GHCL Limited

August 1, 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 July 26, 2016

In continuation to our earlier communication dated July 20, 2016 & July 25, 2016 regarding Investors' conference on July 26, 2016. We are pleased to attach copy of the transcript regarding said Investors' conference held with the management on July 26, 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 Limited

Q1FY17 Conference Call Transcript

Moderator:

Ladies and gentlemen, good day and welcome to the Q1 FY2017 results call of GHCL Limited hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should 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 would now like to hand the conference over to Mr. Rohan Gupta, Senior Research Analyst of Emkay Global. Thank you and over to you Mr. Gupta!

Rohan Gupta:

Thanks. Good evening ladies and gentlemen first of all on behalf of Emkay Global Financial Services I welcome all the participants' logged in for the conference call of GHCL. Once again thanks to the management for giving us the opportunity to organize this conference call. Mr. Jalan Sir, Mr. Chopra Sir and Mr. Sunil Sir good evening sir to all of you. Sir you have definitely come out with fantastic results in a current quarter. So first I will request you if you can take us through the current quarterly results also if you can share a little bit industry dynamics in the current scenario and then we get it follow it up with the Q&A session Sir. Please Sir. Thanks.

RS Jalan:

Good evening ladies and gentlemen. On behalf of GHCL, I welcome you all to this call. I have with me Mr. Raman Chopra, our CFO 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. Turnover has increased by 109 Crores achieving a growth of around 17%. EBITDA has increased to 196 Crores from 153 Crores registering a growth of 29%. Our net profit has increased by 67% to Rs.103 Crores from 62 Crores in FY2016 quarter one. This growth has been contributed by growth in both the business segments that is inorganic chemical and textiles.

In the inorganic chemical segment, we achieved a record production of 1.93 lakh metric tonne setting a benchmark productivity of 91% against 81% last year same quarter. However, if I take the annual shutdown which was not their last quarter 86% to be considered as the capacity utilization in FY2016 quarter one. This has led to both higher productions in sales. The domestic demand has gone up by 2% during the quarter and the price remains stable in the last three months. We have improved our margin due to increase productivity, strong focus on operational efficiency and lower utility cost.

I am glad to inform you that our Soda Ash expansion is on track and will get completed by March 2017. The textile segment reported a 30% surge in the revenue and the EBITDA has increased significantly by 47% that is to 50 Crores from 34 Crores in Q1 FY2016.

As I have earlier communicated that we are aggressively focusing on improving our margin in textile the margin has improved to 16% compared to 14% in Q1 FY2016 this improved performance is contributed by capacity optimization to 81% compared to 76% in the last year quarter. Investment made in the windmill last year has also benefited the company in rationalizing our UPC cost and contributing to the bottomline.

During the quarter we have earned a cash profit after tax of around 131 Crores out of which 68 Crores has been allocated towards the debt reduction and 63 Crores has been spent for the capex.

With this I would like to emphasize that we are focused to achieve a holistic growth to all our stakeholders and build our business on a platform of value and principals for which the company shall be known for. I would now invite Mr. Raman Chopra to take you through the quarterly performance financial results.

Analyst:

Mr. Rohan Gupta
Senior Research Analyst
Emkay Global Financial Services

Management:

Mr. Rs Jalan
Managing Director - Ghcl Limited

Mr. Raman Chopra
Chief Financial Officer And Executive Director (Finance) - Ghcl Limited

Mr. Sunil Gupta
Finance – Ghcl Limited

Mr. Abhishek Chaturvedi
Finance – Ghcl Limited

Raman Chopra:

With the note of thanks to Mr. Jalan, I welcome you all on today's call. This has been a quarter where the accounts have been prepared based on Ind AS vis-à-vis I-GAAP reporting till last year. The comparable quarter number of Q1 of FY2016 has also been reclassified on the basis of Ind AS.

I take this opportunity to apprise you of our incredible performance of our first quarter of FY2017 on a standalone basis. Our revenues have grown by 17% to Rs.734 Crores as compared to Rs.625 Crores last year. Our EBITDA has grown significantly by 29% that is by Rs.43 Crores from Rs.153 Crores to Rs.196 Crores. EBITDA margins for the same period have increased by 230 basis points to 26.8% versus 24.5% last year. Profit after tax has shown a robust growth of 67% it has improved from 62 Crores in FY2016 to 103 Crores in FY2017.

Both the segments have contributed to this remarkable performance and on a segment wise insight in inorganic chemical segments revenue have grown from Rs.384 Crores to Rs.421 Crores which is mainly due to higher Soda Ash volume of 23300 tonnes this is led by a record productivity of 91% during the quarter.

EBITDA for the quarter has increased to 147 Crores as compared to 119 Crores in Q1 FY2016. This increase in EBITDA is mainly contributed by higher sales, low utility cost resulting an increase in EBITDA margins by 380 basis points from 31% in Q1 FY2016 to 34.8% in Q1 FY2017.

Our textile segment has reported a robust quarterly performance in all respects. Revenue have recorded a growth of 30% to 313 Crores from 241 Crores during the last year same quarter. As Mr. Jalan has already informed our EBITDA margins have improved from 14% to 16% over June 2015 quarter this has been mainly led by higher volumes and lower utility cost. The EBTIDA has improved by 47% in absolute terms from Rs.34 Crores to Rs.50 Crores.

We have judicially deployed our cash flows generated during the quarter. We have successfully reduced our both long-term debt and short-term debt by total of Rs.68 Crores as compared to March. Without focus on setting our assets to the best we have managed to scale up our operations with the same working capital level as compared to last quarter.

