"Gulf Oil Lubricants India Limited Q3FY17 Earnings Conference Call"

February 7, 2017

MANAGEMENT:	**MR. RAVI CHAWLA – MANAGING DIRECTOR, GULF OIL LUBRICANTS INDIA LIMITED** **MR. MANISH KUMAR GANGWAL – CHIEF FINANCIAL OFFICER, GULF OIL LUBRICANTS INDIA LIMITED** **MR. VINAYAK JOSHI – COMPANY SECRETARY, GULF OIL LUBRICANTS INDIA LIMITED**
MODERATOR:	**MR. PRASHANT TARWADI – AXIS CAPITAL**

Moderator Ladies and Gentlemen, Good Day and Welcome to the Gulf Oil Lubricants India Limited Q3 FY17 Earnings Conference Call hosted by Axis Capital 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Tarwadi from Axis Capital. Thank you and over to you, sir.

Prashant Tarwadi: Hi, Good Afternoon to all. On behalf of Axis Capital, I welcome all participants on the Con-Call of Gulf Oil Lubricants India Limited. Today, we have with us Mr. Ravi Chawla – Managing Director; Mr. Manish Kumar Gangwal – CFO; and Mr. Vinayak Joshi – Company Secretary. They will start with the overview of the Company performance for the current quarter and then we can switch to question-and-answer session. Thank you and over to you, Chawla sir.

Ravi Chawla: Thank you, Prashant. Good Evening, Ladies and Gentlemen. Quarter 3 which was quite a challenging quarter in terms of demonetization, we have continued the growth trajectory as we have done throughout the year and we are happy to share with you that our core business grew by 9% in volumes and you may recall we had a institutional orders last year and part of it this year also. So if we see the segments which is our core business the volume growth was 9%. We did have some drop in secondary in the month of November but the company was able to take good actions in terms of increasing its market share in the personal mobility segments and that gave us good results in December so happy to share that we have grown 9% volume which is again maintaining our ahead of industry growth.

The number of course we have shared, the overall revenue growth with the institutional order was around 5.2%, PBT was around 4.7%, PAT growth was 5.4%, and YTD again the growths are healthy. Both in PBT and PAT at 26%. Overall, volume growth - YTD is 14% and without the institutional orders it is at 11%.

For us this quarter the segments that really did well is the commercial vehicle space both factory fill and dealerships that grew well as we know the OEM factory fills went up, commercial vehicle numbers went up where we supply three OEMs. Tractors also increased so our tie-up with Mahindra and our own focus on tractor segment helped us to grow double digits. I am happy to also share that motorcycle which slightly fell in November recovered in December as we also had our own sales going up and the Bajaj tie up gave us close to about 1% of growth which kicked inQuarter3.

So overall, we have continued our growth trajectory. We also continued investing in the brand and when we measure the drop in November just to share with you the secondary drop that we had in personal mobility was around 10% to 15% across all segments so if you were to go to our retail shop and ask for a two-wheeler oil generally the people who did not have much cash to give were not going so November this kind of challenge was there in the retail side and me and my teams were in the market and we could feel that but December we have bounced back and the new Bajaj tie up also as I mentioned has helped us to grow and we have continued our marketing activities, our thrust across B2B and B2C. some new products we had launched in the synthetic grades for passenger car those grew more than 100% and the synthetic grades are contributing to 10% of our PCMO portfolio now which has also been positive for us. Again, margins are going to look up because in the month of January we could put in a price increase for B2C segment and that is going to help us in the following quarters. Finally, we got some scope to do that in the market so that will help us. Though in November we had taken up some prices ourselves in some grades and we are following that up with the price increase.

Overall, it looks like yes, the speed breaker of demonetization was there but we are now beyond that and gathering momentum as we look ahead.

I request Manish to share a few of the financial highlights in a little more detail.

