“Gulf Oil Corporation Limited Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Gulf Oil Corporation Q3 FY'13 Earning Conference Call, hosted by Axis Capital Limited. As a reminder for the duration of the conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note this conference is being recorded. I would like to hand the conference over to Mr. Prashant Tarwadi. Thank you and over to you Sir.

Prashant Tarwadi: On behalf of Axis Capital, I welcome all participants from the conference call of Gulf Oil Corporation Limited. Today, we have with us Mr. Subhas Pramanik, Managing Director, Mr. Manish Kumar Gangwal, CFO, Mr. Ravi Chawla, CEO of Lubricant Division, Mr. Satyanarayanan, Company Secretary and Mr. T. T. Das. They will start with the overview of the company's performance and then we can move to question and answer session. Thanks a lot and over to you Pramanik Sir.

Subhas Pramanik: Good afternoon. We want to take you through the briefing on the Q3 results that we published on 7th. We could not do it earlier because unfortunately on 8th itself because of certain preoccupations that we had and certain meetings which were on, so I suppose this was the first opportunity we found to meet up with all of you and to discuss the results.

Now as you seen in the results, which have been circulated and the press release also given that our overall income grew by 2.5% quarter-on-quarter. In this of course lubricants has gone on its regular performance of increasing its bottomline and it has grown 9% QoQ.

The explosives division has not grown on the topline, but keeping with the kind of situation in the market, we have been able to control our expenses, get a better bottomline and mining as you know it is going slow, so we have been able to adjust our expenses, and everything, and opportunities, which we have in hand accordingly.

You will observe that one of the major issues in this Q3 results is that our profit from operations, our EBITDA is up by 25.7%. Now that is something, which we believe is a healthy sign because last year if you would recall that we have been having a lot of other income coming in to really keep the bottomline but then that has not been the case for the last three quarters where the operational income has been increasing and there is a lot of effort now being made by all the divisions to ensure that we get our operating income up. This I must say that this is in spite of the dull market condition that we are seeing in many of sectors in which we operate.

The other part, which you will observe is that PBT has been above 24% higher QoQ and finally the net profit, has been about 15% higher than last quarter Q3 last year. Now that is the overview of the whole situation.

What you will observe also from the segmental results is that although explosives turnover went down by 15%. The segment results the profit before tax and financial cost was about 67% up. The lubricants where we had a 8.7% increase in topline had a bottomline increase of 11.3% and consult where we been having regular losses, and there has been really no improvement in the environment, although our service income is down but we have also been able to reduce the losses by 22%.

These are some of the highlights of this quarter's results and if you look at a big in depth to the segmental performances, I think, it gives the lot of support to what I said a little earlier that we are now focusing on our operating income and we are trying to see that all the divisions start improving their results in spite of bad condition in their respective industries.

Before I continue any further on the segmental issue, let me just hand this over to Mr. Ravi Chawla who will take you through the lubricants performance and also some of the other issues impinging lubricants performance especially that of Houghton, which has now come on the horizon.

One more thing before I just hand over. I would like to say that we would like to structure this discussion first I have given you a rough overview, then we will take you through the lubricants division performance and a little bit on the explosives and consult. We will discuss property whatever advances are taken place during this quarter then we wish to discuss some on Houghton because many of you have expressed your desire and sent in certain questions also with regard to Houghton acquisition that we have done in US and the last but not the least we will give some time for the demerger announcement that we have made before we take on the Q&A. I suppose that would be an acceptable way to balance the time available at out disposal. Over to Mr. Ravi Chawla.

Ravi Chawla: Good afternoon gentlemen. Basically the lubricants impact from the economy side is one from the OEM side and the other is the bazaar market. On the OEM side of course it was challenging because as you know from the figures of October to December you must have seen that there was a massive drop in the commercial vehicles, which actually degrew by about 32% and that has a direct impact especially for us in the factorial side.

The commercial vehicles till September were degrowing by 12% but this went down to 32% in the OND quarter. Similarly LCVs also came down by 5% negative. There was growth in the three-wheeler segment but again that is a very small number. Two-wheelers grew by 6% and cars grew in the quarter by about 11% but overall if you see the auto industry was growing only at 6% this quarter and that has an impact on our volume.

We had of course some hits in terms of the OEM factory fill, but what was the positive side is that the season as we call the October, November, December that has a good season so that the tractor market, the motor cycle markets and there were initiatives we took in the Bazaar market for example we had a product range with the Tata segment, which we had launched earlier in the year, which we really pushed in this OND quarter plus the motorcycle segment where we have been grown very well we have defended our share well in spite of a lot of competition from market leaders who dropped the price to our levels, we managed to retain and grow our shares there.