The ROCE has improved from 22% to 24% and the return on equity has improved from 25% to 26%.

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 have the first question from the line of Saket Kapoor of Kapoor Company. Please go ahead.

Question and Answer Session

Saket Kapoor:

Good evening Sir. Congratulations Sir on outstanding set of numbers beating even expectations of persons who are analyzing your company now. First of all, Sir having a holistic view of this sector as a whole because Soda Ash prices have for a very long period remained in a range and even in other commodities there has been exaggeration in terms of prices due to the Chinese factor. Do you think Sir any fundamental change has taken place or is there that can be factored going forward or we can expect smooth run in the nearest visibility Sir?

RS Jalan:

Mr. Saket if you look at the global market impact America and Europe markets are listing a positive demand growth is around 2% whereas China demand is definitely down; however, the China is making their demand supply scenario at a lower level and that is leading to a kind of a balancing in China.

Saket Kapoor:

Sir in terms of if you can give any quantitative terms what is the production on changes they have taken place in the Chinese as they are the big player in the market?

RS Jalan:

Their total production is around 2 million tonne in month and they are balancing with the annual shutdowns and as you know that there was one plant shutdown which was a 3 million tonne plant which was also out of the production for few months and getting normalized so now more or less their demand supply situation is a kind of balanced.

Saket Kapoor:

So Sir all these factors will not lead to then reimposition of antidumping duty going forward because when they are already cut their capacity the question of their dumping more Soda Ash in the country does not hold true, so if this is the situation prevailing there is a very likelihood that the reimposition will not happen, what is your take on that?

RS Jalan:

See as I mentioned last time also it ADD petition is under review and the result is likely in September 2016 and this will be known only by the end of September that what the situation comes true.

Saket Kapoor:

No just the sector Sir, if the Chinese sector is there that they are themselves shutting down the capacity that is availability is less and due to the nature of the commodity also it may happen and my continued question is that the 22% of the demand is meant for imports so which are the country that are participating in this from which they are importing and so which coast this import is happening, servicing these customer?

RS Jalan:

Antidumping duty is not only on China, antidumping duty is on other countries as well and mainly if you look at Soda Ash import which is happening from one is Romania, Europe and second it is happening from other part of the Europe as well and Kenya is also one of them and some quantities is also coming from US also so primarily if you can say some materials coming from Europe, some from Kenya, some from Romania and Poland and some quantity from US. China is also coming and out of our total import around 700000 tonnes approximately around 15% is coming from China.

Saket Kapoor:

15% of the import is from the Chinese. Sir now coming to the price change due to the monsoon impact, what type of what is the role played by monsoon in the price realizations because you said that in the monsoon period there is a decline in the prices and also the capacity utilization levels are lower so if you could throw some in fact because monsoon has now widespread across all the regions in the country so what at that utilization levels are we expecting for this quarter going forward?

RS Jalan:

Price there is no impact of the rain on the price of the Soda Ash and yes in terms of the production definitely seasonality plays a factor and in the rainy season the productions are always down. This is true for the many years.

Saket Kapoor:

What levels are we expecting Sir as going forward?

RS Jalan:

It depends on the rain like if you look at the last year, last year the rain was less and because of the productivity was very high last year and this year we are not yet sure that what the rain level will be there, rain level will decide the overall production.

Saket Kapoor:

Thank you.

Moderator:

We have the next question from the line of Mr. Sachin Kasera of Lucky Investment Managers. Please go ahead.

Sachin Kasera:

Good afternoon Sir. Congratulations for excellent set of numbers. Sir couple of question on Soda Ash business, can you just help us with what was the exact sales in terms of tonnage in realization for Soda Ash and how would it compare with same quarter last year? Secondly the margin improvement that you have seen from 31% to 35% Soda Ash what are the sectors drive it, is it better realization or also it is a function of some cost improvement that they have done?

RS Jalan:

Sachin the total production in June 2015 quarter was 1.72 lakh tonnes which has been now in 1.93 lakh tonnes and it is by the capacity utilization as I mentioned gone up from 81% to 91%. The sales numbers are last quarter this FY2016 quarter one last year same quarter was 1.6 lakh tonnes of the sales against that this quarter was 1.84 lakh tonnes and realization if you see last year in FY2016 it was 18750 which is now 18390.

Sachin Kasera:

It is a little lower as compared to last year.

RS Jalan:

Yes, but if you compare the same number from March 2016 means last quarter of last year it is slightly better because last quarter was 18200 against that it is now 18390 so there is an improvement of Rs.190 vis-à-vis last quarter of and last call I have mentioned that prices are softening and but if you look at these two numbers prices are almost stable as compared to the quarter four of last year versus this quarter first.

Sachin Kasera:

So the last part of the margin improvement that we have seeing from 31% to 35% is it what are the key factors? Is it mainly the costs were lower and what were the drivers behind this lower cost for the quarter?

RS Jalan:

First of all, the lower cost is primarily because of the higher deficiency, capacity utilization from 81% to 91% this leads to that automatic cost reduction that is number one, and second the energy cost was also lower as compared to last year.

Sachin Kasera:

So for the energy prices are going up will we see some pressure on the cost front in the next two to three quarters?

RS Jalan:

No we are well covered up to March 2017 and we do not see any major cost pressures on have up to March 2017.

