BOROSIL®

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November 21, 2019

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Sub: Transcript of Institutional Investors and Analysts Conference Call

Dear Sirs,

We enclose transcript of conference call with Institutional Investors and Analysts which was held on November 14, 2019.

You are requested to take the same on record.

Thanking you.

Yours faithfully,
For Gujarat Borosil Limited

Kishor Talreja
Company Secretary and Compliance Officer
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GUJARAT BOROSIL LIMITED

"Gujarat Borosil Limited Q2 FY2020 Earnings Conference Call"

November 14, 2019

GUJARAT BOROSIL LIMITED Edelweiss CHORUS CALL

ANALYST:	**MR. KSHITIJ KAJI - EDELWEISS BROKING LIMITED**
MANAGEMENT:	**MR. SUNIL KUMAR ROONGTA – CHIEF FINANCIAL OFFICER - GUJARAT BOROSIL LIMITED** **MR. ASHOK JAIN –WHOLE TIME DIRECTOR - GUJARAT BOROSIL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Gujarat Borosil Limited Q2 FY2020 Earnings Conference Call hosted by Edelweiss Broking 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. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kshitij Kaji from Edelweiss Broking. Thank you and over to you Sir!

Kshitij Kaji: Good evening everybody. Welcome to the Q2 FY2020 Earnings Conference Call of Gujarat Borosil Limited. First, I would like to thank the management for giving us this opportunity to host this call. Today, on the call we are joined by Mr. Ashok Jain – The Whole Time Director and Mr. Sunil Kumar Roongta, CFO. Without much further ado I would invite the management for their opening remarks to be followed by Q&A session. Thank you and over to you Sir!

Ashok Jain: Thank you Kshitij. Good evening and welcome to Gujarat Borosil H1 FY2020 investor call. Thank you for joining me and my colleague. Gujarat Borosil announced its financial results for H1 FY2020 yesterday. We have updated the investor presentation and uploaded it on our company website and that of the stock exchange. I will begin by touching upon the highlights of the company's performance and other developments and would then welcome your questions.

The company had undertaken the Brownfield expansion with the capacity of 210 tons per day. The furnace was lit on June 24, 2019 and the commercial production of solar glass started on August 1, 2019. The quality of the output meets specifications and has been well accepted by all our customers.

In 2010, we installed and began operations from our first facility for solar glass with the capacity of 130 tons per day. Typically, such facilities have a lifespan of about six years. Our teams deployed the technical expertise and innovative capabilities to not only enhance the capacity of the plant to 180 tons per day, but also to enhance the life of the furnace to continue to produce high quality solar glass by another three years.

Towards the end of the life of this furnace the quality and productivity got impacted, which also affected the operating results. The furnace was taken into rebuilt in August 2019, it is expected this furnace will be back into production by December 2019 with enhanced capacity of 210 tons per day. Once both the furnaces are in operation, the company will have a capacity of 420 tons per day, which is expected to generate annual sales revenue of about Rs. 450 to Rs.475 Crores from FY2021 onwards.

During H1 FY2020, sales prices continued to remain under pressure owing to higher supply at lower prices from China and Malaysia. The ex-factory realization for the company had to be dropped by about 9% compared to H1 FY2019. Net revenue from operations stood at Rs.101.7 Crores a decline of 3.8% over H1 FY2019 with the lower per unit realization and higher production cost owing to suboptimal functioning of the old furnace at the fag end of its extended life. EBITDA in H1 FY2020 was adversely impacted.

The company recorded an EBITDA of Rs.8.9 Crores as compared to Rs.26.7 Crores in H1 FY2019, a decline of 66.7%. Consequently, the company posted a loss of Rs.6.6 Crores in H1 FY2020 as against a PAT of Rs.8.6 Crores in H1 FY2019. The pressure on selling prices, which started post June 2018 due to over supply in China as a result of reduced installations there continues. As I mentioned, the new furnace, which is second line for us went into commercial production in August 2019 and the first furnace went into repair and rebuild.