These were the positives for us. A lot of activity on the ground level, we organized because there was low traction but we put in lot of promotions at the (indiscernible) 4.10 levels. We are happy to share with you that the market growth, which is again 2% to 3% in terms of volumes whereas for us in the quarter, we have been able to d o nearly three times that in terms of growth. So that is again maintaining, I would say momentum that we had again of course there is a challenge in the overall situations.

Mr. Pramanik mentioned on the each division trying to do better in terms of the management. The profit management for us also there was a lot of focus on selling the SKUs, which gave us better margin and of course our cost management on base oils both in the spot and contracted markets, which we have so we did manage to increase our margins, which is unlike some of our competitors as you would have seen in terms of the industry reported results.

We were happy to do that and it is a challenge in the environment but continues to be pushing there. The other point I would like to share is of course, we do have supplies to the fleet construction, and mining segment, and there again it was more of cautious growth and real focus on collection because it is important to get those cycles. Of course some of the projects starts paying back in November when the season picks up so that again is a positive sign for us. That is on the India Lubs the key points and highlights for us.

The Houghton acquisition for us is also very critical, before that just a point I would like to make is we continued our brand initiatives again in terms of building the brand in spite of having stock situation in terms of growth percentage. Those investments continued on the ground level. We have had a number of activities, which has helped us.

On the Houghton side the synergies that are now being worked on and focused on globally also would be looking at a lot of saving in terms of manufacturing, in terms of the raw material sourcing as you know base oil and additives we would be looking at how we can globally source and increase the effectiveness of now both Gulf and Houghton together to keep you informed is now the ninth largest lubricant player in the world with the combination of Houghton and Gulf globally. So that is that is a very important thing for us so we are looking at a number of synergies and similarly in large markets like India, China, other countries a lot of synergy activities have already begun as we finish the acquisition in December. So the work is on in that regard and we hope to see the positive signs of that happening.

On the market side the competitive scenario is getting tougher in the sense that the competition is looking at price undercutting but we believe the right way is to increase distribution, increase our brand at the same time the competitors we are focusing on new OEMs again our tie up with

Mahindra did result in a god positive impact in October, November December where we focused on increasing distribution with long trend products for the Mahindra segment. We have also got approvals from L&T Komatsu, which we are taking out in the market. So number of good initiatives in terms of OEMs and we also talking to a few OEMs hopefully that will help to contribute to our growth in market share in the segment.

All on all challenging quarter for us and we hope that January, February and March will continue the momentum in terms of the lubricant division. Thank you.

Subhash Pramanik: Thank you. To brief you a little bit on the mining infra scenario, which we are facing in two of our divisions that is explosive division and mining and infrastructure division there has been a very, very slight movement, a positive movement in mining and infrastructure section maybe because the government is now looking at how to energize this sector once again but mainly may be due to the kind of protest and kind of economic situation, which have been faced in the mining areas there has been some kind of positive response and as a result we would see that although our Coal India orders this time were not as much but there has been a good pick in demand on the non Coal India business that we are doing.

You will see that as compared to last year 20 Crores of business that we did in the explosives division, this year we have done about 17 Crores business but our bottom lines are healthier. We have been able to control a lot of power expenses here in Hyderabad, but there has been a negative side, which I must brief all of you is that the power available in Hyderabad especially has been very bad in the last over two and half of months and we have been post to operate mainly out of our gensets and that as you would know that although the power cost in Hyderabad have moved up to may be about Rs.7 plus. We have been forced to operate some of our continuous process sections with the help of genset where the cost are at Rs.15 plus so that has put a little strain on bottomline but then we are trying our best to balance the availability of power with the kind of running the various shops and that is how we have been proceeding. We expect that there will be a more pickup in the next few months because over this Q4 because generally Q4 and Q1 are the quarters where we have those demand pattern.

Coming to the Mining and Infrastructure division, I am happy to report that there has been some green shoots and we have been able to pickup two new projects in the eastern sector. These projects started up end of December so you are not seeing a lot of impact in December itself but from January there will be impact and we are hoping that this position will continue to improve as we go into March and the budget positions are announced and I hope that the government will be giving us more green signals in many more mining areas.

