GHCL Limited

November 2, 2017

National Stock Exchange of India Limited
"Exchange Plaza"
Bandra - Kurla Complex,
Bandra (E),
Mumbai - 400 051

BSE Limited
1st Floor, New Trading Ring,
Rotunda Building,
P.J. Towers, Dalal Street,
Fort, Mumbai - 400 001

Dear Sir / Madam,

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

Subject: Filing of Transcript regarding Investors' conference held on October 24, 2017

In continuation to our earlier communication dated October 18, 2017 & October 24, 2017 regarding Investors' conference on October 24, 2017. We are pleased to attach copy of the transcript regarding said Investors' conference held with the management on October 24, 2017, for your reference and record.

You are requested to kindly acknowledge the receipt and please also take suitable action for dissemination of this information.

Thanking you

Yours truly

For GHCL Limited

Bhuwneshwar Mishra
General Manager & Company Secretary

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"GHCL Limited Q2 FY2018 Results Conference Call"

October 24, 2017

.

ANALYST: MR. NIKET SHAH – MOTILAL OSWAL SECURITIES LIMITED

MANAGEMENT: MR. R.S. 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

Moderator: Ladies and gentlemen, good day and welcome to GHCL Q2 FY2018 Earnings Conference call, hosted by Motilal Oswal Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case, you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Niket Shah from Motilal Oswal Securities. Thank you and over to you Sir!

Niket Shah: Thanks so much. We at Motilal Oswal are extremely pleased to host this call to discuss Q2 FY2018 earnings for GHCL. From the management, we have Mr. R.S. Jalan, Managing Director of the Company, Mr. Raman Chopra, CFO and Executive Director (Finance). Without taking any more time, I would like Mr. Raman Chopra for his opening comments and post that we will open the floor for Q&A. Over to you Raman Ji!

Raman Chopra: Actually, I will request Mr. Jalan to make the opening remarks and then I will take it over.

R.S. Jalan: Good evening ladies and gentlemen. I welcome you all on today's call. I have with me, our CFO and Executive Director Finance, Mr. Raman Chopra, along with me, Mr. Sunil Gupta and Mr. Abhishek Chaturvedi from Finance Team.

GHCL had continued to deliver a growth of 22% in profit before tax in the last seven years. Even between the last eight quarters, we had recorded a significant growth in both topline and bottomline in both the segments we operate. In addition, we have focused on strengthening our corporate governance including core values and building a sustainable culture in the organization. This has been duly acknowledged at various forums conferring awards and recognition like Great Place to Work, Golden Peacock Award on the Corporate Governance.

Coming to the specific business segments, realizing our strength and dominant position in chemical space, we have sequentially expanded capacity in the last two years with another 1.25 lakhs metric tonnes scheduled to get commissioned in Q4 FY2019. In spite of cost pressures, we have been able to maintain EBITDA for the quarter during the time when the industry timing did not allow possibility of the passing on the cost to our customers. This is made possible with timely expansion and our focus on operating Efficiencies resulting in highest utilisation levels even during the monsoon period.

With the recent changes in the Chinese operating environment there has been a wave of buoyancy across the chemical sectors. In the current circumstances, we believe that the threat of the oversupply from Turkey of 2.5 million metric tonnes expansion had gradually faded away. We expect to maintain our margin at the current level and with last phase of Brownfield expansion, you can expect a volume growth as well.

In the textile segment, our performance is not as expected. Despite a great journey of last two years improving margin from 9% to 15%. As conveyed in our previous call, the headwinds in the textiles are far from getting over and it may take two to three quarters more before the situation gets clear. The impact to us is even higher and we could not maintain our margin. This is mainly due to oversupply situation resulting in the drop in the prices, Rupee Dollar scenario, higher cotton prices and impact of GST.

We have however, taken corrective measures in both the markets as well as in the operation, the benefit of which shall be visible in the next year. We are confident to take the company to the next level both in terms of growth and profitability and we are actively working for the same. I would now invite Mr. Raman Chopra to take through the quarterly financial results. Thank you.

Raman Chopra: With a note of thanks to Mr. Jalan, I welcome you all on today's earning call. I take this opportunity to apprise you with our performance for the quarter ended September 2018. The revenue for the quarter has increased by 8.5% from 660 Crores in Q2 2017 to 717 Crores in Q2 FY2018. EBITDA for the quarter is 139 Crores versus 180 Crores of Q2 FY2017 and 160 Crores of Q1 FY2018. EBITDA margin achieved during the quarter was 19% as compared to 27% of the corresponding quarter of the last year and 22% of Q1 of this year.

Profit after tax is 53 Crores versus 90 Crores of Q2 FY2017. Consequently our EPS for the quarter is Rs.5.3 per share as compared to Rs.9 per share of Q2 FY2017. In our inorganic chemical segment, we achieved a record Soda Ash production of 2.26 lakhs tonnes during the quarter as compared to 1.93 lakhs tonnes of Q2 FY2017 and therefore resulting in a higher sale of 35000 tonnes from 1.79 lakhs tonnes to 2.14 lakh tonnes including Bicarb sales.

Revenue for this segment has increased by 21% during the quarter recording a topline of 444 Crores as against 360 Crores of Q2 FY2017. Despite significant increase in cost of production, we have improved our EBITDA to 136 Crores versus 131 Crores in Q2 FY2017 and maintain Q1 FY2018 levels despite monsoon season. This has been made possible due to our operational efficiencies and highest production. We have maintained EBITDA margin at 31%, which is the same as of Q1 FY2018 as per our guidance given during the last call.

The drop in margins compared to the last year was mainly due to increase in input prices and lower realization; however, recently we have taken up price increase of Rs.500 per tonne, the impact of the same will be reflected in the next quarter.