Manish Kumar Gangwal: Good Evening everybody. As Ravi mentioned it was a good quarter for us in a tough market scenario with the company posting 5% revenue growth and 5% profit growth but again here as we have a base effect of institutional order in revenues and volume and if we exclude the base effect of the same on the bottom line, actually our this quarter bottom-line has grown close to 11% which is fairly healthy in this tough time when the base oil itself was going up and price increase has been taken quite late in the quarter which will give effect in the coming quarters.

Our gross margins have expanded by close to 1.2% over the last year's quarter 3 so that is also positive. On the balance sheet side, we continue to be debt-free and we are having a net cash positive of close to Rs. 80-85 crores as of December 31st, with high ROCE continuing to be 67%, ROE 35%, and in spite of this tough liquidity conditions in the market due to demonetization, our working capital cycle continues to be in the range of 90-100 days so that is also giving us confidence.

Based on the 9-month performance where you will see that our PAT has grown 26% YTD 9-months, our Board of Directors have recommended an interim dividend of Rs. 3.50, 175% of the face value which is higher than last year interim dividend of 150% given in the same month after 9 month results. So, that also shows the confidence of the Board in the performance and now we are open for Q&A.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Prayesh Jain from IIFL Wealth. Please go ahead.

Prayesh Jain: Just on the price hike, what kind of price hike did we take in January r? Have we taken the price hike in the secondary market also?

Ravi Chawla: So the price hike is mainly in the market the B2C business, the Bazaar business, the distributor piece. While some of our B2B is linked to certain formula so those go up and down every quarter based on the base oil. But B2C business we have taken a price hike of 2% to 3%.

Prayesh Jain: With regards to this Chennai plant what is the status now?

Ravi Chawla: It is on track. The Quarter 3 of next financial years is when we are looking at starting operations and close to about 60 crores has been incurred now so far in CAPEX in the plant.

Prayesh Jain: Lastly, what was the exact volumes for this quarter?

Ravi Chawla: So this quarter was around 20,000 KL.

Moderator: Thank you Mr. Jain. We have our next question from the line of Sabri Hazarika from PhillipCapital. Please go ahead.

Sabri Hazarika: Sir, I have two questions. I first one is how was the industry growth as a whole during the time of demonetization that is from November to December onwards and how is it fairing currently?

Ravi Chawla: So, we have a terrtiary track which we do from the outlets, we do not have of course access to what each company has sold out as secondary. So, the terrtiary track shows that the figure that there is a negative in the industry for the B2C side.

Sabri Hazarika: Okay. So, this negative was for the entire quarter, was it for two months?

Ravi Chawla: For the quarter.

Sabri Hazarika: So, Y-o-Y it has been negative versus a growth of like 1% to 2% which was there for the industry, right?

Ravi Chawla: For the rest of the year there has been positive growth in the terrtiary. But if we take quarter three the figures shows are negative overall for the industry.

Sabri Hazarika: Okay. And how is it now? I mean, do you think the worst is over or there may be some spillover?

Ravi Chawla: Yeah, I think the stocking is improving as we see going into January and of course now January is closed. Basically, if you take our motorcycle oil and car oils, these are very low value items in the range of Rs. 250, Rs. 300, Rs. 600, Rs. 800. So, there was a cash crunch in terms of people so they may have delayed their oil change. But now I think things are back, people are having the cash and liquidity to go and make purchases because all the retailers they typically do half their business on credit and half on cash so the half which is cash probably that is the tough part. But even a lot of retail we have found have started taking other modes of like Paytm and others have come in.

Sabri Hazarika: Okay. And about this 20,000 KL that you have mentioned, does it include any institutional order this time also?

Ravi Chawla: No institutional order in quarter three.

Sabri Hazarika: Okay. So, it was around 19,900 KL in quarter two, so that has remained largely flat Q-o-Q.

Ravi Chawla: Last year Q3 without institutional it was 18,500.

Sabri Hazarika: Okay, it was 18,500 last year without institutional.

Ravi Chawla: Yeah.

Sabri Hazarika: Okay, sir. And what about the CAPEX guidance for next year, I think the Chennai plant is the only CAPEX nothing else remaining.