At the same time I would like to say that there has been a tremendous control in expenses in the mining division of our company and we have been able to curtail our expenses. You would see that on the year-to-year basis we have been able to decrease our losses by 26% and QoQ about 22%. At the same time, if you have notice the capital employed, we have reduced capital employed in the concerned division by nearly 30%. So all these actions are being taken by us and we feel that that should start giving up some positive results although I do not say that we will be turning the corner very soon but there is some improvement there.

Coming to the property division, in properties as we have stated in the press release that we have given you will observe that we have started work and we have already come to the first basement level in one of the major building. We have started from one corner of the property and we are now going out from there. So that work has been started, approvals are in place we have been procuring a lot of materials now. Thanks to the clearances we got from the SEZ Committee. So all that is on and work is progressing fast. The good news there is that for people who have been falling up on the real estate side you will observe that in Bangalore itself although Bangalore is one of the growth areas in real estate. The Herbal area has been actually growing at a much faster pace, as the demands are good. Here I must say that we are in the Herbal Yelahanka block and we are seeing a lot of growth in demand and interest in the business in the kind of developments that we are doing.

Coming to Hyderabad, Hyderabad the section of 100 feet section of the road, which is passing through our property, is more or less complete but then there is the upstream and downstream sections, which will have to be completed by GHMC before traffic can be released. So that will take some more time but the work is going on very well in spite of a lot of restrictions, which are there still in place due to acquisition of land and all that but I must say that things are going extremely well and there is a chance that a major section of the road may be ready by May. This is what I have been told. The other good news here is that the development along to 100 feet road, which is going on from NH9 right up to Hi-tech city that part all the blocks are now getting developed. There is a general appreciation in demand and in capital values as we have mentioned in the press note. So that would give you a rough brief. As far as we are concerned our planning exercise is on and we expect to be able to announce some development in about six to eight months time.

Coming to the acquisition of Houghton, as we have announced that the acquisition, which has been done from our UK subsidiary, has been completed on time, we had a dead line of December 31 and we did complete it well in time with the help of SBI Caps. So that is a full briefing on the results. We will take the Q&A now and then we will go into the announcements that we have made on demerger. Would that be okay are should we first finish the demerger discussion then go to Q&A? Prashant what we suggest?

Prashant Tarwadi: First we can probably finish off the demerger discussion and then probably we can go ahead with the question and answer session.

Subhash Pramanik: Coming to demerger announcement that we made, I would say it is basically a restructuring decision that we discussed in the Board and it was agreed that since there are so many diverse businesses and they are in different industries why not we create a committee of Directors to study all the issues concerned with each division and then come to a restructuring concept, which can be then taken up by the Board and if necessary we can take even outside consultants help to go through this process, which many of you have been telling up from time-to-time.

Now we do agree that there have been a lot of suggestions made at AGM, at various forums that we have been meeting and also in these conference calls that we have been having with you. So all these issues are now before a committee of Directors and we will be going over all these points.

The only point that wanted to make here, which has been also put in the press note that the demerger of the lubricant business into a separate listed company is definitely going to be one of the major discussions or proposals before the committee. So that seems to be something, which will be dealt with quite separately but with regard to all the other businesses we will be actually going into (indiscernible) 23.33 positions, working out our positioning in the industry etc., so the whole exercise will take some time and of course the regulatory issues are there. We have also got legal procedures to follow so there will be some time required for actually activating all the ideas and approvals that the Board may make on receipt of the recommendations of the committee. So that is what I wanted to say. I think we can take up the Q &A.

Moderator: Thank you very much Sir. Participants will begin the question and answer session. Our first question is from the line of Mr. Raj Gandhi from Principal Mutual Fund. Please go ahead.

Raj Gandhi: The question is pertaining to the Lubricant division you mentioned that there was some price drop in the two-wheeler segment again are these cuts wide spread across segments and even in two-wheeler is it just fewer recommended oils or something like that or the price cuts have been across the two-wheeler segment?

Ravi Chawla: Just to get back to you the motorcycle oils this is the private brands nothing to do with the OEMs so we have competitors who have brands, which are priced above us. You can guess who those competitors are and we saw them drop their prices to our level, which is just to give you a background of this, this is one category where we have increased our market share over the last three years significantly so may be that was the reaction to that and it was earlier given as promotions now it has come has part of the prices. We are base competition we have not dropped our prices with that we have held on to our market share.

Raj Gandhi: The price cuts are just in the one segment or across segments you are saying cut by few other OMCs?