Sachin Kasera:

Second question Sir, on the textile business if you see the EBITDA numbers are very high, but the EBIT numbers are not seeing a large improvement, is it because of the higher depreciation and on what account?

RS Jalan:

Windmill if you remember last time we did mention that we have made in investment in windmill and that windmill interest and depreciation has been charged and therefore if he looks at our overall margin in the textile from EBITDA margin it has moved from 14% to 16% and whereas EBIT margin was also moved from 11.3% to 13.2% that is 2% growth in the EBIT margin as well as same quarter last year.

Sachin Kasera:

Was there any pressure on account of cotton prices during the quarter or we have fully covered for cotton, so this is assuming lower cotton prices?

RS Jalan:

We are well covered for the cotton up to the new season, which is November we are well covered for that. We will see that one stage of the cotton going forward.

Sachin Kasera:

What is outlook around textile? Do we see utilization further improving in margins because I think you at the indicated that you would like to exit the Q4 of the current year with margins closer to like 17% to 18% so are you on track for that?

RS Jalan:

This year overall margin will be 15% overall on the textile business and with a higher volume or higher revenue numbers.

Sachin Kasera:

We have done 16% in Q1 so you are indicating that revenue three quarters the margins will be lower?

RS Jalan:

In the same range 13% to 16% kind of margin and you remember last time also I mentioned that our overall margin during in the 2016 to 2017 year would be in the range of 15% we are maintaining the same 15%. It may touch to 16%.

Sachin Kasera:

One last question Sir, one is regarding from capex that has been I think approved yesterday and second is on the working capital what are the key things you have done to improve because Mr. Chopra mentioned that we have taken certain steps in terms of improving working capital if you can do well on these two things?

RS Jalan:

In terms of the capacity which we have got the approval of the board yesterday one we have done that the Soda Ash expansion which we have taken 100000 tonne what we have seen is that by doing some debottlenecking, we will be able to increase our production from 100000 to 130000 so there is additional capacity of 30000 we can make with a vary marginal investment of around 25 Crores. So that way you can imagine that will give significant improvement in our margin going forward because the capital cost is coming hardly Rs.10000 against the new project is Rs.60000 and even for 100000 which we have made the capital cost is coming to 37500. In this case the capital cost will be only Rs.10000 per tonne. So that the one investment which we have approved and second investment we have approved is sodium bicarbonate. Sodium bicarbonate today we have producing approximately around 80 tonnes a day and the total market of sodium bicarbonate is around 170000 tonnes in year and lot of imports takes place for the sodium bicarbonate. We find an opportunity on that as well and we are making investment into the sodium bicarbonate from 80 tonnes to 180 tonnes capacity and that investment to second investment which we made and as the mentioned always the capital allocation is 20% return on capital employed. The third investment which we are making each on RO water because that you know there is water scarcity always being faced by the industry and going forward this will be further be an issue and so we are making in investment into that RO water so that in case, so that in case there is a strategy of the water we are fully covered for the water. This year we have got an advantage of this because some of the industry has faced the serious problem on the water this year and luckily we had an investment, we had an infrastructure for that water this year, we have been able to continue our operation on the same way, so that is the third investment which we are making.

Sachin Kasera:

Sir if you could just comment on the working capital improvement, what are the key things that you have taken and how this sustainable?

RS Jalan:

If you look at this year that our turnover of textile division has gone up by 30% whereas our working capital remains at the same level, even if you look at in soda ash also though our performance, our turnover has gone up by 10% in spite of that our working capital is lower in that and this is primarily because of the continuous focus on the inventories, continuous focus on the receivables and things like that.

Sachin Kasera:

If you can quantify what is the reduction in inventory days or on the receivable days it will be a little helpful Sir?

RS Jalan:

Yes, we will do that. If you look at in textile it has gone down from June 2015 versus June 2016 from 113 days to 89 days, in Soda Ash it has gone down from 20 days to 10 days.

Sachin Kasera:

On the inventory side Sir?

RS Jalan:

I am talking about total working capital.

Sachin Kasera:

Total working capital and how does it compare vis-à-vis the end of March Sir, last three months?

RS Jalan:

March if you look at in Soda Ash, it is going down from 12 days to 10 days and in textiles it is going down from 103 days to 89 days.

Sachin Kasera:

Thank you so much and I will return back in the queue.

Moderator:

Thank you. We have the next question from the line of Dixit Mittal of Shubhkam Ventures. Please go ahead.

Dixit Mittal:

Good evening Sir. What was the windmill profitability during this quarter?

RS Jalan:

Our margin has been improved by 1% because of the windmill during the quarter and incremental amount is around Rs.4 Crores.

Dixit Mittal:

Okay Rs.4 Crores is the incremental, what was the number of days that windmill operated during this quarter?

RS Jalan:

Windmill is always on the continuous basis. Of course it is depending upon the seasonality, this year we have generated around a Crore extra unit in this three months April, May, June as compared to last year.

Dixit Mittal:

Okay so similar profitability will be in second quarter as well right from windmill?

RS Jalan:

Yes, it should be more than that.

Dixit Mittal:

Sir can you give the production and sale volume in Q4 last year for Soda Ash?

RS Jalan:

Soda Ash yes we will give you. Q4 last year the production was 1.95 lakh tonnes and the sales was 1.88 lakhs tonne.

Dixit Mittal:

1.88 lakhs tonne and Sir we have seen sharp run up in cotton prices from Rs.90 to Rs.130 per kg, so if they sustain at the current level, for example, going into next season as well, so from an industry perspective will we see some margin impact on industry as a whole or do you see that industry will be able to pass on to protect the margin?

