GHCL Limited

October 29, 2016

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Dear Sir / Madam,

Re.: GHCL Limited (BSE Code: 500171 & NSE Code: GHCL)

Subject: Filing of Transcript regarding Investors' conference held on October 24, 2016

In continuation to our earlier communication dated October 15, 2016 & October 21, 2016 regarding Investors' conference on October 24, 2016. We are pleased to attach copy of the transcript regarding said Investors' conference held with the management on October 24, 2016, for your reference and record.

You are requested to kindly acknowledge the receipt of this communication and also let us know in case you need any other information.

Thanking you

Yours truly

For GHCL Limited

Bhuwneshwar Mishra
General Manager & Company Secretary

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GHCL

Q2FY17 Conference Call Transcript

Moderator:

Ladies and gentlemen, good day and welcome to the GHCL Q2 FY17 Earnings Conference Call hosted by Emkay Global Financial Services 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 after the presentation concludes. Should you need assistance during the conference call, please signal the 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 from Emkay Global Financial Services, thank you and over to you sir.

Rohan Gupta:

Thanks Stanford. Good evening ladies and gentlemen. On behalf of Emkay Global, I welcome all the participants logged in for the conference call of GHCL to discuss their Q2 FY17 Results. From the management, we have Mr. Jalan, we also have Mr. Raman on the call. Sir, thanks a lot first of all for giving us the opportunity to host this conference call. As always, first I will request if you can discuss current quarterly results in brief and also discuss some industry trends and then we can follow it up with Q&A session sir. Please go ahead sir, thanks.

R. S. Jalan:

Good evening ladies and gentlemen. I welcome you all to this call. I have with me, Mr. Raman Chopra - our CFO and Executive Director (Finance) along with Mr. Sunil Gupta and Mr. Abhishek Chaturvedi from Finance Team.

I am pleased to inform you that the company has recorded a phenomenal performance with 79% growth in the profitability. Our profit after tax has increased to 90 crores as compared to 50 crores in Q2 FY16. This growth has been contributed by growth in both business segments, that is inorganic chemical and textile.

In the inorganic segments, we continue to maintain our benchmark capacity utilization of 91% for last 3 quarters. The domestic demand has grown by around 4%-5% during the quarter and the prices are the stable. The US market has shown demand growth and China looks to be stable with a balanced demand supply scenario. There has been a major upswing in the commodity prices, but we were reasonably covered which has enabled us to protect our margin to the great extent.

I am happy to let you know that our soda ash expansion is progressing well. Another 25,000 metric tonnes of soda ash expansion along with the 30,000 of bicarbonate expansion is lined up for next year to continue our growth drive.

In textile segment, we are on track to achieve our guidance of 10%-15% of the topline growth along with our expectation of 15% margin for FY17 as compared to 13% in FY16.

Our investment in wind energy has resulted in a significant saving for the company which shall secure sustainable benefits in the years to come. The US markets are stable and we do not expect any decline in the demand. Along with this, India growth story also offers a huge market potential going forward whereas cotton prices has risen sharply in last two quarters but with the arrival of the new crop, the prices should stabilize in the range of 36,000-38,000 per candy. We have recently allocated 67 crores towards the textile business towards expansion of processing capacity from 36 million meters to 45 million meters along with the 24 TFO machines for value-added yarn to achieve growth and expanding weaving capacity and installation of the windmill for further better operating efficiency going forward.

Now, I would like to invite Mr. Raman Chopra to take you through the quarterly financial results. Thank you.

Moderators:

Mr. Rohan Gupta
Research Analyst,
Emkay Global Financial Services

Management:

Mr. R.S. Jalan
Managing Director,
GHCL Limited

Mr. Raman Chopra
CFO and Executive Director (Finance),
GHCL Limited

Mr. Sunil Gupta – Finance,
GHCL Limited

Mr. Abhishek Chaturvedi – Finance,
GHCL Limited

Raman Chopra:

Thank you very much, Mr. Jalan and good evening to all. Welcome all to today's earning call.

We have continued to achieve operational excellence in both business segments which are duly reflected in our performance of second quarter of financial year 2017 on a standalone basis. Our revenues have grown by 1.5% to 705 crores from Rs. 694 crores of the corresponding quarter last year. Our EBITDA has grown significantly from 150 crores to 180 crores that is 20% and our EBITDA margin for the same period has increased by around 400 basis points that is to 25.6% as against 21.6% last year. We have also achieved a good saving of 24% in interest cost by reducing the same from Rs. 44 crores to Rs. 33 crores. Profit after tax has shown a robust growth of 79%, it has improved from 50 crores in Q2 FY16 to 90 crores this quarter. Both the segments have contributed to this remarkable performance and on a segment wise insight is as under.

Inorganic chemical segment has recorded a revenue of 406 crores as compared to 412 crores. EBITDA for the same quarter has increased to 131 crores as compared to 112 crores in Q2 financial year 2016. The increase in EBITDA is mainly contributed by lower utility cost and other operating expenses resulting in an increase in EBITDA margin by 500 basis points from 27% to 32%.