Ravi Chawla: Yeah, the other is very routine CAPEX which we do on our laboratory which is basically on equipment and that is all.

Moderator: Thank you very much. We have our next question from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria: Basically can you help me understand the mix in terms of volumes your segmental mix?

Ravi Chawla: Yeah, so our mix as we have shared in terms of overall break-up largely remains the same, I would say little B2B went up 1% or 2% more in this quarter otherwise more or less mix has remained as it is.

Manish Kumar Gangwal: From quarter two also it is same.

Vishal Rampuria: But in terms of your CVO and in terms of your…

Ravi Chawla: So, DEO is roughly 40%, 41%; and 20% is MCO; that varies by 1% to 2% I am looking at nine months’ total. In the quarter three DEO was 39% compared to the 40%, 41% average. MCO was 17%; PCMO 4% and rest is industrial & others .

Vishal Rampuria: Okay. Sir, also one question at a very broad level, given that there is so much of price gap between our products and the market leader. So, how much confident we are that we would be able to bridge this gap say over the next three years, four years?

Ravi Chawla: If you take a segment wise approach as I mentioned to you, we have taken a price increase in November when nobody in the industry took up prices. So, wherever there is scope to see whether we can increase our price level, not only in relation to the competitor who is the market leader but in terms of our own strengths in that segment and the product portfolio that we put and of course the support it gets in terms of the customer and the brand and the CVP. We would take price changes also it is definitely going to be at the right time. We do not want to take price increases when the market is seeing some price drops. So, once there is an opportunity definitely we strengths we will look at our pricing positively.

Vishal Rampuria: Okay. And one more question on your raw material cost, what was the average base oil price in the third quarter? And what is the price at this point of time?

Manish Kumar Gangwal: Average is very difficult to say because there are various grades as I have mentioned in the calls earlier. But on an average, there has been an increase in line with crude which has gone up from $45 to $47 to now close to $55. So, there have been an 7%, 8%, in increase in base oil price in certain grades.

Vishal Rampuria: How much was the ad and branding expenditure.

Manish Kumar Gangwal: Close to 6% in this quarter.

Vishal Rampuria: Okay. And is there any update on your Chennai plant in terms of when we will commission the plant?

Manish Kumar Gangwal: In next year quarter three.

Vishal Rampuria: Third quarter?

Manish Kumar Gangwal: Yeah.

Moderator: Thank you, sir. We have our next question from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: You mentioned 18,500 KL for the previous quarter that including institutional volume or excluding institutional volume?

Manish Kumar Gangwal: Not the previous quarter, last year December quarter and without institution.

Raj Gandhi: What was the total sales including institutional order?

Manish Kumar Gangwal: Around 19,400 and current year this quarter there is no institutional order and we have clocked in close to 20,000 which gives us on our regular business a growth of close to 9%. Both in terms of revenue also it is 9% growth as well as volume in our regular business. As I mentioned in the opening remarks, if we exclude the bottom-line effect of this one-time institutional order, this is 11% growth on the bottom-line this quarter versus last year quarter. And you and other participants will remember that we mentioned in our previous call that we had this institutional order continuing in last year March quarter as well and current year June quarter also. So, in next two quarters also you will see those base effects coming in.

Raj Gandhi: Sure. Sir, just given that background, could you possibly guide for any particular growth rate for the next few quarters?

Manish Kumar Gangwal: No, usually we say that our volumes we try to grow 2x to 3x the industry, and even in this tough quarter we have been able to do that 9% and we believe that industry must have not grown more than 2%, 3% and may be negative-to-flat. So, considering that it's excellent and we try to continue growing 2x to 3x the industry in terms of volume.

Raj Gandhi: Right. And you know the A&P spends in overall that other expenditure as a whole has remain elevated now for two quarters in a raw upwards of 25.5 percentage in that sense. So, what should be the run rate there now given the increase in base oil and all, will you run down a bit on the A&P spends or were they counter-cyclically high and you can do something there, how are we placed there on the other expenditure?

Manish Kumar Gangwal: Other expenditure we have been in this range for many quarters now.