RS Jalan:

I think, let me give you overall view on the cotton so that a lot of questions can be addressed on this. Cotton prices had gone up in last three months in the domestic count or the Coarser count in the domestic cotton by 35% to 40% whereas in the fine count, which is mainly, DCH is gone up by 25%. Imported cotton has gone up by 25%; I am talking about the Australian cotton and African cotton. Earlier there used to be a gap between the imported cotton and Indian cotton, the Indian cotton used to be cheaper, but now that gap is not there and the major reason of this sharp upwards into the cotton prices are mainly few; number one, the lower crop in India during this year, in 2014-2015 season the total acreage was Rs.128 lakhs hectare land was cultivated and the total crop was Rs.386 lakhs bales against this 2015-2016 current year the total acreage was only Rs.119 lakh hectares and the crop is only Rs.338 lakh bales. We believe that next year the overall acreage will go down further by 10%; however, the productivity of the cotton will be better and the India should achieve around same level of production what they have achieved in 2015-2016. Even if you look at the global scenario in global 2014-2015 the total production was 119 million 480 pound bales because this base is different for the Indian scenario versus global scenario against this in 2015-2016 only 98 lb's million as opposed to 80 pounds' bales has been produced, so they were just sharp downward turn on the total production by18%. We believe next year 2016-2017 there would be a slightly improvement in this and this figure should be in the range of 103 million 480 lb's bales. In 2016-2017 our belief is that the consumption will be slightly higher as compared to 2015-2016 and the first time it will happen in 2015-2016 that the production is lower as compared to the total consumption of the global cotton. Same scenario will continue in 2016-2017 and there will be a less production as compared to the consumption required and this will reduce the inventory level globally. As we all know China has a large inventory; however, this inventory is gradually coming down, but still this inventory levels are very high. In India as we know the monsoon was little delayed and that is also given a reason for the increase in the cotton prices. If I can say in this overall scenario our belief your question was our outlook for the cotton is the cotton prices should come down from the current level; however, this will be higher than last year same period when we talk about the November, December and it will be around 15% higher than last year same period and our belief is this cotton prices should be observed in the yarn prices whether I would say that yarn prices which should also go up by 15% and therefore overall the spinning business will do better because the cotton prices are only up to the extent of around 50% to 60% of the total cost, so yarn margin should improve next year.

Dixit Mittal:

On the home textile side like if the yarn price is also go up so will you be able to take price hikes from your end customers because we have seen huge improvement in profitability across the industry players, so do you see that the industry as a whole may not be able to take price hike for the full extent?

RS Jalan:

Yes, in the home textile our understanding is that it will be very difficult to pass on this increase in the yarn prices to the consumers.

Dixit Mittal:

So in spite of that you maintain that you will be improving your margins from the current level?

RS Jalan:

Because we are more than fully integrated on the spinning, so we will be in a position to maintain the margin taking both the business together.

Dixit Mittal:

No Sir spinning you said you will be maintaining because cotton prices will be passed on to yarn, but from yarn to end like this bed sheets there will be some compression right?

RS Jalan:

Two things I said one is that out of the total yarn, which we produce, only 30% of the internal yarns are being used for our own production, 70% goes to the market. Second I said that spinning margin should be better next year, if I look at both the things put together there will be definitely an improvement. The third thing is we are well covered for the cotton up to November, December. So up to November, December you will find the surge in the spinning margin.

Dixit Mittal:

So you mean to say higher spinning margins will compensate on the lower margins on sheeting side?

RS Jalan:

Yes.

Dixit Mittal:

Sir on the Soda Ash side if I see EBIT margins per tonne we have seen Rs.100 improvements in spite of the fact that Q4 is the strongest for you, you mentioned the key reason is the fall in your energy cost, in Q4 to Q1 we have not seen much fall in the commodity prices, so how come that your energy cost has fallen Sir?

RS Jalan:

If you are comparing with Q4 of 2016 our overall EBITDA is around Rs.141 Crores to Rs.147, so if you look at overall EBITDA improvement vis-à-vis Q4 of last year it is only increased by Rs.6 Crores and the margin has improved from 33% to 34.8%.

Dixit Mittal:

But Q4 is the strongest right for you?

RS Jalan:

Q4 is the strongest yes.

Dixit Mittal:

So the energy cost at Q1 level will remain for the next three quarters as well?

RS Jalan:

If you look at the realization is also improved from 18,200 to 18,390, there is Rs.190 increase in the realization as well, which is 1% improvement.

Dixit Mittal:

Thank you Sir.

Moderator:

Thank you. We have the next question from the line of Rupin Shah of HDFC Securities. Please go ahead.

Rupin Shah:

Excellent numbers and thanks for the opportunity. Ghari like RSPL Group is like GHCL client and I believe it is also sourcing from other two giants and now they are also setting up their own plant for soda ash, so how much GHCL volume can decline if any?

RS Jalan:

As mentioned before overall there is a growth of around 4% to 5%, if you look at last 10 years of the data, there is a demand growth of around 5% overall in the soda ash. By the time this new expansion, new investment of RSPL comes by the time there will be enough increase in the demand of soda ash and there will be no impact on any other industry because of RSPL coming to the business.

Rupin Shah:

Sir just wanted to know like your textile side, what is the reason for lower margin compared to the other players in the same business like Welspun or Indo Count and what are the things we are doing in terms of achieving those margin?