The new furnace has stabilized fully and the average gross pull per day has moved up to 210 tons per day. This furnace is expected to deliver normalized production. The same would be expected from the refurbished furnace from Q4 FY2020 onwards. Production efficiencies and costs are thus expected to be normal from Q4 FY2020 onwards. It is anticipated that the company's EBITDA margin should then tend to normalize.

To summarize a few developments in the solar industry, SECI has issued tenders for 2-gigawatt under CPSU scheme. This will be with VGF i.e viability gap funding and will boost domestic manufacturing. However, this has not yet been meeting good response.

SECI had issued another tender of 6-gigawatt in January 2019, which is linked to manufacturing, which after multiple extension of deadlines and certain modifications has finally received good response and recently the tenders of 7-gigawatt has been received linked with manufacturing of 2-gigawatts. So, once the manufacturing of 2-gigawatts is added into the country's capacity there will be further demand boost to the glass demand as well. There is KUSUM scheme for solar water pump and the use of barren land by farmers for generation of power, which is also in progress, which will boost the demand. The China's solar energy program has remained low. It is expected that China will add only about 35 gigawatts in calendar year 2019 as against 44 gigawatts in 2018. This continues to cause pressure on prices all around.

However, the other markets are improving and the overall global demand is likely to be maintained at more than 100 gigawatts. Due to levy of duties by US against Chinese modules, the possibilities of export has increased. We are exploiting this market.

The composite scheme of amalgamation and arrangement of the Borosil Group Company was approved by various stakeholders, such as shareholders and creditors of the company as directed by NCLT on May 14, 2019 and May 15, 2019. A final approval is now awaited from NCLT. The next hearing is scheduled for November 21, 2019. The appointed date as per scheme filed is October 1, 2018.

To conclude, notwithstanding the temporary pricing pressures faced in the recent past from cheap imports, we remain positive and confident about the medium and long-term outlook for the solar industry and Gujarat Borosil. We expect stabilized production from both the furnaces from Q4 FY2020 onwards. Almost 75% of the demand for glass in India was being made by imports in 2018-2019 and GBL was contributing the rest. The demand has grown by about 23% CAGR over 2016-2017 through 2019-2020 and this trend is continuing. After full production from both furnaces we expect our market share to rise to 35% to 40%. That is the summary of our performance and developments during H1 FY2020. With that background, I would now welcome questions from you. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take first question from the line of Binoy Jeriwala from Sunidhi Securities. Please go ahead.

Binoy Jeriwala: Thank you for the opportunity. Sir, in the presentation you have mentioned that once both the furnaces are completely operational you will get a revenue run rate of about 450 to 475 Crores in FY2021, I just wanted to understand this is considering the current price scenario and do you also have visibility on the entire revenue or is this subject to steady macro environment?

Ashok Jain: Thank you, Mr. Jeriwala for asking this question. In 450 to 475 Crores, we have factored a price increase about 3% going forward and this turnover will be definitely achieved because we have very robust demand from the domestic buyers. In fact as we talk, we are almost booked for the second furnace also and once we are in production, we will have no difficulty to sell the entire output. The challenge regarding price still remains and we are selectively doing the price increase. One round we have already completed and another round will take place in January or so. So this 450 to 475 Crores considers the prospective 3% price increase.

Binoy Jeriwala: One round of price increase was taken when?

Ashok Jain: Just this month only.

Binoy Jeriwala: Now, once you hit the peak potential sales of about 450 to 475 Crores what could be the steady state EBITDA margin?

Ashok Jain: Well, we expect about between 22% to 24% EBITDA margin to be earned going forward.

Binoy Jeriwala: Understood and of this, how much do we factor in would come from 2 mm glass?

Ashok Jain: 2 mm is going very slow as of now, it is not very fast growing market, which is what is coming out from the fact that we are selling only about 2% of the glasses, so we can say about 3% of the sales will be coming from 2 mm glass.

Binoy Jeriwala: Sorry, you said 2% of sales is 2 mm glass is it?

Ashok Jain: It is 2%, yes.

Binoy Jeriwala: Both the furnaces once they are operational it will be about 3%?

Ashok Jain: Yes, 3% of the current means it will be actually 1.5% of the overall.

Binoy Jeriwala: Sir, what would be the current gross debt and likewise what would it be post the de-merger scheme?