The headwinds in the textile segment have taken its toll in the entire industry. The impact on us; however, has been much more severe. There has been a drop in revenue to 274 Crores as compared to 298 Crores recorded in Q2 FY2017. EBITDA margins have dropped to 1% as compared to 17% in Q2 FY2017 and 10% in Q1 FY2018. This sharp reduction in margin is due to the broad reasons indicated by Mr. Jalan in his opening remarks. We are working aggressively and expect in FY2018-2019.

We have achieved a credit rating improvement from A- to A now and we have improved our debt equity ratio to 0.92 from 1.04 in March 2017. The debt has come down to 1360 Crores as compared to 1430 Crores as on March 2017. The return on ROCE for the quarter is 19% and ROE of 28%. I would now open the house for discussion and any questions that you may have. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: Hello Sir. Sir just had a few questions on this textile division. Sir, what was the duty drawback you had accounted for in the P&L in the September quarter because as per our understanding the government was only giving 2% and post this duty the ROSL and duty drawback changes which has just recently happened, what will be the duty drawback going forward and how much is the difference and how will it effect your EBITDA margin?

R.S. Jalan: Two things like you said, the government has with the GST they have tried to reduce the duty drawback; however, they have extended up to September the duty drawback and from October 1 till now the clarity is that duty drawbacks have been changed to 2% and ROSL which was to be 3.9% had changed to now 1.95%. Though there is a talk in the industry and in the government that there maybe some upward revision on the ROSL of this 1.9%. Now depending upon how that takes place, the margin will accordingly get impacted. Our understanding is that the duty drawback and along with the GST refund there will be no major impact on so far as the duty drawback is concerned; however, ROSL benefit of 1.9% versus 3.9%. This 2% of the impact will be there on the margin if the government cannot change the ROSL.

Viraj Mehta: So you are saying that the total impact of this entire change in duty drawback and ROSL will only be 200 basis points because that you will cover through the duty drawback of packaging products or dyes and whatever you are buying.

R.S. Jalan: Yes.

Viraj Mehta: Sir, you had mentioned that the new capacity that is on stream in Turkey in Soda Ash is also getting absorbed very nicely in the market and that is why your margins in that division has not really dropped. Where do you see and where is the growth, which is driving this kind of absorption in the market? Which industry is actually driving this kind of absorption?

R.S. Jalan: It is not only the demand growth, which is absorbing this growth or this expansion. This is primarily because the Chinese economy is changing. In China there are environmental issues as well as they are more careful now about their margins and because of that their export or the overall production had gone down and that has led a kind of, as you know that 50% of the world's soda is getting produced in China, so because of the tightness in China the market is buoyant on the Soda Ash business and as you know this is not only the Soda Ash, the entire chemical industry is feeling a buoyancy in the business.

Viraj Mehta: Absolutely and Sir just last two questions on home textile, so going forward what do you think even this quarter we have not made any money in textile division and if we will have 2% more impact what is the plan we have to at least generate some kind of return on capital in this division because we have seen two year of good performance in home textile, but that has come after four, five years of reasonable bleeding that we have done at the company level at least not absolute, but in terms of return on capital has been nothing in that business and then if we again take a couple of steps back due to this duty change and the environment changing what is the game plan of the management to counter this?

R.S. Jalan: See your point is very valid and like you said in two years after a few years of challenging period in the home textile we have started doing good and all of a sudden because of some of the industry level challenges, which is more like your dollar rupee parity, US which is the major market, there is an oversupply situation even in the domestic industry, everybody has expanded the capacity, new player has come in, so this is all led to the kind of a price drop and severe competition in the market and along with that the prices like utility cost has gone up, raw material prices have gone up, all everything had come together. Like I have been said in the previous call also in the last quarter also I said this business is having a severe headwind. Now we are trying to do two things on this. One on one side we have and they are certain I would say that issue on our side as an internal challenges as well. So we have done two things, one we are strengthening our operating team as well as the marketing team. Some people have joined recently. We have done a top management change also, the CEO of this business has been changed, now the new CEO has just taken two months back and at the plant level we have taken a new team to improve the operating performance there. Even some of the new people are joining in the marketing team, so we are strengthening the marketing team. So we are doing everything possible. Even we are looking at the cost critically every cost we are looking at and probably the next one or two quarters will be a challenging quarter for us, but we are sure we will be able to take corrective action and we will be able to bounce back on this business as well.

Viraj Mehta: Absolutely Sir and best of luck and thanks a lot for your clarification.

Moderator: Thank you. We have the next question from the line of Giriraj Daga from KM Vesaria Family Trust. Please go ahead.

Giriraj Daga: A couple of questions. First on textile, so what was the volume degrowth in the quarter we witnessed, noted in the first half?

R.S. Jalan: Overall revenue has dropped by approximately around 8%.

Giriraj Daga: Volume numbers?

R.S. Jalan: Volume numbers we can give you in offline. I will give you only the revenue numbers at this point of time. Offline you can take always. Capacity utilization is around 77%.

Giriraj Daga: That we saw in the presentation and like how do you see basically next two quarters in terms of volume like do you expect the last quarter capacity utilizations remain continue or do you expect some recovery going back to earlier level of 90% around?

R.S. Jalan: No, I would say that the revenue, at this point of time we are also looking at one more thing is that some of the business, which are not making margins they are only because of the volume because some of the customers in the US they are financially not in a good state as well, so we are taking both these things where we do not have a margin in the business as well as the customers where we have a risk of the money we are tapering down those businesses, so probably the number of the 77% may further have a beating on the revenue utilization. Our major focus is how do we contain the overall bottomline, so even at the cost of revenue loss we will try to make sure that our bottomline becomes better that what it is today.

Giriraj Daga: Sir would like to understand more like what went wrong in the last six months like the market is still not like it is not degrowing per se US market the competition has increased, so has the competition really taken us on the chin that we have to gain sharp price cuts or like what has went wrong in the last six months?