Our textile segment has reported a robust quarterly performance in all aspects. The revenues have recorded a growth of 6% to 299 crores from 282 crores during last year same quarter. The EBITDA margins have shown an improvement from 13.5% to 16.5% over September 2015 quarter, this has been mainly led by lower utility cost due to wind power benefit and lower energy rate. The EBITDA has thus improved by 30% in absolute terms from 38 crores to 49 crores.

Our credit rating has also improved by one notch from triple B to A minus which will further provide interest cost saving going forward. In 6 months, we have allocated 180 crores to our growth CAPEX mainly comprising of soda ash expansion. The debt has reduced by 25 crores as compared to March 2016. Overall working capital days have reduced from 48 days to 43 days during the period. With improved performance, we have registered an ROC of 24% versus 21% and ROE of 29% versus 23% on year-on-year basis.

I would now open the house for discussion and any questions that you may have. Thank you very much.

Moderator:

Thank you very much. We will now begin the question and answer session. We take the first question from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.

Question and Answer Session

Dixit Mittal:

Sir, can you tell the soda ash volume production as well as sales during this quarter?

R. S. Jalan:

We have a production of 193 lakhs tonnes during the quarter.

Dixit Mittal:

And sir sales?

R. S. Jalan:

Sales is 173,000.

Dixit Mittal:

So the quarter-on-quarter, there is a dip right because first quarter you did 184,000. So is this seasonality in terms of sales also?

R. S. Jalan:

Our plant was supposed to be annual shutdown in the month of October to keep some inventory so that we can service the market during the shutdown period of the soda ash plant.

Dixit Mittal:

So how many days was the shutdown sir?

R. S. Jalan:

Shutdown is currently just, we just started in the sense that after the shutdown, the plant registry started and it normally takes around 10,000 tonnes of the volume loss in the annual shutdown, which is approximately around 4 to 5 days of the production.

Dixit Mittal:

So you mean to say for the next quarter you will be maintaining your sales volume in spite of shutdown right because you already have inventory carry forward from second quarter?

R. S. Jalan:

Yes.

Dixit Mittal:

And sir secondly how is the soda ash pricing scenario right now? Is it going to improve from your own or what is happening because we have seen quarter-on-quarter improvement in realizations.

R. S. Jalan:

Current realization is stable as it was last quarter in Q1 2017, the prices are almost stable.

Dixit Mittal:

Sir first half in soda ash, we have seen around 400 bps margin expansion at EBITDA level. So for the full year also we can see this expansion to be maintained for the second half as well?

R. S. Jalan:

Right now like if you look at last year, our margin was 31% at H2 FY16, 31% and we believe that the margins would be in the range of around 32%.

Dixit Mittal:

For the second half 32%?

R. S. Jalan:

Yes and that is primarily because of the annual shutdown is also taking place during this quarter.

Dixit Mittal:

So shutdown will lead to higher maintenance cost right? So that is why you are saying 32% margins for the second half?

R. S. Jalan:

Yes.

Dixit Mittal:

And sir can you tell the quantum of wind profitability in second quarter?

R. S. Jalan:

See we have always maintained that the windmill is giving us approximately around one and half percent of the enhancement in the EBITDA margin and that is what we have been able to achieve that.

Dixit Mittal:

But it won't be there for the second half right in the textile segment because of seasonality?

R. S. Jalan:

This 1.5% which we said, each for the full year. So therefore if you look at the full year as a whole the margin improvement because of the wind will be 1.5%.

Dixit Mittal:

And sir lastly in terms of our debt retirement in first quarter we have mentioned that we have reduced debt by 68 crores. So this 28 crores figure that you have mentioned in second quarter, is it vis-à-vis second quarter or vis-à-vis March?

R. S. Jalan:

No, it is vis-à-vis March.

Dixit Mittal:

So that means we have taken additional debt in second quarter.

R. S. Jalan:

That is primarily in soda ash expansion as you know the soda ash expansion is going on and obviously this variation will take place. We have maintained always that our overall debt during the whole year, we will be maintaining the debt equity ratio of 1:1.

Dixit Mittal:

And sir our expansion of 100,000 tonnes, is it on track by March next year?

R. S. Jalan:

Yes, it is completely under track.

Dixit Mittal:

And sir will it take some kind of shutdown to patch it up in terms of to get increased or the old capacity will continue to produce at the current levels?

R. S. Jalan:

There will be no shutdown for the cooking of this new industry. That job which was supposed to be done which has been done currently in the annual shutdown which we have done just recently done in the month of October.

Moderator:

Thank you. We take the next question from the line of Andre Purushotam from Cogito Advisors. Please go ahead.

Andre Purushotam:

First of all, I wanted to congratulate you for an excellent set of numbers once again and congratulations for a consistently good performance. Thank you. I had just two, three quick questions. One is that from your soda ash business, quarter-on-quarter your capacity utilization has remained high at 91% but the margin has declined from 35 to 32, if I remember. So, why is that? That is question number one, question number two is that you must have now visibility on your interest expenses for the entire year if you could share that figure vis-à-vis last year and thirdly and last question is on whether there is any update on what you are hearing on the antidumping duty in China for soda ash?

