only 75% comes from natural soda ash.

Moderator: Thank you. Due to time constraints, we will have to close the question and answer session right now. I now hand the conference over to the management for closing comments.

R.S. Jalan: Thank you everyone who has participated and your questions, you have challenged to us, definitely encourage us always and we always believe that your feedback will definitely give us a more reason to be more competitive, more target-oriented and we will continue to deliver the value which we have committed to going forward as well. We will do our best to create a value for all our stakeholders. Thank you very much for participation.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.