R.S. Jalan: Very valid if you look at, honestly if you ask me even we were not expecting this kind of a drop in the business. It is something, which we also did not, thought that it would happen. Now in terms of what went wrong. Everything came together. On one side, the US economy or the US retailer, some of the retailers or some of the customers of ours they are even facing the financial difficulty as well. The second thing was prices had taken a beating because there is a severe competition. Everybody wants to gap the business at any cost, there is a volume gain going on in the business. Even China has become more competitive in this business.

Giriraj Daga: My next point whether it is competition from domestic Indian company or even the Chinese or Pakistan or Bangladesh we are seeing competition?

R.S. Jalan: Both. So because of that you must have seen that there is a headwind in the industry in overall. It is not only us, the headwind had been felt by the entire industry, so the headwind my understanding is going to continue.

Giriraj Daga: Understood. Sir my next question is related to our Soda Ash. We had taken a hike of Rs.500 what would let us say proportionate cost hike from last quarter to so far?

R.S. Jalan: See like I said if you look at our margin, margin is around 31% in the last two quarters first quarter as well as the second quarter and we expect this margin should be in the range bound of this, so you can say that similar kind of a cost increase you can expect. How about the way we look at this business, whatever the concerns, which the industry had a few quarters before on Turkey and Chinese and all those things are now fading away. Probably we do not know what will happen in the next quarter in terms of the pricing. There may be a possibility, which all basically depends on how things taper, but today the growth in the Indian Soda Ash demand is also very healthy. In the last six months the demand growth in India is around 7% to 8%, used to be historically around 5%. Next year also we are seeing a very healthy growth in the Soda Ash consumption. So I would say it is very bullish on our Soda Ash business going forward.

Giriraj Daga: Last thing Sir what was the international prices last quarter average?

R.S. Jalan: International prices is depending upon country to country, antidumping duties, different countries has a different antidumping, but today I can say that approximately the prices are in the range of around $275 to $280 landed kind of a cost taking all the cost together.

Giriraj Daga: Understood Sir! Thanks a lot.

Moderator: Thank you. We have the next question from the line of Sneha Taljeja from Edelweiss. Please go ahead.

Sneha Taljeja: Thanks a lot for taking my question. My question is basically pertaining to the textile segment. We have mentioned that there was a significant drop or loss may be due to loss of a high margin business, so is that particularly some client that we have lost?

R.S. Jalan: What happens in the client also various programs are there, so some of the programs when you do the competition, so yes we have lost one or two programs to the competition from some of the retailers.

Sneha Taljeja: Sir is that somebody from the Indian market or as you were saying that the competition from China has also increased we have lost it to China?

R.S. Jalan: It has primarily gone to China and some portion has gone to the Indian players as well.

Sneha Taljeja: Sir we will see the impact going forward also for the same and thus you were saying the utilization could remain under pressure even going forward?

R.S. Jalan: Yes.

Sneha Taljeja: Sir secondly you have also I think announced some capex in the Greenfield Soda Ash expansion, so if at all you can even highlight some points regarding that?

R.S. Jalan: We have indicated this in the previous call as well that Soda Ash is our core business and we would like to focus very aggressively on the Soda Ash business and historically also if you look at our 20 to 30 years of the record you will find that very healthy margin on this business of 28% to 30% kind of a margin in this business has been visible for a long term. So we want to be a very significant player in the Soda Ash business and because of that we have taken a call that we are going to have a Greenfield project and for that the initial preparation, which we will have to acquire the land, we have started that journey. Now we have taken a board approval today. Now based on that we will be locating the land and based on that we will be buying the land and take all necessary approvals from the governments because we know that such a large project takes time to get an approval and everything. We would like to get ready with the plant, plan, and the land approvals and everything, so that at a right time we can start the project and complete the project quickly.

Sneha Taljeja: Sir my last question would be again related to the textiles, so as we are saying that one or two more quarters the outlooks of textile segment looks pretty dull, so what is the expectation going forward like what will be the main growth drivers in this business because the competition continues to remain high in the US market?

R.S. Jalan: Textile business as I said in these two quarters we do not see any topline growth. Our focus will be more on how do we improve on our margins and for that we are taking all necessary steps in terms of the cost, in terms of better market customers, and our focus will be on the bottomline. On the other side if you look at the spinning business, which has been doing continuously good for us and still it is doing continuously good on that and probably our growth will be more than the spinning side. We will be investing amount in the next two years in that business. I can only give you the indication that in the last five to seven years the EBITDA margin on the spinning business has been fairly good. Even in this quarter also the margins has been reasonably good.

Sneha Taljeja: That is it Sir! Got it. Thanks a lot.

Moderator: Thank you. We have the next question from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Sir my question is on textiles, so is there any one of write off also in this segment where you mentioned some of your customers are facing difficulties, so any debt write offs or any inventory write down that has happened in this quarter?

R.S. Jalan: No such loss has been booked in this.

Dikshit Mittal: Sir secondly this loss of high margin business is at least for now is permanent right because you will have to again try to win that contract, so I think it will take time for you to get those high margins?

R.S. Jalan: No I do not think that anything is permanent in this business. You keep gaining the business and you also loose some business. We have won one customer six months before and the year before we have lost one customer, so those kind of a change in the customer, which happens. I will not say this is permanent it is a question of maybe three months or six months time.

Dikshit Mittal: Sir by the time your new initiatives of like bear fruits in this segment so for the next two quarters do we see the similar kind of performance or there may be some improvement or this being the worst quarter in terms of profitability?