Ashok Jain: Can you please repeat the question, I missed it.

Binoy Jeriwala: The gross debt as of September 30, 2019 and what would be that number post once de-merger is done?

Ashok Jain: As per the scheme, the debt, which is taken from Borosil will get squared up and the debt, which will remain in the books of the company will be the term loan of 100 Crores, which we have taken from the bank and the working capital loans, whatever the outstanding would be there.

Binoy Jeriwala: How much would be the working capital?

Ashok Jain: We are currently using about 5 Crores of working capital, but it can rise to about 25 to 30 Crores I would say.

Binoy Jeriwala: So, post de-merger it would be roughly about 125 Crores or 130 Crores of gross debt?

Ashok Jain: Yes, I would agree with that.

Binoy Jeriwala: Sir, what is the number now?

Ashok Jain: Right now we have taken the ICD of 125 Crores from Borosil that is sitting as debt, we also have preference shares, which are again sitting as debt and these two we expect them to be nullified with the scheme getting implemented, the other debt is the bank debt of 100 Crores and working capital about 5 to 7 Crores.

Binoy Jeriwala: So, external debt is about 105 to 107 Crores?

Ashok Jain: That is right.

Binoy Jeriwala: Thank you so much, Sir.

Moderator: Thank you. We take the next question from the line of Anirudh Jain, an Individual Investor. Please go ahead.

Anirudh Jain: Sir, just wanted you comments on the competition. Sorry I missed some part of the conference call, so can you just repeat it?

Ashok Jain: The competition on the component market has gone up because China has reduced their solar program in last two years. In May 31, 2018, they announced that they are going to curtail the program. In 2017, they did about 53 gigawatts installation, but in 2018, they did only 44, which led to certain excess capacity. People were expecting that in 2019, they will resume the earlier level, but in the first half of this calender year, they have done only about 11 gigawatts and they are likely to add another 23 to 24 gigawatts in the second half of the year, which will make it about 35 gigawatts. So it is still short than what they did even last year. So this is putting pressure on the prices of the components. The positive thing is that the other markets or the new emerging markets are taking a lead and the overall global demand is not going down. It is going up actually, in 2018, it is about 100 gigawatts and we are going to witness that it is going to be more than 100 gigawatts even in 2019. In the meanwhile the capacity of the components is going up and that is having a continued pressure on the selling prices or product prices you can say.

Anirudh Jain: Any comment on how we are going to standout from the competitors?

Ashok Jain: We are selling a commodity so to say and we have to really match the prices with the competition. The only positive feature for us is that in the domestic market we offer local production and support and fast delivery to the customer, which makes it easier for them to manage their inventories and production planning. We are not pricing it very high compared to landed cost, so it makes sense for them to keep buying from us.

Anirudh Jain: Even after some reduction in prices, can we be able to maintain the EBITDA of around 20% to 24% what you have mentioned earlier?

Ashok Jain: So, this is based on certain price increases we have already faceted in this projection of EBITDA and turnover. So the current situation is that prices are slightly up internationally as well as in our Indian context and with the demand rising for second half in China and expected to continue at that level, we are hopeful that we will be able to maintain that and whatever synergies we are going to obtain because of the two furnace operation in terms of manpower, overheads and other costs that will enable us to earn this kind of EBITDA.

Anirudh Jain: A 2 mm glass being margin accretive product, so what will be our strategy to increase the total revenue share on that particular product?

Ashok Jain: 2 mm the product demand is mainly coming from Europe as of now and with our first furnace running into last leg of the life and not being up to the mark in terms of product quality as well as numbers in terms of production we have not been able to focus really on this market so far, now once we have production from two furnaces we will have flexibility to take the production run for any thickness of the glass. We will now be focusing more aggressively on this market and we hope to increase our sale by at least 50% compared to what we are today.

Anirudh Jain: Last question, you find any of domestic player is coming into this particular segment?

Ashok Jain: Well none to our knowledge.

Anirudh Jain: Thank you so much, Sir.

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

Binoy Jeriwala: Sir, can you just explain me the benefits of going under SECI route?