Ravi Chawla: We are seeing market leaders who have been leading some categories resorting to pricing in motorcycle oil and also indirect promotions are going up, their spend on PTL has shifted towards promotions and influence the program so we are seeing that may be in a bid for them to increase their volume, which has not been growing. As you know from the growth in the market some of the leaders have been losing the volume consequently over the last two years and quarter.

Raj Gandhi: I believe in, in the CV segment we had launched a few lubricants, which increase the draining period from some 18000 to 25000 kilometers or something like that?

Ravi Chawla: Historically that was done in 2006 where the trade for commercial vehicles the drain interval was around 18000. We had increased it to 36000 with Ashok Leyland we had a co-branded oil that we took up to 40,000 a couple of years later after 2006 and now in 2010 we have launched the same oil at 80,000 Crores.

Raj Gandhi: How has been the acceptance of this oil now? Is it this 80000 km oil is just particular to Ashok Leyland vehicles or now we have launched this particular product for across segments?

Ravi Chawla: We have products, which are long drain for other segments like I mentioned the Tata segment but those are not up to 80,000 those would be in the range of 40 to 50,000. So there is a USP for the Ashok Leyland range, which we have.

Raj Gandhi: How has been the acceptance of this product over the usual 40,000 km oil?

Ravi Chawla: We have I think grown again two to three times the industry growth as per the segment.

Raj Gandhi: Generally let us say you as a company, how much is the realization differential between a 40,000 km lubricant oil and an 1,000?

Ravi Chawla: It could be minimum 5%. It may go up to even 10% to 15%.

Raj Gandhi: In terms of costing how different it is?

Ravi Chawla: Costing is also there higher. Of course what I am saying 5% is I am talking over and above the cost impact, which we recover.

Raj Gandhi: Over a longer period wouldn't this in terms of absolute profit terms would be dilutive because we are almost as and when the replacement cycle plays out you almost are reducing the consumption by half whereas our margin improvement in just 5% of 15%?

Ravi Chawla: But this is a global trend when synthetics come in finally it will all change to even longer drain intervals so I think technology is also to give a benefit and we are in the forefront of it to be honest probably other competitors are not looking in that way we believe that this is a USP for us in certain segments. We would say that some segment we still follow the market where we would like to have products, which are of normal drain interval but particularly in the commercial vehicles and motorcycle our products are actually a double the drain interval. So we believe this is also USP to and I think in the end the consumers also sees value in that.

Raj Gandhi: Do you gradually plan for ramp up this 80000 km product across segments and how soon can that happen?

Ravi Chawla: That is a lot of discussions with OEMs at the moment we have some projects but I do not see it happening that fast in terms of the others ramping up.

Raj Gandhi: The oil marketing companies are they getting aggressive on the pricing as well and any new entrants like that or the existing entrants who are getting more aggressive in terms of gaining shares?

Ravi Chawla: The major players are always there where we look at share in the Bazaar and there are new entrance entering every month you could say from whether its Petronas or you are talking about other brands coming into India so there is a mix of people trying to get market share and I think Indian industry continues to attract people even now.

Raj Gandhi: Despite of a very stable crude oil price the base oil price have come up quite sharply over previous three months, so there is a lot of aggression to do with that and do you see prices staying here because the base oil prices have gone down at 20-25 paise over the last three four months despite a stable crude oil price so it is quite stocking and do you expect or any outlook on the base oil price or is it some specific temporary issue and again base oil can go up?

Ravi Chawla: I think the way it is looking now the crude oil it looks like it might just start going up because you are right over three months it did come down but you see other costs are going up so there are the cost of transportation and today the way it is going today supply demand of base oil also determines the pricing of base oil but we are feeling now that the base oil may just start going slightly up.

Moderator: Thank you Sir. We will take the next question from the line of Mr. Sanjay Chandak from Invest Well Agent Private Limited. Please go ahead.

Sanjay Chandak: We have acquired this large entity with Houghton International at a (indiscernible) 32.14 cost of US $1.05 billion and this debt has come on the consolidated basis as came on your balance sheet so what is the roadmap for reducing this debt by monetizing your assets and fresh equity dilution?

Manish K. Gangwal: We have been actually getting queries on how the funding was done because I think there was some sort of full clarity was not there so I would like to first briefly put on this, that the total acquisition cost for this transaction was around US $1.1 billion including the transaction cost $1.05 plus the transaction cost. So roughly around $1.1 Billion and in the previous concalls and press releases you have mentioned that $785 million was funded by way of loan on Houghton and we have got a $300 million loan in our UK subsidiary and the balance has been given by Gulf International has a temporary subordinated loans, which is the way the entire funding has been done for this transaction. You are right in saying that there will be a consolidation of the debt.