R.S. Jalan: From our side, we are trying our best to improve upon this and whatever the efforts we are taking definitely should bring some result in the numbers, so I think probably some improvement should take place unless something unknown happens again. One more thing I just want to highlight here of course it is going to take some time. We have taken a patent, which is only environmental friendly tracking systems from the US and we are developing that product. The moment that happens. There was a soft launch in the last quarter September into the market within the US. A lot of customers had shown a very keen interest on that business. We are developing that product along with the partnership with Reliance and most likely we will be doing aggressive launch in March 2018 market week. If that probably can give us a kind of a turning point for this business, but this all depends on how the product gets develop.

Dikshit Mittal: Sir currently we have seen that cotton prices also started softening by around 15% in the last three months, so do you see that helping you at least in Q4 or will that be passed on to customers considering the increased competition?

R.S. Jalan: No that definitely should improve upon because what happens in the spinning industry based on the cotton prices expected, the yarn prices already softened. So our expectation is that the yarn prices should not soften beyond this point. There should be upward revision because the demand will improve because your GST has made a big impact on our spinning business primarily because of the total Surat or given all those markets there is a demand degrowth has happened. So our belief is that going forward there should be an improvement once the cotton prices are down.

Dikshit Mittal: Sir lastly on this Soda Ash Greenfield that you are now thinking, so what will be the extent of investment in this new project to start?

R.S. Jalan: This investment will be a gradual investment. It will take approximately around five years time. Right now we are talking about Rs.125 Crores investment, which will be primarily on the land as well as the various approvals and things like that and going forward half a million tonne plant will take approximately around Rs.3000 Crores of cost and that will happen in over a period of five years. That kind of cash generation we have, so in spite of we will have in five years roughly around Rs.2000 Crores of cash investment even if we take the number at this point of a time, so probably that cash flow, we will have our own cash flow.

Dikshit Mittal: Thank you Sir!

Moderator: Thank you. We have the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: Thank you Sir! Sir this duty it was up for renewal and then it got extended for a year and something is in litigation also can you just provide a refresh on that?

R.S. Jalan: The matter is sub judice before the Gujarat High Court and the matter has been heard and the order is reserved. Most likely the order of the High Court will be announced in the first or second week of November then we will know what is the current status on that?

Dheeresh Pathak: What was the initial government order they wants to revoke it right?

R.S. Jalan: There were a lot of happenings happened in this. First government has revoked and we went to the court then there was a stay then order of the government has been quashed then again we filed the sunset review and the sunset review was accepted by the government, they have extended their duty for one year after 15-20 days on a midterm review they again quashed up earlier orders on that and then we again went to the court, so lot of litigation has happened on that. Current strategy entirely depends on how the Gujarat Court decides about it.

Dheeresh Pathak: You said for the Greenfield you said Rs.3000 Crores plus Rs.175 on land so Rs.3175 Crores?

R.S. Jalan: When I say Rs.3000 Crores is a total cost.

Dheeresh Pathak: Total cost, so this is roughly Rs.60000 per tonne sort of a cost right?

R.S. Jalan: Approximately yes.

Dheeresh Pathak: Will it have the same margins EBITDA per tonne in terms of your current like you do like $100 EBITDA in terms of?

R.S. Jalan: In terms of the dollar number definitely the number will be in the same range, per tonne of margin will be the same.

Dheeresh Pathak: This will take five years to build like what you said five years why it will take five years?

R.S. Jalan: See land itself it takes around the moment you take the land because you have to take a very big parcel of the land may be 1200 acres or 1500 acres of land then all environmental clearances are required and that takes a lot of time.

Dheeresh Pathak: Almost land acquisition how much time does it take?

R.S. Jalan: I am saying that it will take and all approval put together it will take around two years. Land buying itself I think it will take six months.

Dheeresh Pathak: So at that capital cost and the delay and then $100 per tonne it does not make lot of sense to put first large amount of capital behind this right because the Brownfield economics were easily understood, where your adding capacity Rs.24000 per tonne, but now your adding capacity of Rs.60000 per tonne plus money is getting blocked over a larger period of time because it will take time for approval so higher or IRR here would be very suboptimal in my sense?

R.S. Jalan: Two things I want to highlight one is that like I said the capex requirement will start only after the land approval in the business. The investment, which you are making, is a very small investment of Rs.125 Crores and that for two to three years time will be required only for that Rs.125 Crores. After that you will need only two years and two-and-a-half years to built the plant. Having said that now in terms of as you rightly said initially if you look at you will find that the margins of return on capital employed is not as effective as it should be, but if we look at the last 25 years of the history we will say that this is the one business, which has a very consistent margin and today we are talking about return on capital employees of more than 30% on this and that will only happen when you built a plant, so in a short-term yes you are right the margin will not have the return on capital employees is not effective. In a longer medium term it is very effective margin business and there is a demand of around Rs.200000 tonnes. In fact we give you a data, 15 years back our margin percent was Rs.2400, today the margin is around Rs.7000, therefore this margin will keep on improving. Secondly like you look at 15 as a game so that its price has grown from Rs.7000 to Rs.18000. So if you look at slightly in longer terms you will find the business is a very effective business.

Dheeresh Pathak: And Sir the Turkish capacity, which was I think more than 2 million tonnes that has come up fully or year that has partially come up in terms of?

R.S. Jalan: That has only partially come up out of that Rs.2.5 billion only 1 million has come in. I just want to highlight again. The overall demand growth in the world is around 2.5% to 3% and the total demand is around 60 million tonnes. In 60 million if you take 3%, you need 2 million tonnes of the plant every year. This is the one business where you need every year two million tonnes of the production; this 2 million of Turkey will get consumed like two quarter before everybody was worried about the Turkey. Today now nobody is worried about the Turkey, we have attended the Soda Ash conference a month before and every world producers was very bullish on this business and which we see currently 8% growth into the Indian Soda has demand and the way that low housing urbanization everything we are talking about. These are the bright future that is going to come.