Raj Gandhi: Right. For last three quarters, at least we are around Rs. 70 crores.

Manish Kumar Gangwal: Yeah, 6% to 7% is what we usually spend on A&P that is our range usually we do and as Ravi mentioned we have got various new OEM dealership businesses which are giving us good volume growth and Bajaj for example, came in this quarter Q3 for us giving us additional 1.25% of our volumes growth. So, all these OEM royalties are also in other expenditure that is why it neutralizes but of course every volume gives us additional contribution which helps us.

Moderator: Thank you Mr. Gandhi. We have our next question from the line of Laxmi Narayanan from Catamaran. Please go ahead.

Laxmi Narayanan: Two things. One is what is your plan advertising and marketing spends for the entire year?

Ravi Chawla: Yeah, we invest 6% to 7% in A&P again it varies above the line, below the line. So, based our competitive scenario and also our plans for new product launches or any new initiative, so it is around that range which we look at. We are in that range. Obviously, if we look at certain segments we want to grow, if we are launching new products then there are planned backup expenses in terms of launches but generally that is the ballpark guidelines which we try to follow.

Laxmi Narayanan: All right. And any update on the number of distributors in the retail outlets you actually cover right now because the number was around access of 50,000 last year.

Ravi Chawla: Our retailer base has now gone up to 55,000 to 56,000 and in addition to the retailers we also have branded workshops called Bike Stops for the MCO and the Car Stops for the car, so these are going up quarter-on-quarter and we are happy to share that again, roughly the growth if you take for these three-four components of distribution, the Car Stops which started only –last year has now become 770 earlier they were 185 and Bike Stops have grown in the year to nearly 6,000 in nine months and rural stockiest which were 140 have now doubled to 300. So, these are all new initiatives which we have taken on for distribution growth because as we see the brand strength going up one of the key things is to establish distribution larger touch points. So, that has been our focus area since the last two years how to multiply this well ahead of the industry and well ahead of our volume growth we look at our distribution growth.

Laxmi Narayanan: Okay. Sir, other question related to your OE relationship. You mentioned Bajaj is it a factory sale or is this co-branding or it is beyond that?

Ravi Chawla: No, it is for the Bajaj dealership and also for the aftermarket which is the Bazaar.

Laxmi Narayanan: Okay. And how the relationship works because bikes can come to the bike station like what you have but seldom does bike goes to the Bajaj Service Center, right?

Ravi Chawla: So, during the warranty, the bikes go to the OEM dealership and also after the warranty a part of the population continues to go to the OEM workshop, they have extended contracts annual maintenance contracts and then there is a part of the universe of the vehicles which go and change their oil in independent workshops. So, it is a mixed and balanced, in every category it varies depends on the cost of the vehicle, how the behavior is so, it varies.

Laxmi Narayanan: Okay. And in car segment, any new OE relationship we have got?

Ravi Chawla: No, right now we have got no car OEM in this year-, so we are working and seeing how we can always have opportunity there for us.

Laxmi Narayanan: And just on the market share which you have on the OE relationship of Bajaj and Hero what is broadly the number and Honda for example?

Ravi Chawla: No, we do not have for Honda and Hero. Basically, for two wheelers we have a tie-up with Bajaj and there are other suppliers, other lubricant players also, and we have just started the relationship with them in particular area, so obviously, there are already established players with Bajaj in these segments. So, this has been the I think the first quarter we have been there. So, it is early stage for us to look at what the others are doing.

Laxmi Narayanan: And any major increase in the base oil price in the last few weeks, can you just let me know how it is trending?

Ravi Chawla: Yeah, I think Manish covered that.

Manish Kumar Gangwal: Yeah, so as I mentioned in some earlier question, base oil price I would say till date over Q2 has gone up by close to 7% to 8% depending on category but on an average over Q2.

Laxmi Narayanan: Q3 with respect to Q2 the base oil has gone by 7%.

Manish Kumar Gangwal: Yeah, 7% to 8% depending on the category again, different grades have got different permutation.