Ashok Jain: SECI is the agency appointed by the government for all their tendering business, so all the tenders are handled by SECI from the government side.

Binoy Jeriwala: Does this mean that the people who bid under the scheme have to use glass only from domestic sources?

Ashok Jain: Not necessarily, it depends on the scheme under which SECI is asking the tender. For seeking tender like for grid connected requirement generally it would not be mandatory for domestic component consumption, but under two to three schemes like CPSU scheme, which is central public sector undertaking scheme for 2 gigawatts they have mandated that all the modules must be made in India and they have to use the cells made in India. So, there is compulsion on the module manufactures or the developer to use the domestic content i.e. domestic production. In the case of KUSUM scheme, there is a subsidy from the government, which makes eligible to get higher price for the modules, so people are buying from the domestic source also that is not a problem for them. Under the scheme of manufacturing linked program, which is for 6 gigawatts, where SECI had mandated that domestic manufacturing of component and modules must be there so that the domestic manufacturing can rise and the ecosystem in the country can rise and employment can be generated. So in the 6 gigawatts they kept 2 gigawatts as domestic manufacturing. So the person who is bidding for the tender must bid at least one-third of it as manufacturing. For 6 gigawatts the bidding has been successfully invited and 7 gigawatts tenders have been received and 2 gigawatts of manufacturing will be also done by these people, so once they setup their manufacturing for this additional 2 gigawatts there will addition to the manufacturing demand in the country.

Binoy Jeriwala: I understood, but this manufacturing linked program for 2 gigawatts, which is linked to domestic component makers, is that different from the CPSU scheme that you mentioned or is it the same?

Ashok Jain: No, it is different. It is separate. In the case of this 2 gigawatts domestic manufacturing linked program, the modules and the cells have to be made in India. In the case of the program under CPSU scheme, the module manufacturer or the developer must buy from domestic sources.

Binoy Jeriwala: So, they can in turn import, the domestic distributor can import you are saying essentially?

Ashok Jain: No, he cannot, but he does not have to manufacture it himself, in the case of the 6 megawatts program, he has to manufacture also.

Binoy Jeriwala: When do you expect this program to be operationalized?

Ashok Jain: It was not getting a good response for last 8 to 9 months because there were lot of apprehensions and concerns from the developers. Now the price has been adjusted for this program from Rs.2.78 to Rs.2.93, which was a longstanding demand from the developers because they were asking for fixed price and the price was not attractive enough for the developers, so now the government has agreed to give Rs.2.93 per unit. There were lot of other small, small items, which the developers were seeking, so now that has been done by the government and developers have really come out and over subscribed the tenders.

Binoy Jeriwala: So, you expect this in the next financial year to start manufacturing?

Ashok Jain: Well, there is a time allowed under the scheme for two years I think, I am not sure, but I think 2 years is the time allowed for manufacturing.

Binoy Jeriwala: Sir, as of now what would be our price differential vis-à-vis the price of Chinese and Malaysian manufacturer?

Ashok Jain: See, in the previous call also we have mentioned about this, that we have two sets of customers. One set are the customers who are generally doing grid connected projects and they are large customers and they are having their own import facility also so there we have to match the landed cost. Here we can be higher by couple of percentages say 2% and 3%, but not more. In the case of the rest of the people who are related to the solar water pump and roof top and other off grid applications we are pricing about 10% on an average higher compared to the imported cost, but it is on case to case basis, it could be 5, it could be 10, it could be 15 also.

Binoy Jeriwala: Understood and what percentage of revenue would be coming from large customers?

Ashok Jain: In the past it was about 40%, but I think it will become 60% as we go along. We have to now sale double the volume or may be more than that and we need to take on board all these customers from whom we were rather staying away.

Binoy Jeriwala: So, despite this you feel that you will be able to maintain 20% to 24% EBITDA margin?

Ashok Jain: Yes.

Binoy Jeriwala: Just to understand, if you have to maintain 20% to 24% EBITDA margin, what should be our gross margin?

Ashok Jain: Gross margin is about 45% to 48%.

Binoy Jeriwala: No, I mean only the raw material cost, not the manufacturing overheads and all that?