Dheeresh Pathak: All right Sir! Thank you.

Moderator: Thank you. We have the next question from the line of Saumil Mehta from BNP Paribas Mutual Fund. Please go ahead.

Saumil Mehta: Thanks for the opportunity Sir! My question is with continuation to the previous question while we understand the fundamentals of the soda industry looks very fantastic, but our Rs.60000 per tonne capex now even if I doubled the prices take it about Rs.40000 from your current Rs.18000, Rs.19000, I will still get an ROCE about 15% or 16%, so I am just trying to understand before putting up any large Greenfield project what is the internal benchmark in terms of generating capital do we have like minimum 20% ROCE, 15% ROCE because Rs.60000 to justify Rs.60000 capex per tonne essentially we are estimating prices to more than double in the next five years that is double of what the long-term price escalation over the last 10 years, which you just mentioned?

R.S. Jalan: First of all let me clarify one point. At this point of time like we have taken both approval of Rs.125 Crores on the land and it is going to take two to three years of time to get all approvals and everything. This land will be partial of the land where we can if tomorrow suppose we feel that this business does not make sense I am just giving a thought does not make sense. This land you can have any kind of business from this. Ultimately company has to grow and two years or three years of a time will give a clarity probably to our investors as well how lucrative this business is and probably we can debate on this point may be after once two years or down the line because no capex level to commit now, which after two years only we will be talking about any major capex expansion on this. So probably our investor will also understand in two years what is the economy of this. Let us see that how the things shape up in the next two years.

Saumil Mehta: Let me go to the other way for any further capex into the Soda Ash business be it Greenfield or Brownfield what is the minimum ROCE or a longer term we would be looking at that business?

R.S. Jalan: My understand is always that it should not be less than 15% to 18% kind of ROCE it should not be, but let me clarify that when I say 15% to 20% depending upon the kind of risk factors, risk is very low so probably 15% is good enough business for me. If the risk is slightly on the higher side probably I will be looking at 20% kind of ROCE because ultimately risk also has to build into the ROCE. In Soda Ash business my 20 years of experience in Soda Ash is almost a risk free business. I have given the data in the past calls as well, 20 years of the data clearly indicates that the months are very consistent. Now if you have 30% margin on this business on the topline of 20% or 25% and obviously it will take some few years to reach to that level but then the risk is almost zero in this business, so therefore 15% margin of this business should be a good return on this business whereas your cost of capital is around 8%-8.5% so your return on equity will be more than 28%, 25%.

Saumil Mehta: Sure. Thank you so much.

Moderator: Thank you. We have the next question from the line of Shrinivas Sheshadri from Mirabilis. Please go ahead.

Shrinivas Sheshadri: Thanks for the opportunity Sir! First I have a couple of questions on the textile business. The numbers that you have reported if I look on a year-on-year basis the topline has reduced by about Rs.24 Crores, bottomline has actually fallen to almost Rs.46 Crores I am just trying to understand this because usually such kind of thing would be driven by some kind of one of either write off of the inventory or receivables, so throw more light on apart from the general loss of business what are the other issues because of which you are seeing such a sharp deterioration in the bottomline?

R.S. Jalan: First of all, there is no write off of any of the inventories or any of the receivables point number one. Point number two is that this drop as you rightly said the topline has top X percentage where the bottomline has dropped by Y percentage, it is primarily because when your selling price has dropped your utilization has dropped and your cost has gone up it is an impact of everything, but because of that your margin which was in the range of around 15% in Q2 2017 it has dropped to 1%. In the spinning business also because of this GST the margin had got impacted in that.

Shrinivas Sheshadri: So could you may be give a little more granular detail on what is the impact of these three elements, which you talked about just now, how much of it is contributed by the raw material inflation versus selling price drop and the other factors?

R.S. Jalan: Can I request you to get that on offline these numbers I think that is better.

Shrinivas Sheshadri: Yes fair enough. The second question again is with respect to the textile business so now that the kind of dynamics of the business has changed a bit unfavourably in the last couple of quarters. You had highlighted a fairly large capex program in the next couple of years so are you revisiting those plans and also now since we have articulated that the Soda Ash business is very strong and you have a long-term investment plan in that business. Are you recalibrating the amount of capital expenditure and what you want to do in the textile business?

R.S. Jalan: In the home textile we have earlier also clarified that we are not making any large investment in the home textile business we are not, even last year also we have not made any major investment and this year also we do not have any plan to invest large amount into the home textile business. Our major focus is only on the chemical business and in addition to that we are making investment in spinning business, which is making a reasonable good margin.

Shrinivas Sheshadri: Sir based on your earlier discussions what I understood was there was a capex plan of around Rs.600 Crores out of which around Rs.300 or Rs.350 was to go into the Soda Ash business, so my understanding was about Rs.200 to Rs.250 Crores will still be allocated to the textile business, so is that understanding wrong?

R.S. Jalan: I will clarify to this. Like I said out of my total in two years 2017-18 and 2018-19 our total investment will be roughly around Rs.500 Crores approximately, out of that we are talking about roughly around Rs.300 to Rs.325 Crores in the chemical business, Rs.160 Crores we are talking about only in the spinning business.

Shrinivas Sheshadri: Only in the spinning?

R.S. Jalan: Yes only in the spinning and balance amount, some amount of investment required to make in every business. We are talking about very marginal investment into the home textile business.

Shrinivas Sheshadri: Got it Sir! That is clear. Now the new capex program, which you talked about, which is roughly Rs.3000 Crores of that how much would you be spending on the land acquisition because based on what you told is looks like you are doing much a higher land acquisition for a long-term where you would have Brownfield optionality and so on, so how much has been allocated to the land versus the actual plant and machinery and the operational plan?

R.S. Jalan: Land cost is only Rs.100 Crores.