Laxmi Narayanan: Blended thing, how much of that could be passed on immediately, and how much you actually cannot pass on?

Manish Kumar Gangwal: It is very difficult to say. As we mentioned, we have already taken a price increase of 2% to 3%.

Laxmi Narayanan: Okay.

Manish Kumar Gangwal: If you see the overall impact of this 7%, 8% base oil increase on our total cost composition goes to 50% of the total cost structure is the raw material cost and within that close to 60%, 65% will be base oil in terms of value. So, maybe it is coming down to around same thing around 2% to 3% increase in the…

Laxmi Narayanan: Okay, fair enough. And this is the industry wide phenomena that the others have also taken price increase, right?

Manish Kumar Gangwal: Yeah, some have taken, some are taking.

Ravi Chawla: Some still have to take, obviously, there are different brands taking up different points.

Laxmi Narayanan: Okay. And how is Q4 so far on base oil price?

Manish Kumar Gangwal: Yeah, as I mentioned the increase is still late including the month of January.

Moderator: Thank you, sir. We have our next question from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: Can you give a break-up of our sales in terms of OEM and aftermarket?

Manish Kumar Gangwal: So, we have got around 62% coming from B2C and close to 38% coming from B2B.

Kashyap Jhaveri: And the price increase that you said would be applicable to this 62%?

Ravi Chawla: That is right, but in B2B many of the customers have formula linked to base oil. So, that also will pan out quarter-to-quarter.

Kashyap Jhaveri: Okay. So, whatever has happened between Q2 till date with some leg effect should actually come into the realizations number?

Manish Kumar Gangwal: Yeah, you can say that because everybody carries some base oil also as an inventory then there are finished goods in the warehouses with the distributor, so price increase also takes its own time to come into full effect.

Kashyap Jhaveri: Okay. Second question is on your Chennai plant you mentioned that commencement of commercial production could be Q3 FY 2018. Initially what kind of utilizations are we expecting over there?

Manish Kumar Gangwal: We are starting the plant with close to 40,000 KL to 50,000 KL and our requirement for South India will be shifted from day one, so that way we will start the utilization at certain level already and then Silvassa utilization to that extent will slightly reduce and then both will grow organically.

Kashyap Jhaveri: Okay. So, in blended basis FY 2018 then keeping this a bit of a cannibalization in minds then volume growth could be probably muted constraint by the capacity?

Ravi Chawla: No, we have no constraint. See, currently Silvassa is a 90,000 capacity. We are producing more than two shifts, so, I think the load on the plant we can reduce once Chennai comes so, there is no constraint of product at present in Silvassa but then the reason why Chennai is there that long-term growth plans are there and also we do have because of our a lot of consumption in the south, Chennai will also be conveniently there and freight saving also comes in. So, there is no constraint on manufacturing capacity even now. Obviously, the volume growth we have shared with you, so, the given the volume growths that are there and of course, when the plant starts in Q3 we will bring down Silvassa to some extent and again after some period of time Silvassa will again climb up at capacity utilization because sales in West and North will go up so, South will mainly cover two parts of South and some parts of East and may be few parts in West. But that is how both the plants will then obviously go up in terms of capacity utilization.

Kashyap Jhaveri: Right. And last question is on your EBITDA per KL, last two years, three year we have seen it expanding quite strongly from about 16.5 to about 18.5 to about 21.5. This year it has slowed down a bit. So, what more efficiency can be sort of built into that number?

Manish Kumar Gangwal: EBITDA is a function of volume growth and product mix, price increase, cost controls, and operating leverage. So, we are working on all the front. It is very difficult to give a guidance but we are working on all the fronts to improve that.

Moderator: Thank you, sir. We have our next question from the line of Nitin Tiwari from Antique Limited. Please go ahead.

Nitin Tiwari: Sir, my question was actually a continuation of what the last participant asked and that is related to your EBITDA margin. So, I was looking at the trend in which if we look between April and December that is when crude oil prices gradually started strengthening. So, our EBITDA margin has slightly been weakening over this period of time. So, I just wanted to understand that how our product portfolio and brand strength would help us going forward to maintain our EBITDA margin should the crude strengthen and the base oil strengthen further. So, if you want to talk a little bit about that.