Sanjay Chandak: Ultimately at the end of the day it is the consolidated debt, which matters?

Manish K. Gangwal: Yes so we have acquired this through its step down subsidiary structure in UK & US, which will be consolidated in the parent company GOCL at the end of the year. It is considering that the entire funding is leveraged buyout $1.1 billion.

Sanjay Chandak: Ultimately what is your roadmap for deleveraging this leverage buyout by monetizing your assets and through equity dilution?

Manish K. Gangwal: We have mentioned in the previous concall that we are not planning any equity dilution in GOCL listed entity at this stage.

Sanjay Chandak: After restructuring of this lubricant division.

Manish K. Gangwal: Let me give you that this 300 million funding which has been done has been by way of security of the assets on GOCL as well as a corporate guarantee given by the Gulf International, and as Mr. Pramanik has mentioned that the committee of Directors which has been appointed will be looking into various assets of restructuring.

Sanjay Chandak: How much amount you are planning to release in the near future?

Ravi Chawla: The committee is already in place and they will be actively working out on various options on this including derisking as well as we restructuring the lubricant division, demerger all the issues together.

Sanjay Chandak: What is the scope for operating margin expansion in our case as our competitor Castrol commands say operating margin of 20%?

Ravi Chawla: You are talking of now India Lubricant business?

Sanjay Chandak: Yes.

Ravi Chawla: There have been several synergies. That we are focusing on the better margin products and therefore you will see that there is an operating margin improvement in GOCL Lubricant division in this quarter as against our competition whereas the competitions operating margins have been flat we have been able to improve the margin. It will take time to reach to the technical position.

Sanjay Chandak: One more question, benefit of this brand Gulf but we are owning this brand in US market, what is the strategy to market in the US?

Ravi Chawla: We do not own that license for US.

Sanjay Chandak: You are not owning this license but you are planning synergy of Gulf Oil and this Houghton International so how you are going to market your automotive lubricant in the US market through this brand Gulf? Are you planning to buy this Gulf brand in the US market also?

Ravi Chawla: No it is not available right now. The brand was owned by Chevron, the reason Chevron they kept the brand is that they did not want us to compete with the Gulf brand in USA and that is why they have retained the brand and now they have sold it to another small company for fuel retailing. So we do not have the brand with us now.

Sanjay Chandak: What is your prospect of volume growth to trading opportunity by importing from US and selling to the Indian market and Chinese market from sourcing from Houghton?

Ravi Chawla: Sourcing what from Houghton?

Sanjay Chandak: Industrial lubricant and all? Houghton and the markets in India and China.

Ravi Chawla: Houghton operates in India and China anyway before we acquired them. That is a separate team. They are in a separate area called metal working fluids and they will continue to have the growth plans for all the countries. The synergy that we are talking about we are looking at is in various streams. Right now it is too early to tell you about the exact synergies but the synergies will obviously be in raw materials, which are common we obviously be in manufacturing locations, which can manufacture products of the same type so that is the two talked agenda synergy items which we can talk about now.

Sanjay Chandak: What is the enterprise value of this field $1.05 Billion was it the enterprise value?

Ravi Chawla: Yes this is the enterprise value.

Sanjay Chandak: So how much is the debt in that company?

Subhas Pramanik: They have taken a 785 million loan.

Sanjay Chandak: That is we have funded but I am asking how much is the debt on the books of Houghton?

Subhas Pramanik: We brought it debt free cash free basis.

Moderator: Thank you. We will take a next question from the line of Mr. Amit Mehta from Sunidhi Securities. Please go ahead.

Amit Mehta: My one question is for Mr. Pramanik. This finance cost for this quarter has shot up to 12 Crores and other income also is gone to 13 Crores so is it a main reason for higher for other income is it something it is an operating income or is it something investment based income?

Manish K. Gangwal: As regards the increase in finance cost, let me explain that we have re-grouped our Foreign exchange fluctuation impacts through finance cost now from this quarter onwards, based on the accounting standards because the foreign exchange fluctuations as we saw, was mainly towards the funding basis of temporary loans on foreign exchange, higher credit etc., which should have been actually a part of finance cost and which was earlier being clubbed as other expenditure which is now been corrected and is now part of finance cost to give a better reflection of the operational income to finance cost separately.

Amit Mehta: What is the current debt and the cash position in Gulf Oil?