Shrinivas Sheshadri: Profit is all fixed?

R.S. Jalan: See what we are trying to clarify here is that the land cost will be around Rs.100 Crores and that Rs.100 Crores will lead me to two to three years of the time advantage because after buying the land as you know every industry today each facing a land acquisition itself, which takes a long time. We want to make this investment on Rs.100 Crores, bills that be ready with all approvals and everything and ready for the plant and at that time we can decide whether we want to go for Soda Ash business or whether we want to go for some other business, but at this point of time our thought is that this business is very good business, but may be after two years once all approvals are ready then we can divise again revisit the plant.

Shrinivas Sheshadri: Got it Sir and final one is Sir on the debt position. I have noted that it has come down steadily over the years. Given that you have articulated the capital expenditure, which is slightly lower than the run rate of cash flow generation of the overall business. What are the targets in terms of the debt position say by FY2020 before your new phase of expansion starts?

R.S. Jalan: See at this point of time in this year itself roughly if I can give you the numbers approximately around Rs.100 Crores we have distributed to the shareholders in terms of the buyback as well as the dividend. Rs.200 Crores we are going to spend into the capex and approximately around Rs.150 Crores-Rs.200 Crores debt reduction will happen this year. In the past also we will always continue to have a very financial discipline of 1:1 right now we have reached to the level of 0.92. We would like to maintain this as 1:1 debt equity ratio.

Shrinivas Sheshadri: So beyond this in the next year when the capex program is not very large would you target a similar reduction or some kind of a shareholder return kind of thing?

R.S. Jalan: Surely we will be looking at shareholders return because that is one of the prime focus. We will definitely be looking at return to the shareholders and also we will be looking at the debt reduction. Whatever the money leftover we will give it to the shareholders or reduce the debt.

Shrinivas Sheshadri: Got it Sir! Thanks a lot for your explanations.

Moderator: Thank you. We have the next question from the line of Sumant Kumar from Emkay Global. Please go ahead.

Sumant Kumar: My question is regarding for home textile so as you already mentioned that US retailers are in stress, so what is your status for supplying to all the US client, it has slow down and there is any probability the supply will increase to the client in the coming quarter or coming year, what are their status for all the retailers?

R.S. Jalan: Seasonality will definitely place a role into the demand supply of the retailers sometime black Friday, sometime some sales that definitely quarter to quarter changes; however, my understanding is that we do not see any major growth into the US market overall. Of course the things, which are changing, one change is from brick and mortar to the dot com. Second change, which happened again that, is also impacting the margin and that will impact the margin of the industry as well. The business is shifting from a brick and mortar of a regular retailer to the discount stores and the discount stores of such they are expanding, they are growing very rapidly, but there the value proportion is lower, so these three things mixed wise is changing; however, the overall demand is not growing.

Sumant Kumar: Whatever the order book you have of the existing client and so do you think they are going to achieve that order, there the demand is likely to increase going forward, any indication if they are in a stress how things are going to improve for you?

R.S. Jalan: I do not think there is any major shift from the program of the quantity, which you have, may be few percentage down or few percentage up can happen, but no major shift will take place because of this.

Sumant Kumar: So it is across the retailer or some regional specific things?

R.S. Jalan: See the bigger retailers are getting less impacted and the smaller retailers are getting slightly more impacted; however, the discount stores they are growing.

Sumant Kumar: Because you are talking about the bigger is less impacted, so do we have a higher exposure in small retailer?

R.S. Jalan: We have a mix of everything.

Sumant Kumar: Thank you so much.

Moderator: Thank you. We have the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Just two small questions. One the presentation mentions increasing working capital of Rs.61 Crores so what does this specifically refer to and what is the outlook for the full year in terms of working capital requirement?

R.S. Jalan: First let me tell you our inventory has gone down by Rs.60 Crores if I can give you the cash flow let me give you the cash flow numbers. We have generated a cash of around Rs.200 Crores during the last six months, out of that Rs.200 Crores we have distributed Rs.105 Crores to the shareholders and approximately around Rs.80 Crores, Rs.85 Crores we have spent on the capex. Then you will find that there is around Rs.60 Crores of extra generations, which are reduction in the working capital. Overall working capital or the inventory has reduced by Rs.60 Crores.

Sachin Kasera: I think the presentation mentions an increase in slide #20?

R.S. Jalan: I think that is a grammatical error.

Sachin Kasera: I think that is why I was also a little confused because we have reported balance sheet and in the presentation there is some difference.

R.S. Jalan: Yes.

Sachin Kasera: Secondly Sir our financial cost for the quarter has not come down, the reduction of debt and reduction of interest cost, any specific reason for that?

R.S. Jalan: Yes it is mainly because of the forex. See this quarter there has been almost 80 paise increase in the forex value whatever the forex exposure we are having on the loan side so that as per the accounting that has to be charged to the financial cost, so it is basically the M2M, which has been booked in the financial cost the entire impact is only because of that.

Sachin Kasera: How much is that was?

R S Jalan: That is around approximately Rs.3.8 Crores, post that has again weakened so that will get reversed probably if it remains at the current level.

Sachin Kasera: Have you got any credit rating upgrade or are we due for that shortly Sir?

R S Jalan: This quarter we have got one rating upgrade from A minus to A as of now.

Raman Chopra: That means journey, which was BB minus two years back now we are A rating which has improved in two years. I just want to mention here because we are talking. I hope you people have seen that we have been awarded the Golden Peacock Award on the corporate governance. This shows our commitment to the corporate governance.

Sachin Kasera: Percentage mention that you have taken Rs.500 increase in soda ash from September, if we see the margins in soda ash, they have improved vis-à-vis June quarter so can we believe that in December quarter there could be some further improvement in margins or this Rs.500 increase will be more than compensated by the increase in cost.