R. S. Jalan:

Good. First of all, first question as we all know that there is always a seasonality in the soda ash business and the second quarter which is rainy season, always historically there is a margin drop in the soda ash business. That is what you are getting reflected in this and however, this is much higher as compared to same quarter last year. Last year Q2 2016, it was 27% and now it has moved to 32%. On the interest visibility, I would say that overall other interest cost is likely to be 135 cores vis-à-vis last year of 160 and the third you asked over the antidumping duty. Antidumping duty as I have been always said, antidumping duty is a mix of review on which I have indicated before and the final finding has come however, since the matter at this point of time is in the sub judice in the Ahmedabad High Court where the High Court has stayed the proceedings of the antidumping duty authority and therefore it will be difficult at this point of time to comment going forward what will happen.

Moderator:

Thank you. We take the next question from the line of N. Samraj from Dwarka Wealth Managers. Please go ahead.

N. Samraj:

You have already discussed a lot on the product lines and margins and basic financials, so I won't dwell much on that, but my question is going from the strategic management point of view. We basically have 3 product lines, we have chemicals, we have FMCG and we have textile. Now, if you see most of these now with the tailwinds of the textile industry which is currently going on, the markets giving a very reasonable and healthy multiples, similarly chemicals also has got a tailwind because of the global scenario and the margins and the demand for that and FMCG of course as you know they have pretty big multiples. So this 10 crores of equity what we have, what we have done a study is if you segregate it by the capital employed in each of these segments and go for a demerger, then don't you think sir, that the some of the parts and the valuation what you will be getting will be much more than what we have right now because the market cannot focus on any one of these particular segments thereon, that is the question sir.

R. S. Jalan:

Thank you for asking this question. Let me answer and this suggestion has come in the past also and the board is definitely discussing on this thing, but nothing at this point of time has been decided and as you know that the business other than the market capitalization, the other business compulsions are also required like one thing which is again very important is you need to look at is what is the cost of segregating the two businesses. So keeping all these things into account, we are discussing with the board but nothing has been finalized yet.

N. Samraj:

So I just wanted to understand you see not much of coverage has given into the FMCG part of the thing, but we believe that table salt is over there and there are spices and honey also I believe, so could you just dwell exactly what are the product mix of the FMCG segment sir, please if you can educate us on that?

R. S. Jalan:

In our business in the FMCG segment, our volume at this point of time is very small. We have around 50 crores of topline and therefore at this point of time we are not speaking too much. Of course our plan or our future vision for this is larger and that is the reason, as you rightly said we have launch and we have taken few initiatives, number one. We have added the basket of the product. We have added honey in the portfolio of the product. We have also launched the spices in the basket. We have some other product also under consideration that may also get added into this. Along with that, we have also till now we were in the southern market, our presence was only in the southern market. Now recently we have gone into the western market and the Goa market. So, overall we have an aggressive plan on this business but still the business is on a small platform at this point of time and therefore we are not talking too much about it.

N. Samraj:

How is the acceptance on the retail levels sir when you compare it to the other players in this particular segment, how is our acceptance at the retail level for spices and all because I never really come across the brand name or exposure to that in the media so what exactly is..

R. S. Jalan:

Two things, one is spices we have recently launched. So it will be premature to talk about at this point of time the acceptance, but initial feedback is good.

N. Samraj:

What is the brand of this, the brand name?

R. S. Jalan:

i-FLO, i-FLO on which we have a salt, we have a special salt we call it herbal salt. Then we have i-FLO same brand we have honey, on the same brand we have the spices.

N. Samraj:

So you have given an umbrella brand and under that you have this different product mix?

R. S. Jalan:

And we are unique in the packaging, if you look at our packaging you will find really uniqueness in our packaging.

N. Samraj:

So, spices and all what you do basically is you procure it for the market, then you blend it and you repackage it and then you marketed to the retail and the wholesale level, is that what you do?

R. S. Jalan:

We have strategic vendors and we procured and we do the quality check and based on that, then we pack it and then we marketed it to the market.

N. Samraj:

What is the volume growth and in your business plan, what do you expect to do in the next 5 years in this particular segment sir, FMCG?

R. S. Jalan:

We are looking at 5 years period we should be in the range of around 100 crores.

Moderator:

Thank you. We take the next question from the line of Nalin Shah from NVS Brokerage. Please go ahead.

Nalin Shah:

At the outset, let me congratulate the entire team for the excellent results for Q1 as well as Q2 sir. Majority of my questions, I think have been covered in the previous questions so I do not want to repeat it, except that I want to know that as you said that some final finding has come in respect of the antidumping duty and there is a high court stay on that, we just wanted to understand what is the pricing in the local market versus the imported material?

R. S. Jalan:

See if you look at the soda ash prices, being a commodity always the difference between the imported prices and the domestic prices the gap will not be very large. Being a customer, he would always like to take the product at a price, they will give some premium on your domestic product because of the mainly of the supply chain, otherwise the prices will remain at the same level. So you won't find major gap between the domestic prices and the imported prices.

Nalin Shah:

So even if supposing the antidumping duty was to be either the lowered or to be this thing, we do not find that there will be a substantial any damage to the industry as such in terms of the domestic pricing?

R. S. Jalan:

No, I have not said that, currently after taking into account the antidumping duty...

Nalin Shah:

What is the duty sir, can you tell us?

R. S. Jalan:

Duties are different. For China, the duty is in the range of around $36-$38, US is in the range of same around $36-$38 and the Europe from where the major quantity is coming, there the duty is only $9 to $10 and from Pakistan, it is around $3.