Ravi Chawla: Yeah, so the industry as we keep sharing with all of you is that as and when the price moment takes place we are able to recover and obviously when the price comes down there is some amount of retention and as a strategy we are definitely working towards both our volume and margins to be at a level. And product mix plays an important role. So, we have taken on the PCMO segment which as we all know is a segment where we do not have very high market share. So, we are working quite aggressively towards that. So, product mix not only in terms of B2C margin to B2B but also within the B2C having higher personal mobility even there are certain diesel, and all categories which are semi-synthetic and synthetics which we promote. So, product mix is a focus area for us in terms of improving our margin. But as we are also focusing on volume growth we will balance both and as we said, you are right the range has been around 15%, 16% if you take EBITDA and as we mentioned there has been a price increase scope which we have taken. So, hopefully the margins also will see an improvement.

Nitin Tiwari: So, would it be fair to assume that the margins could be in this range going forward as well even if like there is a bit of strengthening in prices of crude oil and base oil so, 15% to 16% is a fair range?

Ravi Chawla: It depends on the competitive scenario but that is the range, if you look at what has been recently that is the range.

Moderator: Thank you, sir. We have our next question from the line of Pritesh Chedda from Lucky Investment Managers. Please go ahead.

Pritesh Chedda: Sir, referring back to that last question, why are you pegging it as a range? Do you have an inherent growth margin driver in the form of mix? So, with your company should not one believe that three years hence the margin should be higher than what it is today? So, first of all do you agree with that and if yes, then what is the pace of margin expansion that one should look at based on product mix if everything else remains constant?

Ravi Chawla: Yeah, so you are right, when we look at the long-term definitely there is scope. What we are talking about the range that where it is settled now, if you look at the current business scenario and we have to keep in mind what is the scenario around us in terms of pricing. And definitely for us we are looking at working for higher margins in the B2C business and the category is mentioned. But as we grow our share I the market overall with OEMs and other B2B businesses you will appreciate that business does give margin but obviously, the overall margin in those businesses would be at lesser scale than the overall B2C. So, we are trying both and there is no range which we set for ourselves we would obviously like to look at our higher range but this is where it is currently settled with an ambition to obviously look at growth.

Pritesh Chedda: Okay. And when you are referring to that price increase of 2% to 3% that price increase so, sir, we have taken in October, right?

Ravi Chawla: No, that has been taken very recently and in November the industry had not moved up the prices but we took the first mover step in the industry.

Pritesh Chedda: Okay. So, that means there are two price increases?

Ravi Chawla: Yeah, there is a small increase which happened in November in our B2C and the recent increase which has happened after quarter three is 2% to 3%.

Pritesh Chedda: Okay. Can you quantify the November increase?

Manish Kumar Gangwal: That is was in very selected grades.

Pritesh Chedda: Okay, that was a increase when no one else took and you took, right you were testing your brand?

Ravi Chawla: See, we have various strategies, in terms of price increase this is one. The other is, there are schemes given in the market by various players. So, when we know there is a brand strength and a product strength we probably do not need to discount as much as some of the other competitors. So, you know it is a relative strength and a relative strategy when it does. But price increase happens when the whole industry also moves up when the cost parameters change. You know if the cost parameter change by 1% normally people will not look at it. But when the cost parameters change by 5% to 6% then the industry -- it needs to be passed on.

Pritesh Chedda: And sir, the industry structure that you are referring to today in your comment about 15% to 16%, you are referring in a situation where base oil has moved up and competition has not moved or is moving late in taking the price increase and hence, it is 15%, 16%. That is how you are referring or actually I could not understand clearly the comment that you wanted to refer as on date on the industry.

Manish Kumar Gangwal: We are not clear on the question; please can you repeat?