R S Jalan: At this point of a time I would say that the margin would be maintained at the same level.

Sachin Kasera: Thank you very much Sir.

Moderator: Thank you. We have the next question from the line of Yash Agarwal from Crest Capital. Please go ahead.

Yash Agarwal: I wanted to know the sales number in Q2 of soda ash, the production was 2.26 lakh tonne how much was the sales numbers and for the full year, what is the outlook on the sales volume for soda ash?

R S Jalan: The sales number was 2.14.

Yash Agarwal: Okay and full year?

R S Jalan: Last year, which we had, approximately around 7.78 sales number which probably the way we planned it should be more than around 8.65. Because you remember that we have expanded for 100,000 tonne and out of that in the last quarter we got the advantage of 20% of that. So balance 80% we have been able to get the entire benefit of the expansion of 100,000 tonnes. We are using as a 100% utilization of that 100,000 tonne.

Yash Agarwal: And for next year what volume growth can we expect FY2019?

R S Jalan: The new expansion which is Brownfield expansion which is likely to complete by March 2019, so the volume growth should be seen in the 2019-2020, but some benefit of that expansion of 2019 completion, some benefits we should be getting in the 2018-2019, that volume growth should be visible in the next year along with the sodium bicarbonate which will get completed by December, so we will get that benefit also in the last quarter of this year as well as next year full.

Yash Agarwal: Okay and Sir one other question on power, so how do we source power do, we have any captive power plant or something?

R S Jalan: Soda ash, we use 100% of the captive power plant?

Yash Agarwal: Is it coal based?

R S Jalan: Yes, it is a coal-based. In the spinning we have more than 50% of the wind power and in our home textile, we have a mix of own generation from the furnace oil and some we buy from the Gujarat Electricity Board.

Yash Agarwal: Another question on the soda ash and its captive plant, it is a coal based, so coal, there is no availability issue right as of right now?

R S Jalan: No.

Yash Agarwal: We will even price for anything?

R S Jalan: We have captive lignite mines as well.

Yash Agarwal: Thank you so much.

Moderator: Thank you. We have the next question from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Sir just one clarification any thought process of the plan, because you are already doing some sort of buyback which is going on so any plant to increase promoter stake, because considering the prospects of the chemical sector, the promoter holding is pretty low, so any thought process on that account to increase the promoter holding by some means or the other if you could clarify that thing?

R S Jalan: This we have said in the previous calls as well that we as a management, our brief or our commitment to our investors is only one that we should continue to give a good performance and continue to grow. In terms of the promoters holding I would not like to comment anything on that because that is the domain of the promoters.

Bajrang Bafna: Okay and one more thing on the value creation for the minority shareholders per se, you see now there are lot of companies we have gone some sort of demerger of the businesses like in this business if you see the future of chemical business is pretty buoyant even if you take next four, five years because of this china effect and the fact which is emerging and India is peanuts if it will talk about the overall capacity that the India is concerned say hardly 5% of the global capacity and that is why you are also going into the extension mode and whereas if you see the textile which is predominantly in the overcapacity zone and there is no sight that things are going to improve, because China is also getting very aggressive on that side, so can we see some sort of demerger over the period of time, so that to create a proper valuation for the chemical business, because if both the business stays together we might not see the kind of relating that ideally we have seen for most of the chemical stocks in the last six months or so, but nothing of that sort has happened for our company despite having that kind of visibility, so any thought process on that account that we demerge both the businesses?

R S Jalan: This point has already been discussed in the other platform as well in this call before also, we are definitely having in our mind this opportunity of demerging and creating a two separate vehicles for two separate business. But in terms of the timing it may take sometime before we take final call on that, but at the right time surely we will take this to our board.

Bajrang Bafna: Thank you very much.

Moderator: Thank you. We have the next question from the line of Priyanka Shah from Discovery Capital. Please go ahead.

Priyanka Shah: I have two questions regarding home textile, what was the loss incurred in this quarter?

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

Priyanka Shah: What was the loss incurred in these quarters in the home textile?

R S Jalan: Because we have already given a number.

Priyanka Shah: I am sorry, I joined a little late that is why.

R S Jalan: If you look at our financial presentation, which has been uploaded, you will find the numbers and we always talk the number in totality.

Priyanka Shah: All right sure and when do you expect a turnaround in the home textile given the subdued demand in the US?

R S Jalan: Overall our understanding is that after two quarters definitely there should be a significant improvement in this business.

Priyanka Shah: Over the next two quarters?

R S Jalan: Yes.

Priyanka Shah: All right, thank you.

Moderator: Thank you. We have the next question from the line of Anant Pavnani from Sameeksha Capital. Please go ahead.

Anant Pavnani: With respect to soda ash business, just wanted to understand the quantum of impact per tonne that could happen on realization if the anti-dumping duty were to be taken away?

R S Jalan: At this point of a time whatever the market situation we are seeing, we do not see any major impact because of the anti-dumping duty being there or not there.

Anant Pavnani: When the duty was levied, they were, so in that sense do you anticipate the margins to stay constant even after anti-dumping duty?

R S Jalan: I think so because today you see there is a supply availability is also an issue, because of the Chinese scenario is getting changed, so I do not see any major impact happening if the duty goes away also.

Anant Pavnani: Sir with respect to cost structure and overcapacity in China, can you share your understanding of situation in China, because there were some news articles that water supply to soda ash is being cut in China and soda ash be pollution oriented industry is being regulated, so any details that you would have gathered and if you could help us to understand the industry better?

R S Jalan: You must have noticed that all the chemical business, which are primarily being dominated by the Chinese producers. In the last two quarters, there is a significant amount of change has happened and the same thing is being felt in the soda ash industry as well and that is primarily because of the environment, because of the way they are looking at the business in terms of the return on capital employed, the banking is in the pressure, all these things put together had made the supply or the production tightness into China and that is making an impact globally. Because their 50% of the production come from China and the tightness is being felt across the globe.