RS Jalan:

Three reasons, one our capacity utilization is not as for other industry people, second is our customer mix and the product mix is not as good as it should be. Third our overall if you look at textile as a whole our spinning business is higher than the home textile total consumption and the margin on the spinning business till now quite lower.

Rupin Shah:

Sir in home textile business we have high dependence in US market like from total export 70% is coming from US market so is there any opportunity in other market as well and how are the margin in US market particularly compared with the other markets?

RS Jalan:

If you look at, we are also present in Canada, where our market size is 12%. If you look at Mexico, there also we are present. We are present in Europe also and we are expanding our marketing. Even we are present in the Australian market. We are expanding our meeting our market in the other geography of the world. Even domestic market also, we are supplying to the domestic retailers. So that is also our focus area and in terms of the margin, margins are I would say generally in line with the volume and US since the volume size is very high, so margins are slightly lower as compared to the European business.

Rupin Shah:

Fair enough. Thank you so much.

Moderator:

Thank you. The next question is from the line of Nikhil Shah of NVS Brokerage. Please go ahead.

Nikhil Shah:

Sir, good evening. Congratulations on good set of numbers. Sir, majorly all my queries were cleared off. I just wanted to know one thing, regarding your FMCG segment Sir, your i-FLO salt and all that. If you can give us the update or throw some light like how it is progressing and all?

RS Jalan:

As I mentioned before, we have a very small business setup of FMCG business and historically we were present with edible salt. Now we have launched two variants, one is the honey in the southern market and the second we have also launched the spices and this had just been launched and we are taking all these products including the salt we are taking to the Maharashtra as well as to the Goa Market also. That process is also on and so gradually we are moving towards into the other geography of India. However, we are not putting a lot of capital allocation to this business and we are gradually building this business.

Nikhil Shah:

So, Sir do we have some numbers in our mind like what kind of a topline we want to achieve on this segment as of now and what are the margins we are achieving right now?

RS Jalan:

We have a big plan for this business, but it will be a long drawn process in this and in terms of the margin, I would say that approximately the margin is around 10% at this point of time.

Nikhil Shah:

Thank you very much.

Moderator:

Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak:

In the 30% revenue growth in textile capacity utilization maybe 6%7% of it rest is driven by what?

RS Jalan:

In terms of the revenue increase in the textile, the growth is around 30% and per meter realization from our home textile business has improved in this quarter, which was Rs.254 per meter last year same quarter had gone up to Rs.293 per meter this quarter and the meter has also increased, volume has increased from 64 lakh meter last year same quarter to 76 lakh meter this quarter.

Dheeresh Pathak:

Okay, but this will come under the sheet segment or this will come under the yarn?

RS Jalan:

This will come under the sheet business, which is a part of the textile business.

Dheeresh Pathak:

Okay, now is the utilization different in the yarn and the sheet part of the textiles?

RS Jalan:

In the spinning utilization our utilization is more than 99% and therefore that is fully utilized. The Capacity utilisation is the only lower into the home textile or which is the sheet business, which was 76% last year same quarter and this year same quarter is 81%.

Dheeresh Pathak:

Okay and for the full year what is your sense that how much the last year growth was only 11% and this first quarter is being very strong, so for the full year what is your sense for the revenue growth?

RS Jalan:

In the topline, the growth should be something around 10-12% in the topline growth overall and margin. Margin will be 15% to 16% this year and the topline growth will be around 10%-12%.

Dheeresh Pathak:

Can you also just share broadly the margins how different they are in yarn and how different they are in the sheet business?

RS Jalan:

It depends on the product to product and we normally look both these business in totality and therefore we have given you that margin of 15%-16%.

Rohan Gupta:

I am sorry to interrupt here, just if you can come again on the textile business growth, which you mentioned is 10-12% or 30% growth, which you mentioned in the initiating comment Sir.

RS Jalan:

30% growth was in this quarter as compared to last quarter FY2015, but if you compare the 12 months last year versus this year 12 months this overall growth will be 10% to 12%.

Rohan Gupta:

In old textile business the margin is 15% roughly?

RS Jalan:

Yes, which was 15% to 16% margin if you look at the margin improvement in 2014-2015 our overall margin by 9%, which has been 13% last year, there was a growth of around 4% this year they have to projecting this margin of 15% to 16% on a higher turnover where we are not making in capital allocation in this business.

Moderator:

Thank you. We have the next question is from the line of Dhiral Shah from GEPL Capital. Please go ahead.

Dhiral Shah:

Good afternoon Sir. Congratulation for your good set of number, Sir in one your interview you just said there are will be no volume growth for soda ash this year why so Sir?

RS Jalan:

Overall as I just said if you look at overall business of our inorganic chemical we are talking about last 2014 to 2015 our EBITDA margin was 28%, which improved to 30% in FY2015 and FY2016 and this year we are talking about EBITDA improvement in the range of 32% to 34.5%. So in terms of the EBITDA margin improvement we have talking about volume growth will happen next year because all this expansion which we have doing that we will be completing by March 2017 and therefore the volume growth will come next year and we have just briefed we have taken another expansion of 30000 by the debottlenecking that benefit will also come next year. Overall the volume growth we will see next year; however, the profitability will be better as compared to last year in this year.

Dhiral Shah:

So, what kind of incremental revenue you expect from this overall capacity expansion that it you are doing currently?

RS Jalan:

I would say that number the volume remains are same, prices remains are same the margin goes up and that will give your better number on the bottomline and as I mentioned before we are targeting 20% growth on our overall bottomline of FY2016, FY2017 vis-à-vis last year. I am taking about the total business put together. We can comfortably talk about 20% increase in the bottomline.

