"Gulf Oil Corporation Limited Q2FY13 Results Conference Call"

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MODERATOR:	MR. PRASHANT TARWADI – ANALYST, AXIS CAPITAL LTD.

Moderator Ladies and gentlemen, good day and welcome to the Q2 FY13 Earnings Conference Call of Gulf Oil Corporation Limited, hosted by Axis Capital Limited. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Prashant Tarwadi**.** Thank you. And over to you sir.

Prashant Tarwadi Thank you, Mohsin. On behalf of Axis Capital, I welcome all the participants on 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 Lubricants Division and Mr. Satyanarayana – Company Secretary. They will start with the overview of their company performance and then we can move on to question and answer session. Thanks a lot and over to you Pramanik sir.

Subhas Pramanik Good afternoon to all participants. Welcome to this briefing on Q2 results. To start with I would like to just point out that we have issued the press release, I trust some of you would have already had a look at it. The main highlight of this performance of Q2 is that revenues have increased by 9% from 228 crores in Q2 last year to 243 crores this year. At the same time we have had an increase in profits from operations basically by 73%. The PAT of course is 10.59 as against 13.02 of Q2 last year and last quarter we had 10.07. So between Q1 and Q2 roughly there is marginal improvement but the real improvement is in the fact that we have been able to control expenditure; last Q2, you had an expenditure of 96% whilst now it has dropped by 2.5% to 93.5% and you will have noticed that there are no exceptional items which have been reported in this quarter. So therefore if you really look at it in exceptional items has been nil this quarter, last year same quarter we had 457 lakhs as the exceptional items and Q1 we had 170 lakhs, so there is a major change in the operating results of the company. Although you may see a slight change in the dip in the PAT, so that's the first part I would like to point out to all of you

Next, I come to the Lubes turnover and I will be taking you roughly I am just giving a brief overview of the company operations and then we will get into the divisional performances for your benefit. Now, as far as Lubes is concerned, we have higher turnover of 12%, it has moved up from 197 crores to 220 crores this quarter. Volumes have been a bit lower, but price increase across the board has been something around 4% to 5%. As all of you would be knowing Q2 is generally a quarter in which the sales are slightly on the lower side and therefore this increase is real work done by our team in spite of the kind of pressures that we have been seeing on the markets. The pressure on margins was mainly due to the competition but this has been helped by a FOREX gain and effective margin management. Operating profit was up by 16% from Rs.21 crores to Rs.25 crores. And it would be very heartening to note that the divisions continue to outperform industry and competition during this quarter although there was, as I said, very stiff competition throughout.

Coming to the Explosives division, basically our sales have been lower. It has dropped from 25 crores last Q2 to 19 crores, but it is on level with Q1. Again here also in this business we have Q2 is generally a weak quarter, so this has been more or less substantiated by the figures here. Reduction in volumes was also due to heavy power cuts in Hyderabad and therefore some of the sales could be only affected from October onwards. Now, some of the products also witnessed a drop in prices, again due to competitive pressures. But if you would have noticed the capital employed we have reduced substantially from 37 crores last year to 22 crores in this year, so that has been a major change which we have been able to manage, thanks to the dedicated work of all the people in the division.

Now, coming to Consult division or the Mining and Infrastructure division, there is a reduction in fixed cost and we have been able to contain the losses from 13.15 crores to 8.76 crores this quarter. Activity in the mining areas however was literally at standstill due to the monsoon and also due to the regulatory issues in the Orissa-Jharkhand block. The capital employed on the other hand has also been reduced sharply from 64 crores to 43 crores. Now, these are the containments we have been able to do.

Now, as regards property there I have to report that we really were looking at the various regulatory approvals that we need for continuing the work in the SEZ area, where we have started construction, and we have been able to get the entry tax exemption certificate and also the SEZ authorities approval on our material list and services list for claiming benefits.

As far as Hyderabad property is concerned, we have started boundary walls to get all the areas de-marketed strictly from the major road which is passing now being enlarged in our area and that work is in full swing. The road in fact has been also progressing very well in spite of the monsoons and we expect that GHMC should be able to complete the work in another three to four months time. So, this is roughly the overall view of Q2 operations of your company. So, I will now hand it over to Mr. Ravi Chawla, our President, Lubes Division for a brief on the Lubricants side.