Manish K. Gangwal: You may have noticed that September end, there was a gain in the forex because that Rupee improve and December again the Rupee was down, so approximately Rs.7 Crores impact of this forex in this quarter from the previous quarter. So that is the main reason for the finance cost going up and as we see now the January the Rupee has again appreciated hopefully we will be able to recover some of them. Moving to other income most of it is interest income in the Lubricants side and there have been some old court cases settled wherein we have got the compensation, that is a part of it and on top of it we have received guaranteed commission from UK subsidiary for providing security that also is featuring in this; some of the upfront guaranteed commissions which we have received.

Amit Mehta: Also can I know the current debt and the cash position as on December 31?

Manish K. Gangwal: For the company has a whole?

Amit Mehta: Yes.

Manish K. Gangwal: Our total debt will be in the range of around 300 Crores whereas we have a cash position of around 200 Crores so net debt will be roughly 100 Crores.

Amit Mehta: Regarding your overseas acquisition, Houghton International I believe you have completed as on 31st December 2012. So now going forward on a consolidated basis you will report the numbers on a quarterly basis or it will be only annual number, how the local shareholder will come to know about the operations of the overseas subsidiary?

Manish K. Gangwal: We will take a call on that at the appropriate time, as you know we have been declaring only a standalone results from quarterly basis and March in any case we are going to consolidate, after that we will take the call.

Amit Mehta: Yes because this subsidiary will have huge impact on the Gulf Oil's balance sheet size is very small as compared to the overseas subsidiary?

Manish K. Gangwal: We have actually three other subsidiaries in China Bangladesh and Indonesia as we know and there are local India subsidiaries also on the consolidation of all these on a quarterly basis and considering the Indian timelines, the challenge, but I cannot say at this moment as to what is going to happen, we will take a call on that.

Moderator: Our next question from the line of Bhavesh Premji from White Stone Financial Advisors. Please go ahead.

Bhavesh Premji: The first question is in this March by the March 2013, will Houghton's number will get merged in our Annual Results and secondly in our last con call you had mentioned the EBITDA of Houghton is $132 Million but, I has not able to find the bottom line of the company so can you help me with the profitability or the PAT of Houghton for the year end December 2012 please?

Subhas Pramanik: First of all let me again make this points clear that US generally, the divers are EBITDA level, people discuss EBITDA, people talk EBITDA and as regards PAT, December 2012 figures are still under audit and I would like to highlight, which I did in previous call also that Houghton has done few acquisitions in last five years, of which one was in 2008 and another was in 2011 and there has been several accounting adjustments on account of those, so considering all those and the PAT numbers may not be of that significant but the businesses are driven by EBITDA there, which we have already shared that the EBITDA for trailing 12-months September was 132, we expect the same to be maintained after the audit also.

Bhavesh Premji: I can understand the PAT figures because of the acquisitions are may be impacted, but if you can give me some numbers it will be of help?

Subhas Pramanik: I have 2011 audited numbers, which is PAT of 2 Million, after all the local taxes etc., but as I mentioned again there are several accounting adjustments for restructuring, again in 2011 they acquired Shell metal working fluids division, so that is why the numbers are like that but still it is the EBITDA which will drive the…

Bhavesh Premji: Will this numbers get merged in this March 2013 Annual results?

Subhas Pramanik: March 2013 we will have to consolidate, certainly the numbers.

Bhavesh Premji: In your last con call you had mentioned that the deal is structured as in $785 Million is the debt, that has been taken on Houghton's balance sheet and the balance $300-odd Million is the debt which is taken on UK subsidiary and will be provided by the promoters so can you help us with the terms of the loan and what is the interest cost or what is the structure like, will that loan get converted into equity in some future date; if you can give us some clarity on the terms of that deal?

Subhas Pramanik: As I mentioned in the beginning of this call that the 300 Million loan in UK subsidiary, in the previous call we have maintained that we are looking at various options, which would be tax efficient and this 300 Million loan has finally come from bank, over and above that, the parent company has given whatever was the gap on the transaction cost etc., to be funded which is interest free.

Bhavesh Premji: And what will be the cost of debt for this $300 Million?

Subhas Pramanik: Approximately 5 ½ percent.

Bhavesh Premji: Even in UK subsidiary there will be no dilution in equity in favour of promoters at any stage?

Subhas Pramanik: As I mentioned a committee has been appointed by the Board, we understand that the debt burden for GOCL is there and they will be coming out with various options for de-risking the same, so let them come out with their proposals, we are looking at all the options.