Nalin Shah:

So, when do you sir expect that from final decision could come and which could settle the issue?

R. S. Jalan:

As it is a court matter and you know that the court, they take their own time and very difficult to predict on the decision of the court.

Moderator:

Thank you. We take the next question from the line of Sachin Relekar from LIC Mutual Funds. Please go ahead.

Sachin Relekar:

Sir I just wanted to understand as to next 2 to 3 years since you have this 3 different business lines as to where and how much you would be investing because your home textile business also growing very fast which will require investment plus FMCG as you just mentioned in 5 years you have 100 crores vision and that business of course will require working capital, branding, other expenses and you have just through with this huge expansion plan in soda ash. So, how you are looking to invest behind these businesses at the same time what is your take on, how much that you will maintain going forward?

R. S. Jalan:

We have said that our debt, we will always like to maintain the debt equity ratio of not more than 1:1 and therefore any plan whatever we do will always have this financial discipline in our system. Now having a cash surplus organization, we have in the range of around 400 crores to 450 crores of cash generation every year. So, our all growth will lead towards those resources and we will always maintain our debt equity ratio of 1:1. Now so far as the current position is concerned as we all know, we are already in the process of completing their expansion of 100,000 tonnes. We have already approved the CAPEX for the next year of soda ash as well as the sodium bicarbonate and as well as we have approved recent budget 67 crores on the textile business. So keeping that, overall guidance of the debt equity ratio 1:1, we will allocate the resources on the various businesses.

Sachin Relekar:

Sir, can you just give me the number as to how much is your gross debt as of now?

R. S. Jalan:

We have approximately at this point of time we crossed 119 crores of the debt. Out of that, long term debt is 743 and the short term debt is 476.

Sachin Relekar:

And so you have done with this 100,000 tonnes expansion plan in soda ash. So how much CAPEX further you are allocating to soda ash business?

R. S. Jalan:

We are allocating approximately around 80 crores in the soda ash expansion which will happen next year.

Sachin Relekar:

And 67 crores on textiles?

R. S. Jalan:

Yes.

Sachin Relekar:

So you have very large cash flow generation as such. So, then in that case your debt should come down right, I mean if you are not giving very large dividend in that case?

R. S. Jalan:

Dividend guidelines, we have already given and depending upon the CAPEX, if you find any other opportunity going forward, we will definitely allocate the capital on that. Otherwise, definitely the debt will reduce.

Sachin Relekar:

So because you are insisting on 1:1, ideally it should fall because your net worth will go up while your cash flow is higher and your CAPEX is not more than 150 odd crores so that should happen right?

R. S. Jalan:

Yes, you could assume that.

Sachin Relekar:

And sir how much is your tax rate like do you get any benefits because of your wind power and how much of your power requirement is made through this renewables etc.?

R. S. Jalan:

In our spinning division, the windmill protects our power consumption to the extent of around 50% and the tax rate on the books which we provide including the deferred tax..

Raman Chopra:

Will be around 27%-28%.

Moderator:

Thank you. We take the next question from the line of Alok Deshpande from HSBC. Please go ahead.

Alok Deshpande:

Sir I had a question regarding not really antidumping duty, but just in terms of what are the cost optimization or cost reduction majors that company is working on going forward if on a 3- to 5-year view in terms of your domestic soda ash operation, are we looking or have we set any targets for 20% or 30% cost reduction in terms of production cost, just wanted to get some color on that?

R. S. Jalan:

Mr. Deshpande, this is a continuous process and last many years, this is a process which we are following every year and if you look at last few years, you will find that every year we have a huge potential or we identify the huge potential and we work on that. Similarly, this year also we have done, many of the initiatives we have done. Some of the initiatives which at this point of time is pipeline, one is the steam power consumption, which is the one of the largest cost in the soda ash industry. So that is the one exercise we are doing and that can give us a potentially good saving. Similarly, we are looking at many of the initiatives in the textile segment as well, like one we are looking at the wastages, how do we reduce the wastages, how do we improve our utilization. Ultimately, this all develop into the cost. Similarly, if you look at last 1 year, our focus on the quality of raw material which has ultimately led us to a huge substantial improvement of this capacity utilization. Ultimately, this capacity utilization leads in the cost reduction because your cost remains almost, I would say, largely not in the same proportion and any additional production that add to your bottom-line straight away, so all these initiatives we are doing.

Alok Deshpande:

Sir is it fair to say that the utilization barring some plant maintenance and shutdowns, except for that is it fair to say that we can look at somewhere around 85%-90% on a sustainable basis?

R. S. Jalan:

Sure sir.

Alok Deshpande:

Sir, I have just one more question sir, any plans of any overseas acquisitions?

R. S. Jalan:

Not at all sir.

Alok Deshpande:

On the soda ash front?

R. S. Jalan:

No sir.

Moderator:

Thank you. We take the next question from the line of Kaushal Kedia, he is an individual investor. Please go ahead.

Kaushal Kedia:

Firstly, congratulations on your bottom-line. Secondly, what I wanted to know is what is the working capital scenario looking right, what is the average number of the days in the textile segment from your debtors days that you get and is it improving as we go ahead, will it improve as we go ahead?