Dhiral Shah:

This is 26.5% blended margin will it be sustainable Sir? That Q1 FY2017, you have registered of EBITDA margin are 26.5 so this margin will be sustainable in next three quarters?

RS Jalan:

Yes, it should be.

Dhiral Shah:

For textile you have given topline growth of 10% to 12% and 15% EBITDA margin of 2016 and 2017 and soda ash is it will be?

RS Jalan:

I said 32% to 32.5%

Dhiral Shah:

Volume will be flat?

RS Jalan:

Volume in terms of volume yes, it will be flat.

Dhiral Shah:

There will be no price realization value in terms of value.

RS Jalan:

Yes, value realization pattern should be in the same range.

Dhiral Shah:

Which is currently 18750 right?

RS Jalan:

18390.

Dhiral Shah:

18390 current quarter and what was in Q4?

RS Jalan:

Q4 it was 18200 and this we are talking about ex works price, of course the turnover in terms of per tonne delivery to the customer will be higher because the excise duty will be added, freight will be added this I am talking about ex works price realization to us.

Dhiral Shah:

Lastly is there any plan for debt reduction? You have done Rs.68 Crores of debt reduction, so will it be for next three quarters you are going to reduce the debt?

RS Jalan:

We have always said that by this year-end we will have our debt equity ratio, which will be less than one, and we are going to maintain that.

Dhiral Shah:

And what is currently debt equity ratio?

RS Jalan:

1.03.

Dhiral Shah:

Overall debt currently as on June 30?

RS Jalan:

1180.

Dhiral Shah:

This is short term as well as long-term right?

RS Jalan:

All put together.

Dhiral Shah:

Thank you Sir.

Moderator:

Thank you. Next we have a followup question from the line of Saket Kapoor of Kapoor Company. Please go ahead.

Saket Kapoor:

Considering the home textile business, do you think it has rolled better than the soda ash in terms of the turnover part also. In the near future, do you think that the yarn and the bed sheet mix is going to change from 70:30 ratio going forward? Are you putting more capacity in the home textile segment going forward? What is the likelihood mix going forward also?

RS Jalan:

We are not putting any extra capital allocation to the home textile at this point of a time. We have already made some investment last year but we are only simply doing some debottlenecking which will increase our capacity by 10%. Therefore, this ratio should remain in the same range.

Saket Kapoor:

70:30 will we maintained?

RS Jalan:

Yes.

Saket Kapoor:

Now since over the last two years, there has been substantial improvement in terms of margin in the home textile business as a whole. Do now the size allow for hiving of this into a separate company as they were rumors floating around that we are contemplating something of that sort to add to shareholder’s value because of combined entity of soda ash and the home textile is not giving the appropriate value in terms of since there is no correlation between the two business as well. What is your take on that?

RS Jalan:

We have been discussing this issue and still this issue open in our boardroom, but we have not taken any decision at this point of a time. As soon as we take it decision definitely we will inform you.

Saket Kapoor:

What will trigger that if you could share something, means is it the scale size you are waiting, what is there that whether this happens, this we will attempt to do it?

RS Jalan:

It is nothing like that. There are certain issues, which we need to address before doing that some administrative issues and those issues has to be taken into account before we do that decision.

Saket Kapoor:

Though getting all the things are on the anvil? It may happen?

RS Jalan:

Yes, and I would just want to add one more thing in our overall performance we are looking at a significant reduction in our debt interest, interest cost also during the year that will also help us to improve our bottomline.

Saket Kapoor:

What is that if you could quantify in terms?

RS Jalan:

It should go down by something around Rs.20 Crores, Rs.25 Crores this year as compared to last year.

Saket Kapoor:

What was it last year I do not have the numbers right now?

RS Jalan:

Rs.163 Crores which will go down to the level of 145, 135, 140.

Saket Kapoor:

Coming to the Ghari detergent part, what is the offtake from their side, annual offtake from their side?

RS Jalan:

Total requirement from the industry is approximately around 300,000 plus.

Saket Kapoor:

Total industry, I am talking about Ghari?

RS Jalan:

I am talking about the industry. Ghari as a customer taking the material from all the industry is 300000 plus.

Saket Kapoor:

What is the capacity they are putting up Sir?

RS Jalan:

They are talking about half a million tonne and which will start in 2019 and it will take some years to stabilize on that operation.

Saket Kapoor:

So nothing on the anvil?

RS Jalan:

No.

Saket Kapoor:

Thank you for addressing the queries. Good times ahead. All the best Sir.

Moderator:

Thank you. We have the next question from the line of Jai Balaji of Jai Balaji Securities. Please go ahead.

Jai Balaji:

My question is regarding the brand image for the company; the company for the past few years is working very hard relentlessly to improve its financial position. So my question is regarding improving the brand image of the company. So how you will improve your brand image because in the past say five or six years before past events have tarnished the image of GHCL and that is the question, as far as brand building is concerned, what is the company doing and my focus is on corporate governance not on the brand value of GHCL products, but on the corporate governance part, Sir if you can please comment something on it, that will be very kind of you?