Pritesh Chedda: Sir, you commented about the industry and your margins today in light of the raw material price going up and in the light of certain price increase you have taken and industry is yet to follow or following at a snail space.

Ravi Chawla: No, what I meant is that the industry scenario has to be considered because the industry players have different pricing levels and pricing strategies.

Pritesh Chedda: But, sir that was always there, right. There is nothing it is not in this quarter, right it is which was always.

Ravi Chawla: Yeah, but it changes. So, you see different competitors may change pricing strategies and we have to consider as we look at the market. And our range has been 15%, 16% if you see the last few quarters. So, that is what I was referring to, you have to keep both in mind when you decide your pricing strategy.

Manish Kumar Gangwal: What we mentioned is that the general concern that with the base oil going up in line with crude whether the margins will be further reducing, that is what we have tried to explain that with this price increase that cost increase is more or less passed on.

Pritesh Chedda: Okay, then I will ask it in this way. The PCMO segment you and the market leader has a differential gone down or the differential pricing stays where it is.

Ravi Chawla: If you do not mind we can take this offline. I will explain in detail because it is not as easy as just giving a simple answer. But as I told you we are trying to grow our market share in the PCMO. So, within the PCMO segments there are different categories where we believe our pricing can be x, y, or z based on not only the market leader but where we feel we can increase volumes and get penetration.

Pritesh Chedda: Okay, just what was the PCMO growth for quarter three and nine month, I just missed that data.

Manish Kumar Gangwal: So, PCMO nine months is close to 15%.

Pritesh Chedda: And quarter three?

Manish Kumar Gangwal: Quarter three it is 2%.

Pritesh Chedda: Volume, right?

Manish Kumar Gangwal: Yeah.

Moderator: Thank you, sir. We have our next question from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria: Sir, just one follow-up query. Basically when we refer to B2B category which are these segments within the B2B?

Ravi Chawla: So, B2B we are selling to OEM, we are selling to infrastructure customers, we are selling to the direct industry and we also deal with marine and other institutions like state transport undertaking, etc.

Vishal Rampuria: And all tie-ups which we do like for example Bajaj they all are part of B2B, right?

Ravi Chawla: Yeah, but as we have explained earlier Bajaj tie-up is through our channel sales. We do not sell directly for factory sales.

Vishal Rampuria: And how much was the volume for Bajaj sales?

Ravi Chawla: So, Bajaj as we explained about 1.2% of our sales in this quarter was growth has come from Bajaj.

Vishal Rampuria: 1% growth or 1% of sales?

Manish Kumar Gangwal: 1% of growth has come from Bajaj.

Moderator: Thank you, sir. We have our next question from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: First, I just had a clarification in terms of, so you mentioned your retail outlet base was about 55,000 to 56,000. How was it last year?

Ravi Chawla: So, as I mentioned we have been growing at 15% in terms of our distribution.

Kunal Bhatia: Okay. Sir, and what is your outlook going forward, you will be growing at the same rate?

Ravi Chawla: Yeah, we will definitely look at (+15%).

Kunal Bhatia: Okay. And sir, you also mentioned within that the Car Stops at 770 and how much was in case of bikes?

Ravi Chawla: So, I bikes I mentioned to you the current base has crossed 6,000 which was earlier at about 4,000.

Kunal Bhatia: Okay. That is last year?

Ravi Chawla: Yes.

Kunal Bhatia: Okay. And sir, this retail base of 55,000 to 56,000 how do we compare this with competition?

Ravi Chawla: Sorry, can you repeat the question?

Kunal Bhatia: How do you compare this with the competition?

Ravi Chawla: So, retail universe I think overall is about 175,000 outlets and Castrol is reported to be a little higher than 100K but of course the other competitors are below us in terms of reach so, we are trying to get close to that 75,000 kind of number.

Kunal Bhatia: Okay. And that will be by FY 2018?

Ravi Chawla: We hope, as we grow at 15% plus rate the sooner the better for us.

Kunal Bhatia: And sir, just wanted to know in terms of synthetic oil, what percentage of our revenues will be contributed from there?