R. S. Jalan:

If you look at our working capital cycle which is currently 96 days against last year of the same period, March 2016 I would say, was 103 that means almost around 7 days improvement in the working capital cycle of the textile. Similarly in the inorganic chemical, our working capital cycle has improved from 8 days to 5 days and overall if you look at our March working capital cycle was 48 days which has improved to 43 days in September 2016.

Kaushal Kedia:

And sir second question is out of the profit of 122 crores that you have reported in this quarter, what would be your cash profit if you could throw some light on that?

R. S. Jalan:

Cash profit after the tax is 119 crores in the Q2 2017 and Q2 2016, it was 70 crores, so there is a cash generation means 69% up.

Moderator:

Thank you. We take the next question from the line of Abhijay Sethia from SJC Advisors. Please go ahead.

Abhijay Sethia:

So my question was when was the last time you expanded capacity on the soda ash segment? The reason I ask is your ROCEs obviously on that segment are quite robust, but you see incremental ROCE going forward will be a little bit lower, again that cost of setting up would have gone up.

R. S. Jalan:

Last expansion which we did in 2006 or 2007 and this expansion is happening after around 8 years and this expansion will have two advantage straight to us. One is our gross margin which is in the range of around 50% will directly add to the EBITDA margin because there is no in between there is a cost increase between the gross margin and EBITDA margin. Second, our overall capital cost per tonne of soda ash in the brownfield expansion is in the range of around Rs. 37,000 against the new plant which is around more than Rs. 50,000, so that also help us to be a better margin.

Abhijay Sethia:

And then just on the FMCG side, are you profitable there on an EBITDA level?

R. S. Jalan:

Yes, we are profitable on the EBITDA level. Currently, we have approximately around 10% EBITDA margin on that business.

Abhijay Sethia:

What is the trend on that over the last kind of 3-4 quarters and what should we expect?

R. S. Jalan:

Generally, you will find the similar kind of a margin in the last few quarters in this business. Of course small variation some time happens because we have a salt production and that salt production sometimes because of the rainy season, the salt production can hamper little bit. However, overall if you look at on a year-to-year basis, it is in the range of around 10%.

Abhijay Sethia:

And just last question from my side, as spinning obviously is probably one of your lowest return on capital businesses while home textiles is relatively higher. Do you have any plans to kind of divest the upstream side and focus more on downstream?

R. S. Jalan:

No.

Abhijay Sethia:

And what kind of the thought process behind that in terms of being so vertically integrated?

R. S. Jalan:

Yes, we say that for any home textile business, it is important that you should have an integrated setup for the long term sustainability of that business.

Moderator:

Thank you. We take the next question from the line of Nalin Shah from NVS brokerage. Please go ahead.

Nalin Shah:

I think my question probably the similar, what some earlier this one has asked, is there any plan because of the very robust cash generation, are there any plans of any inorganic sort of growth at least in the domestic market or at least you feel that there will be any opportunity either in soda ash or in the textile business?

R. S. Jalan:

See, in the current business in the soda ash and textile, we are continuously finding an opportunity and making investments into that business to continue the journey. However, at this point of time, we are not looking at as of now any inorganic investment.

Moderator:

Thank you. We take the next question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia:

Two questions; first one will be you did mention about the antidumping duty and currently it is sub judice, but any guidance on the management on sort of the worst case impact on realizations, if the antidumping duty where it to be finally removed. The management must have done some scenario planning, so we would like your guidance on what you see it if the ADD were to be actually removed finally?

R. S. Jalan:

See, in the event of ADD not continuing, the impact on the pricing will largely depends on the demand supply scenario prevailing at that time. However, we expect it can be around 4% to 5% on the pricing. However, the new capacity which we are adding will have a cushion and absorb the decline to a great extent.

Dhruv Bhatia:

And the second question was in your textile business given that you are operating at 90% capacity, most of the new CAPEX that you have guided for is in the spinning segment, but if you look at your competitors like Indo Count, Welspun, Trident, Himatsingka, all of them have expanded and our expanding capacity is pretty vigorously. So if you can explain why GHCL management feels it to be around this 40 million meters mark and not expanded while the others are, so are you seeing a different kind of demand than what the competitors are seeing or are you seeing trouble ahead in that industry and hence you were being cautious?

R. S. Jalan:

See, the current investment which we have taken in approval will add 25% of the capacity in our home textile business and that we believe is quite significant and once we stabilize that, then probably we will add the further capacity if required.

Dhruv Bhatia:

So, does it mean the 37 odd million meters that you are approximately will go up to 45-47?

R. S. Jalan:

Yes, it will go to 45.

Moderator:

Thank you. We take the next question from the line of Abhishek Saraf from Saraf Enterprises. Please go ahead.

Abhishek Saraf:

Sir as you told earlier that we maintain utilization levels at 91%. So if you can just clarify on the point that our revenue for soda ash of this quarter was down by 12 crores but profits were down by around 16 crores, so if you exclude in turn the 3 crores of the replacement part, what led to this decline or is it the inventory management that has..

R. S. Jalan:

Like I said, our production was on the same number, 193 versus 193; however, sales was down primarily that we wanted to build an inventory to service our market during the shutdown and because of that you see the drop in the sales and that led to the reduction in the overall profitability. Largely the profitability is down, primarily because of the inventory build-up.