Ashok Jain: If you exclude others, raw material would be about 28% to 29%.

Binoy Jeriwala: Essentially with 28% to 29% raw material we can maintain about 20% to 24% EBITDA margin that is what you are saying?

Ashok Jain: Yes, you are right.

Binoy Jeriwala: Understood and what percentage hike did we take in November?

Ashok Jain: Selectively we have started increasing the price, it not across the board, so we cannot generalize that 3% price increase has taken place on the whole. It could be applicable probably to less than half of the customers so far. So we are still negotiating with other customers to accept this price and it will happen over a period of may be one month or two months like that.

Binoy Jeriwala: Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Naveen Bothra an Individual Investor. Please go ahead.

Naveen Bothra: Good evening, Sir. The entire impact on the EBITDA is from the reduced prices or some cost are related to the first furnace stopping the production and all these things or the price impact is there on the EBITDA?

Ashok Jain: Yes, you are right. Both have impacted the EBITDA margin. As I mentioned in H1 FY2020, selling prices were down by about 9% compared to the previous year corresponding 6 months, so that is a big dent on the EBITDA margin. The other big reason was the less productive furnace and less productive operation in the first 6 months and the third thing what you can say is that we were running with all the overheads for two furnaces for most part of the second quarter and producing only by one furnace, so there were overheads and that also added to the cost. But going forward we do not see that situation to remain and from December onwards we are expecting the full production to be there.

Naveen Bothra: Entire revenue is from our own manufactured process or something was there in last year, import was also there?

Ashok Jain: Imports are very minimal. In last year we had substantial amount of imports, but this year it has been very minimal and only in the times we were short of glass we imported some quantity, but it is not high.

Naveen Bothra: Borrowings in this half year has gone down by 60 Crores and in the other current liability that has gone up around 135 Crores, if you can explain that one?

Sunil Kumar Roongta: Current liability is mainly from ICD of Borosil glass and this 125 Crores is due for repayment on September 21, 2020, so that is now converted in current liability.

Ashok Jain: The amount which is due within one year, the auditor has asked us to show as current liability.

Naveen Bothra: On that 125 Crores, how much we have booked in the interest in this half year?

Ashok Jain: 9.5% per annum rate.

Naveen Bothra: The reduction in borrowing of 60 Crores in current?

Ashok Jain: That increase is basically term loan, which we have borrowed from the banks to complete the project. For project financing. we have taken a borrowing of 100 Crores overall and 125 Crores is the money, which we got from Borosil, so these amounts we have invested into the project.

Naveen Bothra: Borrowings has gone down by 60 Crores as compared to March?

Ashok Jain: We have to actually add the both other financial liabilities and this. If you see the cash flow, you will see that non-current borrowing are up by 51 Crores.

Naveen Bothra: Thank you.

Moderator: Thank you. The next question is from the line of Amit Kocchar an Individual Investor. Please go ahead.

Amit Kocchar: Sir, wanted to know just about borrowing part, we have classified some borrowings from long-term borrowings to current liabilities, any reason for that?

Ashok Jain: Any amount, which is due within one year, needs to be classified as current liability.

Amit Kocchar: The amount is 160 Crores if I am not wrong?

Ashok Jain: We have explained that whatever amount we borrowed from Borosil Glass 125 Crores is it due in September 2020 and we have classified that as current liability.

Amit Kocchar: Any plan how to refinance the same?

Ashok Jain: So, in the merger scheme this liability is going to be squared off in the March balance sheet, so this liability will no longer be there.

Amit Kocchar: Thank you. That is all from my side.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference back to the management for closing comments.

Ashok Jain: I would like to thank all the participants for participating in the investor call. Management is quite hopeful of reversing this loss situation to a profit situation from next quarter onwards and with the demand growth of solar industry and solar glass which is around 23%, I think we are sitting in a good position from the economy point of view where many other parts of the economy are not growing so much. We have good scenario in terms of overall demand and once we are there with two furnaces production, we will surely achieve higher numbers. We look forward to your participation again. Thank you.

Moderator: Thank you. On behalf of Gujarat Borosil Limited, we conclude today's conference. Thank you for joining us. You may now disconnect your lines now.