Ravi Chawla: So, right now it is single digit we have just started making inroads and in the motorcycle and the car we have the semi-synthetics and synthetic grades. So, we are happy to share that today in our PCMO range 10% of the PCMO has become synthetic and semi-synthetic.

Manish Kumar Gangwal: And that particular synthetic segment has grown more than double in terms of quarter-on-quarter if you see.

Kunal Bhatia: Okay, grown more than double, okay. And sir, also wanted to know, is there any kind of compulsion which is going to come in for using these kinds of oils going forward? Or has there been any kind of technology change which with the newer bikes or BS-IV or newer vehicles which would require more of these kind of oils?

Ravi Chawla: Yeah, so, we do have a tendency going towards the thinner oils, it is generally a technology and as we look at some of it they use the higher base stocks and they go towards semi-synthetic but no major trend which will make it compulsory for people to use synthetics.

Moderator: Thank you, sir. We have our next question from the line of Sabri Hazarika from PhillipCapital. Please go ahead.

Sabri Hazarika: Sir, just one follow-up question like you mentioned that your share of automotive lubricants has somewhat reduced Q-o-Q volume share. So, just wanted to understand, has there been a significant growth in the industrial volumes Y-o-Y this quarter?

Manish Kumar Gangwal: No, there is a marginal shift around 1%.

Ravi Chawla: Yeah, because the B2B and B2C the way we classified. So, for example, if OEM factory sales goes up then that has gone up well in the quarter three. So, there has been a percentage shift in that, otherwise more or less it is flat.

Manish Kumar Gangwal: But that is an automotive product although it is classified into B2B because we are directly serving the company the OEM.

Sabri Hazarika: Okay. And you mentioned that PCMO grew by around 2% so, from what I have in last quarter was it growing by more than 20% against that it has fallen to 2% now?

Manish Kumar Gangwal: Yeah, so, that is overall PCMO as a category where we have certain co-branded oils etc. but within that our focus segment of synthetic PCMO or semi-synthetic that has grown more than 100% quarter-on-quarter although on a lower base.

Sabri Hazarika: Yeah. But overall, due to demonetization the PCMO Y-o-Y growth has come down.

Manish Kumar Gangwal: Yes, personal mobility was the largest impacted segment.

Ravi Chawla: Yeah, so, just let me clarify. In the PCMO we have part of range is linked to an OEM. So, when we talk about Gulf branded PCMO that growth is now year-to-date 22%.

Sabri Hazarika: 22% is the growth of Gulf branded PCMO?

Ravi Chawla: Gulf branded that is right.

Sabri Hazarika: Okay. And in the OEM and other category probably there is some slow down?

Ravi Chawla: Yeah.

Sabri Hazarika: Okay. And what about motorcycle and diesel engine oil Y-o-Y growth and industrial Y-o-Y growth in Q3?

Manish Kumar Gangwal: Diesel engine oils have grown close to 7%, 8%.

Sabri Hazarika: Okay. And MCO?

Manish Kumar Gangwal: MCO is again, we have got Bajaj and we have got our last year base included Honda tie-up also there so, our own Gulf branded product is close to 4%, 5%.

Sabri Hazarika: 4% to 5%, so industrial would be the remaining growth come from industrial.

Manish Kumar Gangwal: That is right.

Moderator: Thank you, sir. I now hand the conference over to Mr. Prashant Tarwadi of Axis Capital Limited. Over to you, sir.

Prashant Tarwadi: We thank Gulf Oil management for devoting time for this call. May I now please request Ravi sir for final closing comments?

Ravi Chawla: Yeah, thank you Prashant. Well, thank you ladies and gentlemen for attending this call and we have tried our best to explain to you how the quarter has gone. Obviously, there has been the demonetization speed breaker was there. But again, as we have discussed a lot of positives were there for us in the quarter and we hope that the momentum that we have seen coming out of this quarter continues and we continue to focus on strategic objectives and also to look at how we can grow further. Thank you so much.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference. Thanks for joining us. You may now disconnect your lines. Thank you.