Abhishek Saraf:

That is going to get even out in this profit.

R. S. Jalan:

Yes.

Abhishek Saraf:

I was speaking about the incremental depreciation that will come into asset with the new capacity, what will be the incremental depreciation on account of the new capacity?

R. S. Jalan:

In the books you provide by around 5%. So I think whatever the capital expenditure we do, there will be a 5% of that will become a kind of depreciation charge to the profit and loss account. This is a general accounting outlay that is correct.

Abhishek Saraf:

Sir, you did spoke about the energy prices moving up and you mitigating it to some extent, how are we going to tackling it because now the crude has stubbornly placed above $50 and even other input prices have gone up. So will you place any dent on the margins going forward on account of energy prices moving up or remaining in the upper band?

R. S. Jalan:

Next 2 quarters like I said we are reasonably covered and after that, our belief is that the prices of the energy, particularly I am talking about the coal and coke will have a downward turn and therefore it may make the impact if the price does not go down or even the demand supply scenario can take into account and can be the prices, globally prices can go up, soda ash prices can also go up. At this point of time is talking about let us say what likely scenario will be there, difficult to say.

Abhishek Saraf:

So we are confident of maintaining our margins in this scenario.

R. S. Jalan:

Reasonably.

Abhishek Saraf:

And my last question comes to the generally in this soda industry, the trends are like the third quarter is better than the second and the fourth is the one which is the best. So is this perception correct and is this the likely scenario going forward for this year also, can we work out our numbers on the basis of this formation?

R. S. Jalan:

The volume of soda ash will be in the same range as it was last year H2 2016 because we had the peak. However, the margin will largely depends on the raw material prices going forward.

Abhishek Saraf:

We must be having forward contract for the raw material content also. So you should have the better idea of what the things are likely..

R. S. Jalan:

So which we have already given a guidance that approximately we will be in the range of around, year as a whole if you look at, we will be in the range of around 33% kind of a margin.

Abhishek Saraf:

That is the fair part, 31-32 we have maintained, so going forward also we can look forward for slightly less than that. My last question pertains to the textile part sir. How will the market absorb the news of this Welspun saga about the Target and how our clients now treating us especially on what has happened on the Welspun. It is a done and dusted story or we still have the percolations apply.

R. S. Jalan:

This is an industry issue and we believe that it is not good for the country and of course, there is no impact to us because of this saga, but as a country this has a negative impact.

Abhishek Saraf:

We are doing any program for Target sir?

R. S. Jalan:

We are doing, Target is one of the large customers for us and we don’t have any issue.

Abhishek Saraf:

And what is the size of the contract, so if you could give some idea sir just to get an approximate what do you mean by big?

R. S. Jalan:

I can say that they are one of the largest customers to us.

Abhishek Saraf:

And last point to the cotton procurement, this is the cotton procurement period for us, I think so personally. So the cotton prices are trending on the higher metrics. So what is the likely trend and how are margins going to get affected or is there a period we pass on completely?

R. S. Jalan:

The cotton prices which in the last one quarter was normally high. It is now softening from 48,000, it has already come down to 42 and our belief is that the moment the peak arrival happens in the market, the prices would further soften and our belief is that the prices of cotton should be in the range of 36,000 to 38,000 per candy.

Abhishek Saraf:

For Shankar-6 which you are speaking.

R. S. Jalan:

Benchmark we are taking.

Abhishek Saraf:

Lastly sir in the June quarter, there was a shutdown of one of your competitors' plant of the soda ash, so did we derive any benefit from the market due to their shutdown and their things moved up, how was the impact because they are a very small player.

R. S. Jalan:

You see, like you know that whatever we produce, we sell.

Abhishek Saraf:

The realizations are better sometimes…

R. S. Jalan:

I do not think.

Abhishek Saraf:

Sir, what is the current price for realization per tonne?

R. S. Jalan:

Approximately around 18,500-18,600.

Abhishek Saraf:

18,500 tonnes and we are going to get an incremental 25,000-26,000 tonnes from March quarter onwards every quarter?

R. S. Jalan:

100,000 tonnes, we could take 90% capacity utilization will be around 90,000 tonnes which would happen next year, year as a whole.

Abhishek Saraf:

90 divided by 4?

R. S. Jalan:

Yes.

Abhishek Saraf:

And that into 18,500 will be the incremental that is around 22,500 tonnes into 18,500. That is the incremental revenue that we are going to get from March?

R. S. Jalan:

I think so.

Abhishek Saraf:

And as far as your explanation only we are expecting 50% EBITDA margin from this extended capacity, minimum?

R. S. Jalan:

It should.

Moderator:

Thank you. We take the next question from the line of Abhijay Sethia from SJC Advisors. Please go ahead.

Abhijay Sethia:

Just wanted to ask you and get your thoughts on this, the promoter holding is obviously quite low in the company, your valuations as we have seen quite cheap compared to different kind of comparisons on the textile and the soda ash side and there is extra cash that you are generating over and above your CAPEX requirements, can't you solve a lot of these problems are doing a large share buyback, is that something the board has considered?

R. S. Jalan:

We are not considering this.