RS Jalan:

Yes, it will look at the some initiatives, which we have taken in the past like appointing S R Batliboi as auditors, declaring the dividend policy, value systems for the organization we are very focused on our stakeholders that we have five stakeholders and the kind of the job we are doing for the society, for the vendors, for the customers or for the shareholders as well, so these are initiatives which we have taken even for the employees, the HR practices which we have been doing for last two to three years has given has very significant improvement in overall stakeholders view about the company. This initiative of what we are interacting with our investors on a quarter-to-quarter basis and giving a view of about the company is also one of the initiative on that direction as well. All these initiatives are towards that and we will continue to demonstrate…

Jai Balaji:

Sir, my question regarding the buyback policy of the company, Sir. I agree with you that we have come with dividend policy and what we are mentioned, but if you have any buyback policy or what was the board has decided on this buyback policy, if there is any on the buyback policy because your earning per share is increasing on very good pace, because the hard labour which we are giving, but as far as buyback policy concerned are do you have any buyback policy?

RS Jalan:

No, we do not have right now any buyback policy.

Jai Balaji:

Sir, promotor holding the 18% are they interest to increased shareholding because of investor generally where I controlling a company with 80% that do are growing company do you think that you space any takeover threat?

RS Jalan:

See, we believe that our job as a management to continue to perform on giving values to all our stakeholders.

Jai Balaji:

Sir, actually if your analysis your share holding pattern which you have disclosed before the stock exchange four shareholders are holding 7.3% of the equity capital of the company, so do you think there is a threat because in the past Mr. Pramod Jain, was one of the interested party that there was a threat of takeover, do you still believe that takeover threat for the company?

RS Jalan:

I do no think there is a takeover threat. If you look at the kind of a support we are getting from our shareholders in this AGM itself is a demonstration of that, the kind of support, which we have got from the shareholders in the AGM, was tremendous.

Jai Balaji:

Sir, what was the purpose of investor presentation, which you have done on June 29, 2016 that was with HDFC Securities? So what was the purpose investor presentation June 29, which we did on 2016 with HDFC Securities. My question was Sir; you have intimated to the stock exchange that you had an investor presentation with HDFC Securities on June 29 almost one month before. Sir, what was the agenda? What was the purpose of the investor presentation?

RS Jalan:

This was only conference, which we have participated in the conference. All the company do participate in the conference where the investors they do come and we present our company to them.

Jai Balaji:

Sir, your company does not have any fund raising plan, like QIP you are doing very well, any demerger, plans for demerging your textile business so that you can infuse capital in it because you are a growing company and these are very good times to infuse capital. Now investors will pay of premium for your shares if you go for QIP or a preferential allotment, does management of any plan to bringing fresh money and reduce debt significantly?

RS Jalan:

No we do not have any plans for capital raising in the market.

Jai Balaji:

Sir, finally on the debt if you can comment do you have any policy effort as you have told that you want to reduce debt equity ratio to below less, but can we as an investor think that we can GHCL become a debt free company say by 2020?

RS Jalan:

Our endeavor will always be to look at both optimizations of growth and debt. These are the two fundamental because the growth is also important for the company. So we will do an optimization of these two and as a plan we have mentioned that we will have a debt equity ratio not more than 1:1.

Jai Balaji:

Sir, government has come up with a definite textile policy thereby it wants to help the textile players, so do you think that it will have an impact on us also, will we be beneficiary of the government’s current textile policy?

RS Jalan:

Yes, if the government comes with the textile policy, which they have mentioned.

Jai Balaji:

They have come with a textile policy; so will it benefit you? Have you made some presentation before the government to get some soft loans or any other sort of any benefit from the government?

RS Jalan:

See, government has come out with the textile policy, which is right now is mainly for the garment business and in garment business we are not present. Government has announced that they are coming soon with home textile policy and that once come that will definitely have advantage to us.

Jai Balaji:

Sir, you are prudent enough to invest on wind energy in order to reduce your cost like Tamil Nadu was earlier facing power problem now with the operational of nuclear power plant in Tamil Nadu and one of the thermal plant as noted in the newspaper, Sir, do you think that now Tamil Nadu being power surplus this advantage will get increased more because power was always a hurdle for the windmills operating in Tamil Nadu. Do you think this problem is solved as far as electricity concerned as far as power consumption concerned?

RS Jalan:

So far as we are concerned, we have managed the business in Tamil Nadu in a manner that we are not facing any problems of the power. We have made an investment with the windmill and other initiatives also we have taken all put together we are not facing any power shortage for last few years.

Jai Balaji:

Sir, finally on this intimation, which you have given to the stock exchange regarding this audit community that Mr. Neelabh Dalmia someone, is permanent, why is the permanent invitee to the audit committee and who is Mr. BC Jain?

RS Jalan:

Mr. BC Jain is one of the independent director on the Board of GHCL and he is the chairman of the audit community. Now we have brought in one professional Mr. KC Jani, who was the Ex-Executive Director of IDBI. We have brought in as a member of audit committee and we have made entire audit committee as 100% independent director. Mr. Neelabh Dalmia has been taken as an invitee only, Mr. Neelabh already in the audit committee before and we have made in from the instead of member now we are made in for permanent invitee. So he is ceased to be the non-member and now he has become permanent invitee.

Jai Balaji:

What is his credential? He is son or the promoter or what is potential why we have been made in permanent invitee to the audit committee?

RS Jalan:

Permanent he is a family member of our promoters and like I said he was a member on the audit committee and to bring him to the new member, professional member, Mr. Jani Executive Director of IDBI, we have made Mr. Dalmia cease to be the member of that community and made be only an invitee in the meeting. That is all.

Jai Balaji:

Thank you.