Ravi Chawla: One minute, before you please go off Mr. Bhavesh, basically this committee will also be looking at de-risking a lot of areas so there will be some answers to several of the questions that you have raised today.

Moderator: Our next question is from the line of Mr. Naresh Kumar an investor. Please go ahead.

Naresh Kumar: I have my question on Houghton, what we know is the sales and the EBIT figures and of course the funding cost, would it be possible to hold analyst meet including some Houghton executives to help us understand the Houghton working or how does it compare, what are its prospects, we do not know anything about, let us say the depreciation or the Tax rates or for example we compare with Quaker, which I see a EBIT margins of about 10%, Houghton's is much higher, so Houghton being so big, it would be very beneficial, I think most investors are worried about the over hang of Houghton on Gulf, Gulf is of course doing quite well in India so I believe there is a very strong case to hold an analyst meet there is that something we can look forward to?

Subhas Pramanik: Mr. Naresh Kumar we will take your suggestion and discuss it with the other Board members and we will let you know how, if at all we can organize a thing like this in India itself.

Naresh Kumar: Just one more point one more question in your June analyst meet whose slides are available on your website you had mentioned that the last slide that the construction for Hyderabad will start in 2012, what I heard from you from Mr. Pramanik was that it would take some more months for it to start any idea was is delay kind of factored in or its little surprising that we have date given and I think now we again have like six months or so, can we be sure that in July, August whenever construction will start because that is again a very big part of our business?

Subhas Pramanik: I must say that you know what we are trying to say is that first of all the whole town planning has to be down and that is what is going on just now what I mentioned in the last conference call, was that at the moment we are finalizing all the road levels which are affecting us, we have broken down some of our fencing boundary walls etc., and we are reconstructing all those areas to first get the final lay out correctly. There is a bit of delay there, unfortunately many of the road levels are not yet final and as a result there is a bit of slow work going on in those areas but anyways our work on the town planning side is going on and as I mentioned that there are some positives, now taking place in the Kukatpaly block especially the block where we are because of this 100-feet road and we are trying to see how much of this we can factor in, in the town planning exercise that we are doing, so that is why it is going to take a little time in-fact the roads we were expecting that would be ready by March but, I do not see the way it is going as I said may be a section of the road will be available by May, so that's how it is growing so there is a drag going on there we are trying our best to get all this data moved correctly, get our planning going so all that is going on so there is no let up from our side, is just that we will have to see that all the factors are in place before we really we commit funds into the project.

Moderator: We will take our next question from the line of Mr. Raj Gandhi from Principal Mutual Fund. Please go ahead.

Raj Gandhi: Given our acquisition wherein the parent is also as huge as in the lubricant segment do we expect lot of these niche products to be introduced in India?

Ravi Chawla: Houghton is the global leader in the metal working fluids, obviously the automotive range and general industrial range and what we call the niche segment of metal working fluids. But they are actually the global leader with 12% market share and that is a portfolio which we did not have, in our aim so you can understand the rest of it is obviously going to be a different segment and it is sold with the completely different approach, working very closely with customers the technical support etc., so its actually going to be a new range for us also and obviously the plans for Houghton in each country already are well defined and they are going for growth, so that would then get into various country strategies so we see it as a different segment. Yes, there would be some lower end products which can be looked at for cross selling that is still I think as I told you there is a work in progress on currently in terms of the projects.

Raj Gandhi: But let say few products Houghton here we can place them as Premium range or something like that.

Ravi Chawla: Houghton wise there would be a niche product at the higher end.

Raj Gandhi: From our total sales how much will be automotive and how much will be industrial?

Ravi Chawla: You are talking about Gulf India?

Raj Gandhi: Yes Gulf Oil India.

Ravi Chawla: Yes we would be roughly about 25% to 27% would be industrial. Going to industrial segment actually amongst that also there are few engine oils and all so it is a pure industrial that would be probably half of that 26%.

Raj Gandhi: From what we have been observing the pricing pressure in this segment is much higher than in automotive segment over the last six months or so, any change there?

Ravi Chawla: This is a top-end of the segment, so there obviously there has to be a value addition but competitive pricing is required and as you will see that they have acquired. Houghton history has been that they are successfully acquired the Shell business, they have acquired the business from (indiscernible) 55:01 over the years so they are basically consolidating their share also worldwide so they would obviously need to be competitive, but they are at the higher end compared to the other competitors.

Raj Gandhi: I am talking to the India lubricant business?