Abhijay Sethia:

And if you can kind of talk about the reasons that you think this is a not a good use of resources?

R. S. Jalan:

See, company at this point of time is required the resources for the growth and the company also requires resources for reducing its debts.

Abhijay Sethia:

So primarily all of the surplus cash will go into reducing debt so that should come down quite sharply over the next 2 years that given you have outlined CAPEX program already?

R. S. Jalan:

If there is no CAPAEX.

Moderator:

Thank you. We take a followup question from the line of Abhishek Saraf from Saraf Enterprises. Please go ahead.

Abhishek Saraf:

It was regarding this textile part only, you spoke about around 68 crores further CAPEX that you are building up that CAPEX will go through within March or that is expected meaning the CAPEX will be infuse for March year that you will get the benefit during this year or it will percolate it to the next year?

R. S. Jalan:

It will percolate to the next year.

Abhishek Saraf:

Currently we are working with 15% EBITDA margin and this will not boost up the margin, the expansion which we are talking right now?

R. S. Jalan:

This year once this expansion takes place, then volume will increase and we have currently in the range of around for FY2016-2017, we are maintaining or around margin of 15%.

Abhishek Saraf:

No, I am talking this what will be the increase in the margin due to this infusion of 67-70 crores expansion which we are doing, what is the likelihood incremental margin we are expecting out of this, how much would the margins improve sir?

R. S. Jalan:

See, margin improvement in relation with the volume because of this expansion which we are doing, one is the volume growth will take place and ultimately your absolute margin will improve.

Abhishek Saraf:

No, that is what I was asking. What is the absolute margin improvement?

R. S. Jalan:

No, that is what I said, the absolute margin will improve. However, on the return on capital employed, our target is around 20% of the return on capital employed should be there on the fresh investments. That is the benchmark we have for any investments that we make.

Abhishek Saraf:

Have the ESOP policy being implemented and the issuances have happened currently or we are still in the financial situation?

R. S. Jalan:

ESOP, we have implemented in May 2016 in the board meeting and the share has been what you call granted to the large number of people and over a period of time, they will get vested into them. The first tranche will come in May 2017.

Abhishek Saraf:

And exercise price for you, what was that, Rs. 100 I think so?

R. S. Jalan:

It is Rs. 100.

Abhishek Saraf:

Sir, already you have maintained that it is a very professionally run management and things are best ever, you are implementing and choosing your point very correctly, but still there is a belief that why the promoter holding is lying so low, when the market is taking your story correctly, your chair founders are getting the benefit, the share prices are moving up, the capitalization is up, but still the promoters are lying low about 18.5 or I think 19%, have they communicated anything to you or the team of their plan going forward of infusing points getting their place up in some ways because we are into this CAPEX regime of about 100 crores of approximately so if they infuse through any preferential allotment, the debt equity would definitely get balanced out.

R. S. Jalan:

See, the promoters in the last one year, they have replaced the entire holding which was more than 50% which had placed, they have put a large resources to replace that. They have also increased their shareholding by around 1% in the last one year. So, gradually they are building up their shareholdings depending upon the resource available to the promoters.

Abhishek Saraf:

But they have CAPEX plans in future to improve the resources, that is what you are coming to.

R. S. Jalan:

That I cannot answer.

Abhishek Saraf:

Correct. Sir how was the yarn prices being sir, had they been remain stable and what percentage of our home textile, if you could just give the mix sir, what was the yarn sales internally and outside sir?

R. S. Jalan:

See, I have always maintained that overall out of our total production, approximately around 50% of the requirement of our home textile is being fed from the own spinning and balance 50% they buy from the market whereas from Madurai, the spinning whatever they produce, out of that 24% they sell it to their home textile business. They transport to the home textile business and balance they sell into the market.

Abhishek Saraf:

What is the capacity there for Madurai plant?

R. S. Jalan:

We have spindleage of 175,000 in spindles and we also have an open end of 3300 rotors of the open end and we produce approximately around 24,000 tonnes of the yarn every year.

Abhishek Saraf:

Out of that, 24% is consumed internally and 76 is sold out in the market?

R. S. Jalan:

Yes.

Abhishek Saraf:

And sir out of the total mix, 50% is our internal requirement and 50% is being sold in the market, that is what you have communicated, sir I missed it.

R. S. Jalan:

I do not know. In the Vapi, whatever their requirement is there, out of that they get 50% of that from their own unit and balance 50%, they buy it from the market. Whereas from the spinning side whatever they produce, out of that 24% they give it to their own unit and 76% they sell into the market.

Abhishek Saraf:

For the Vapi, I do not get your point, Vapi, therefore the spinning and ….

R. S. Jalan:

Vapi's requirement is suppose 100 tonnes, 50 tonnes of the product from the spinning and balance 50% which are more of a synthetic yarn and the worsted count, they buy from the market whereas if you look at the spinning total volume production, they supply only 24% to their Vapi unit and balance they sell because the capacity match are different. Vapi's requirements are lesser and thus the spinning production is more.

Abhishek Saraf:

So our dependence on the yarn depends on the market, we purchase yarn from market also?

R. S. Jalan:

If you look at overall, I would say that if you do not go on a count wise basis or the product wise basis, then we are spinning heavy.