Anant Pavnani: Sir how much would have been is the reduction in supply from China in terms of million tonnes per annum?

R S Jalan: Global supply?

Anant Pavnani: Yes.

R S Jalan: At this point of a time I would say that it should be around 25% of the total supply, which there were making to the world, the drop is around 25%.

Anant Pavnani: Okay, so I was asking in terms of million tonnes, how much capacity in China?

R S Jalan: It should be half a million tonne, approximately around half a million.

Anant Pavnani: Okay and about the Turkish soda ash as you mentioned that one million tonne has already come and total slated at 2.5, so rest of the 1.5 million tonne what is the timeline that we can expect?

R S Jalan: It should happen in two, three quarters going forward, but I want to clarify again on this point that the worry on the Turkish expansion or the turkey new capacity is now being faded. Now the people globally are not realizing or not feeing any pinch because of that, because of the Chinese scenario getting changed number one. Number two, even the demand growth in the globe is very healthy, but because of these two things that impact of the Turkey is being not felt by the people now. Like you see in the two things Turkey has already come with the one million tonne. It has not been felt into the market and the price is still on the rise. In India, we and as well as other competitors they have come with 300,000 tonne production in March, nothing is felt today. There is a shortage at this point of time. So keeping that into mind we do not see that this will have any major impact even if it comes in the next two quarters.

Anant Pavnani: Thank you Sir.

Moderator: Thank you. We have the next question from the line of Rohit Sinha from Emkay Global. Please go ahead.

Rohit Sinha: Thank you Sir for taking my question. Just one question that since we have a captive coal mine then what is the other component in our power and fuel core as we see power and fuel cost has increased in this quarter as a percentage of sales, so what is the other component in the power and fuel core?

R S Jalan: We have own lignite mine, but we are not using the entire percentage of the lignite from our own mines. We are only using the certain percentage of the our own lignite mine, balance we are sourcing as a mix of coal which is imported and lignite.

Rohit Sinha: How much percentage of sourcing and captive?

R S Jalan: Approximately earlier we were using around 30%, now it has come down to 15%.

Rohit Sinha: 15% we are sourcing?

R S Jalan: No, 15% we are using our own, balance 85% we are sourcing.

Rohit Sinha: Okay, since we have seen some rise in coal prices, is that the reason we are seeing this power and fuel prices increase?

R S Jalan: Yes.

Rohit Sinha: Or any other component also involved?

R S Jalan: No, the coal prices have gone up that is in the power and fuel. The coke price has also gone up which is more like a raw material for soda ash industry, there also the prices have gone up even other raw material like your salt, the salt prices have gone up.

Rohit Sinha: Okay, the salt prices almost how much percentage they are contributing to our power and fuel coal or any other?

R S Jalan: Salt is part of the raw material cost.

Rohit Sinha: Okay, so raw material on that front how much percentage it would be hardly, a rough figure?

R S Jalan: Figures are very margin, salt cost is a very marginal cost in the overall soda ash business and major impact is primarily in your coal prices and the coke prices.

Rohit Sinha: Okay. That is all from my side.

Moderator: Thank you. We have the next question from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Good evening friends and Diwali greetings to all the participants. Sir firstly you were talking about this home textile part being collaborating with Reliance. If you could give us some more colour on the same what kind of products we are and what kind of opportunity are we seeing, I should not get that point?

R S Jalan: As you know that now the world is talking about the environment friendly products and environment friendly products is being seen by all the retailers as one of the driving force for their consumer off takes. Now recently we have tied up with one of the company in US which is called Advance DNA which is a research organization and they have developed a tracking system by which you can track whether the product which you are claiming to be whether that contains the same features or same raw material or not. Now we have developed a recycled fiber or the polyester fiber, we will be making a products from the recycled fibers and that recycled fibers will be tracked, the retailer or the consumer can track whether that product has been made out of the recycle fiber or not. So there will be a tracking system in that product. This product will be a unique in its nature which will be more environment friendly, because this will improve your overall pet bottles which are waste plastics that will get consumed into this. Your lot of oil consumption will go down on that, so this is a very highly environment friendly product and Reliance is leading in this segment by recycling the polyester of huge PET bottles, so that we are collaborating with the Reliance to develop the product along with the tracking systems and the soft launch we have already done September in the market week in the US which had got some response from the customers there and maybe in March 2018 in the next market week, we will be launching this product with all packaging and everything and may be that can give us as attention from the retailers.

Saket Kapoor: You spoke earlier about this corporate governance being the topmost priority for us and we are achieving this Golden Peacock Award also if you could give us on the point what led to this bid we winning the award and who was our nearest competitors, who did qualify but could not make it to the top?

R S Jalan: We do not know who bid for it and who did not get, but definitely we got the people, who has got this award and right now I do not have their name in front of me but these are all good companies and basically this is internationally recognized reward on the corporate governance. Now I can give you the name of the company offline but we are one among the four companies, which has been given on the Golden Peacock Commendation Award, which is one group of the corporate governance.

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

R S Jalan: Thank you very much for all the participants. On behalf of the management, I can assure all the participants and all my investors that the management will not leave anything unturned and all the path breaking critically evaluating all our business and taking corrective actions and make sure that we create a value for our shareholders. Like I said last seven years, the journey has been very satisfying. In spite of ups and downs into the business we have been able to maintain a growth of around 22% CAGR into the bottomline and our journey or our objective of 20% CAGR growth, we will continue to focus and make sure that we achieve those numbers on a medium term. Challenges comes in the business, but we are sure that with the kind of a strong management team we have, we will be able to withstand all those ups and downs in the business. Thank you very much to everyone.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Motilal Oswal Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.