Ravi Chawla: Yes India lubricant there is a percentage of market which is available for the lower end pricing this you will also appreciate these are very highly specialized applications, so wherever though the applications are there this obviously Houghton would grow in those. For example the auto sector, the aluminum rolling all those sectors, which are requiring high-end oils, would be areas for them to operate in.

Moderator: Thank you. Our next question is from the line of Mr. Chintan Sheth from SKS Capital and Research. Please go ahead.

Chintan Sheth: I need two data points, when you mention that finance cost after increasing the product fluctuations the impact is 7 Crores this quarter, can I get the similar number for the previous quarter in the previous year?

Subhas Pramanik: I mentioned that the gap, because September quarter there was a gain and this quarter there was a mark to market provision and loss but there was a differential of 7 Crores if not the impact on quarter–quarter.

Chintan Sheth: How much is the total impact for this quarter and similar numbers for the previous year and previous quarter?

Subhas Pramanik: For the quarter the impact will be roughly 5.7 Crores whereas the last year December quarter it was 2.1 Crores and last full year was 2.25 Crores March 2012.

Chintan Sheth: Second question is regarding the guarantee commission from the UK subsidiary what is the quantum of that number?

Subhas Pramanik: Its roughly 4.25 Crores.

Moderator: Thank you. Our next question is from the line of Mr. Ashok Ramineni from IMV Search Solutions. Please go ahead.

Ashok Ramineni: You said about $132 Million for Houghton international EBITA figures period sir.

Manish K. Gangwal: That is correct, 132 million EBITDA

Ashok Ramineni: For FY'13 how much can we look at that figure and what could be the outlook for FY'14?

Manish K. Gangwal: Their CAGR EBITDA growth has been, for the last three years around 7% so we expect the same to continue.

Subhas Pramanik: Your second question was regarding mining that you are saying that how much loss would be made in the next quarter am I okay in understanding the question?

Ashok Ramineni: Yes.

Subhas Pramanik: With this work having started on two new mines we expect that the losses should decrease by at least 40%.

Ashok Ramineni: Next the demerger only Gulf Oil Corporation Lubricant this is going to demerge or along with the Houghton International they are planning to demerge in this case?

Subhas Pramanik: That is a very involved question. I am sorry I cannot answer at this point because all the parameters and all the combinations and everything has been taken up by the committee and only after they deliberate and come to some conclusion can I really answer the question. It is a bit premature to answer to answer your question.

Ashok Ramineni: The CAGR growth of 7% can we look at the same growth in FY'14 also can we look for more growth in EBITDA levels for FY'14?

Subhas Pramanik: Yes certainly we said we are focusing on the EBITDA level and there will be growth in all the segments next year or so.

Ashok Ramineni: What could be the PAT levels for FY'13 for Houghton International? On a consolidated basis how much can we look at the PAT levels for Houghton International?

Subhas Pramanik: As I mentioned there have been several accounting adjustments due to acquisition and restructuring, which they have embarked on over the last two years. The EBITDA will be the right figures to pursue because PAT will be based after several accounting adjustments, which will happen on account of this restructuring, and this acquisition all.

Ravi Chawla: There is one more issue I would like to point out here that for us to make a comment on this at this point is little difficult because we are now trying to get the accounting side actually matched between the US and the Indian GAAP. So we are really working on that. That is why we will not be able to answer your question straight forward.

Moderator: Participants that was the last question I would now like to hand the conference over to Mr. Prashant Tarwadi for closing comments.

Prashant Tarwadi: Thank you very much for Gulf Oil management for devoting time for time for the call. I really appreciated and let me now request Mr. Pramanik Sir for his final closing comments.

Subhas Pramanik: Thank you very much for participating in this conference. Actually there were several issues which we could not answer on Houghton last time when we met mainly because we were still going over all these details and there were lot of discussions still open at that point of time so now that we have a more or less a basic structure of the deal that we could answer many of your questions, some of course many of you might not have felt that we have got a very clear answer but for that is the situation still we actually sought out all the accounting between our two entities, so that is what going is on . As far as the basic business is concerned in India, we are doing well in the lubricant sector in spite of the industry messages that we have getting and all of you are seeing the slowdown in the general economy on the mining, infrastructure side there is a slow down as we are saying but we are seeing some green shoots here. We hope that that will improve in the next few months and we should be able to get a more clearer picture. So with that I would like to thank all of you again for having joined us in this conference call today.

Moderator: Thank you very much Sir. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us.