Abhishek Saraf:

We are spinning heavy?

R. S. Jalan:

Our spinning requirement is more than the home textile requirement.

Abhishek Saraf:

But sir, it gets integrated to the home textile, more amount of turnover is within generated from the yarn sales than the home textile part or how is that trend?

R. S. Jalan:

No, overall our turnover in that the major portion is coming from the home textile. Total turnover is 450 crores. Out of that, approximately….

Raman Chopra:

Last year out of 450 crores total spinning revenue, 150 crores was consumed internally and 300 crores was showed externally.

Abhishek Saraf:

And for this, how if you could give an idea sir, for this 6 months we have turnover of 609 crores for the home textile segment. If you could bifurcate it what has it been the revenue from the yarn part and how much is the home textiles that bifurcation and the margin you won't disclose but you give me the turnover breakup?

R. S. Jalan:

See, large portion is coming from the home textile, approximately around 70% comes from the home textile and 30% comes from the yarn.

Management:

Out of 611, home textile revenue is Rs. 423 crores.

Abhishek Saraf:

And how was the yarn prices sir being stable or the cotton has contributed to size in them also?

R. S. Jalan:

At this point of time because of the uncertainty in the cotton prices, the cotton prices are falling and therefore slightly uncertainty in the yarn prices which will get stabilize I would say in the month of November once the cotton prices are stable.

Abhishek Saraf:

Sir, there are the only 2 savings, big savings, one has been on the interest cost which you have already clarified and then is on the power, fuel and water cost, there is huge savings. So going forward, the energy prices being moving up, we are going to face some headwinds on account of power and fuel being up that is what we can factor in going forward, but on the interest front, we would be making the payments which is due that is the fair assumption we can make?

R. S. Jalan:

If you look at on the power side, I would say that there are 2 kinds of it, when I say on the energy side, you will see 2 things, one is certain savings which are sustainable in nature like wind energy or the other initiations which we have built in the system which will be sustainable. Yes, on the coal prices and the coke prices, some volatility is there that can have some impact but overall I do not think it will have too much of concerns.

Abhishek Saraf:

No sir, just I was trying to make some sense, 182 was the cost for last year 6 months, this year it was 137, we saved 45. So going forward also, can we factor in that this 45 saving is going to remain or it will get mitigated due to the spikes in the coke price?

R. S. Jalan:

It is like I said entirely depends on the sustainable part will remain and the balance part will always be dependent on the volatility of the energy like coal.

Abhishek Saraf:

How much is the sustainable part sir, out of this 45 crores saving?

R. S. Jalan:

Almost around 50-50 at this point of time.

Abhishek Saraf:

Sir 50%?

R. S. Jalan:

50%-50% both.

Abhishek Saraf:

But 22-23 crores we are going to face?

R. S. Jalan:

That is sustainable.

Abhishek Saraf:

That is sustainable and this remaining will be variable loss.

Moderator:

Thank you. Ladies and gentlemen due to time constraints, that was the last question. I now hand the conference over to Mr. Rohan Gupta from Emkay Global Financial Services Limited for closing comments.

Rohan Gupta:

Thanks Stanford. Sir, thank you very much. We already have a very lengthy discussion. Sir just one very macroeconomic question from my side is on textile business, sir whatever problem we had faced, we have seen the industry has faced in last 6 months, so do you think that it has had some dent of Indian image in global market and can it have a more repercussion overall for the overall textile industry going forward or it will be sorted out in near terms?

R. S. Jalan:

Definitely, these had made an impact on the overall image of the company but I do not think this will have any major because the business flying away from India and this will get settle over a period of time.

Rohan Gupta:

Sir just second on this rising input prices for soda ash, we have seen that pet coke and even coal and coking coal prices have started increasing, so do you think that industry is in position where we can increase the soda ash prices if your raw material cost goes up further or there will be some hit on a margin going forward?

R. S. Jalan:

It is very difficult at this point of time to predict what will happen going forward depending upon globally how the cost implication making the global players to speak about the price, but obviously if the cost goes up, definitely there will be a chance of looking at re-correct in the pricing. Some indications from the China is already being seen that there is a talk going on already on the increasing the prices in the China, so that trend may follow in other locations as well.

Rohan Gupta:

China soda ash prices, you are mentioning have already started going up?

R. S. Jalan:

Yes, the talk on those prices going up and the small firmness just started seeing in the market and as we have seen in the past also as I said in the past that if you look at last many years, you will find that margin in the soda ash business is primarily on a stable basis. So that indicates to me that if normal increase remains in the commodity prices, probably some chance may happen. However my belief is also on the coal and coke prices, it was a kind of a spurt which has happened which will taper down. If you look at the Newcastle rate right now also, you will find the old prices are being seen tapering down by Q2 2017. Our indication is that this commodity prices will soften, I would say after 2 quarters.

Rohan Gupta:

That is all from my side and once again thank you very much for giving us all your valuable time and we wish you very all the best for future coming quarters on the business. Once again, special thanks for all the participants for joining in the conference call. On behalf of Emkay Global, I end this call. Thank you everyone, thank you very much.

R. S. Jalan:

Thank you everyone, thank you Rohan.

Moderator:

Thank you. On behalf of Emkay Global Financial Services Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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