Moderator:

Thank you very much. Due to time constraints we will take the last question, which is from the line of Nikhil Shah from NVS Brokerage. Please go ahead.

Nikhil Shah:

Sir, I just wanted to understand like as we were saying that soda ash volume will be flat for the current year. That is around 750000 what we have produced last year? Like our installed capacity 850000 so why this less like this is due to demand constraints are the utilization part you can this explained us?

RS Jalan:

Yes, you see in the soda ash business the capacity utilization if you look at each if you produced 750000, which we produced last year with, expected to results in comes to 88%.

Nikhil Shah:

88%.

RS Jalan:

And 88% itself is benchmark for the industry even for India as well as for the global standard because this is seasonality in the soda ash business. All the four quarters cannot be the same in the rainy season your production bound to be lower in the volume and therefore achieving 88% itself is a benchmark. Therefore, which say that this 750 will be the number, but supposed the monsoon season is poor as it was last year may be this number can be more.

Nikhil Shah:

So, this year monsoon is expected to be on better side, what kind of volume have been expecting for the production?

RS Jalan:

750 same 750.

Nikhil Shah:

For the quarter if you can share with us like for this quarter we had a 1.93 lakh tonne Sir?

RS Jalan:

Like I said in the before in somebody else answer also that it entirely depends on how the monsoon comes and based on that the volume will be decided, but if look at the last year number if was 191, last year was 191 which depending upon how the monsoon is this number will get decided.

Nikhil Shah:

Thank you.

Moderator:

Thank you ladies and gentlemen. That was the last question. We would now like to hand the conference over to Mr. Rohan Gupta for any closing comments.

Rohan Gupta:

Thank you. Thank Sir. We already had very long Q&A. Two to three questions from our side which just want to clarify as at this moment. Sir, one is that on the growth guidance though you maintained, which you have talked about in starting of the year about 20% growth had bottom lined and during the call for you have maintained that number despite that Q1 being very robust with almost 60% plus growth had bottomline so if I such work out the number back, so in Q3 are we looking weak results going forward because if we continue to remain in the 20% bottomline growth we are on the talking about probably 5% implied growth in next nine months. So are we seeing some sort of challenging environment, any margins pressure that is leading to this muted growth guidance as for you?

RS Jalan:

No we always believe in that you need to perform better than what you commit.

Rohan Gupta:

Sir, I actually respect that understanding which you have, but if I look at the genuine number if I look that the number and how the business is going forward you have guided for improvement in textile business margins and all those numbers, if I work in then I was expecting that there should be some better number for FY2017 going forward 20% growth which would talking about so?

RS Jalan:

Yes, may be possible. Like I said we always believe as a management that we need give the numbers in a manner so that we can deliver on them better than what we commit because commitment makes lot of kind of it. Obligation on our part that we must perform better than that commitment and therefore we would like to have kind of long-term guidance on this 20% growth on that, but the number you said, in terms if you look at overall business, I do not see any major challenge going forward and one of the reasons that my finance team had just said this year in the quarter one, we have some quantity of inventory which was sold during this quarter of FY2017 in quarter one and the second monsoon can we another because last year there was no monsoon and windmill benefit again will be only for the two quarters, last quarter which was there, this quarter and the second quarter will also there, and in the quarter there will be number of shutdown will also be there in quarter three, all put together if you will look at overall, I think number which we are talking about in the sense, but may be we can have better number.

Sneha:

I have just two questions from my side firstly is the capex which have been approved yesterday so we were talking about debottlenecking of soda ash plants. I missed the capacity number if it all you can repeat it again?

RS Jalan:

Right now we have taken of expansion of 100000 tonne in soda ash and this debottlenecking what we will do, we will have another production of around 30000 tonne therefore our production capacity will go up from 850 to 980.

Sneha:

Sir, secondly on the other two plans what will be are capex that is sodium bicarbonate and RO water?

RS Jalan:

Sodium bicarbonate approximately around 25 Crores and RO plans will be roughly around 30 Crores.

Sneha:

Sir, secondly coming one to this textile segment performance, we have seen 30% grow this quarter Y-o-Y if it all you can give some colour on which segment on textile has performed better and in how much if told we can quantify something how much is coming all the home textiles and how much coming out yarn segment?

RS Jalan:

See, I have already said that we are looking at both this number in totality and overall both of businesses, or the spinning and textile both has done well and I given some number in terms of the realisations per meter the improvement was there are in the home textile, subsidy utilization was also they are better in the home textile and overall both of businesses has done well.

Sneha:

Thank you.

Rohan Gupta:

That is all. Thanks a lot for your time and we already had a fairly detailed concall. So you answered all the questions.

RS Jalan:

Rohan, I just want add one more thing at end of this call is that like I said 20% growth is the one thing on the bottomline will be possible and this may go up to 25% so that means I can say that the growth in the PAT numbers will be in the range of 20% to 25%.

Rohan Gupta:

Thank you Sir. That is a very encouraging addition, which you had mentioned at the end of the concall.

RS Jalan:

Our finance team said that you must give a slightly better realistic number.

Rohan Gupta:

Once again thanks a lot for your time and we will look forward for better quarter going ahead.

RS Jalan:

Surely. We will do our best. Thank you so much.

Rohan Gupta:

Thank you so much.

Rohan Gupta:

Thank you Sir. On behalf of Emkay Global, I also thank all the participants logged in for the conference call of GHCL. Thanks everyone.

Moderator:

Thank you for joining us. You may now disconnect your lines. Thank you.

Note 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.

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