Ravi Chawla Good evening, gentlemen. Basically, for the Lubes market Q2 is generally a lower quarter because July–August is monsoon months and we see oil changes going down but there are two things that have happened for us which is positive. As Mr. Pramanik mentioned the challenge has been higher levels of competition; again Castor continue to have lower pricing for the two wheeler range and even another competitors like Valvoline have been adopting to lower pricing but the market also is sentiment, is not so good in terms of collections basically the whole offtake that is there, so we have keeping that in mind the Lubes whatever we have done in the market has given us, we have still managed to get volume growth, which is close to 10% so that's a positive for us in this quarter and we continue to maintain our growth which is about two to three times the industry which has again given us good results in the market. Yes, we would have liked to do better but we are hoping that November onwards the market picks up and we are able to do much better because this is a good quarter usually in terms of tractor season and others.

OEMs are slowing down. We have seen offtake which has come down but obviously we are trying to make up in certain other segments we have a new range for the Tata Trucks which is continuing to do well, our co-branded range with Mahindra is also in a positive, but October there is positive signs of the market improving. We have had pricing pressure from the two wheeler side, motorcycle so we are in fact still looking at increasing the market share over the major competitors, so that's some pressure on margin, but also our investments continue in our brand, we have not let that go because we want to continue doing that as a strategy.

Subhas Pramanik I think we would like to take on the Q&A.

Moderator Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of an Individual Investor, Mr. Naresh Kumar, please go ahead.

Naresh Kumar Before the results, can I ask some questions on the Houghton take over, we had some…

Subhas Pramanik Mr. Kumar, if we finish this review and then we go to any questions you may have on Houghton.

Naresh Kumar No problem sure. We heard about the pricing pressures and also the kind of demand slow growth. Castrol also mentioned the same thing during its analyst meet. Is there a traction in the market, I mean the Bazaar segment and the OEM segment going forward?

Ravi Chawla Can you repeat the word, you are asking me what will be the traction?

Naresh Kumar Is the traction getting better? You mentioned Mr. Chawla on possibly November being, you are hopeful, are you seeing any early signs that things are getting better both on the Bazaar as well as the OEM segments?

Ravi Chawla We are hoping November is when it will start, October has not really given us any clear direction. November is when the tractor season starts. OEM side yes October has been better. From the bazaar market the starting point will be the tractor segment in November just to repeat and OEM, yes, answer to your thing is October has been better than Q2.

Naresh Kumar Next is on mining and I heard that Mr. Pramanik's statement on better figures on the capital employed or also the losses have come down. Is there kind of any indication that things will really work for us or take off which we have been expecting in these coming quarters, are there any future indicators of orders towards Q3, Q4 area, I mean that's a big drag on our company's financial?

Subhas Pramanik Yes, you are right on the drag side, the issue is that as I said in the earlier, I mean review that we did on Q1 that basically we are totally dependent on the government to give us a clear cut policy on mining in the various states. Now, as you know, Karnataka has still got a problem, only the A category mines have been allowed to operate and no other mines. In Odisha, again the Shah Commission visited last, I mean about 10 days ago and they are still in Odisha and there is real confusion now because they have now started visiting mines, now we do not know what that will entail or what kind of policy will emerge after they leave next week, so frankly it is a very dicey situation so in this kind of an uncertainty, what we are doing is I have said we are cutting cost, we are reducing capital employed, all these things actions we are taking so that at least we remain trim and do not increase losses there any further. At the same time we have orders in hand, we are just waiting for a clarity to be able to say that okay, this is what we plan to do in Q3 and Q4. So at the moment I am sorry but we do have a little confusion because as many of you would have noticed in the earlier discussions that Odisha is our main area where we are doing the iron ore mining for clients, and therefore until there is a little clarity it would not be correct for me to try and venture giving you a picture on this subject.

Naresh Kumar Sure sir and just one last point on earlier discussions which have happened around the AGM and even before on the potential demerger of the lubricants away from?

Subhas Pramanik There is no such yet, I mean I do understand there was a lot of air in the markets but there is nothing to confirm here or discuss also.

Moderator Thank you. The next question is from the line of another individual investor Mr. Rajiv Rupani, please go ahead.

Rajiv Rupani Sir, my first question is regarding the Bangalore development. There were reports in the media that the government is planning to make changes in its IT SEZ policy whereby developers would be permitted to sell the IT SEZ phase now, whereas earlier the developers could not sell the IT SEZ space but only lease it. So is the management aware of the same? And I would like to believe if this happens it would be beneficial for Gulf Oil. Can you…**?**

Subhas Pramanik We have also got this news, but there is I understand nothing to really say that this is a certainty or what are the rules of the subject, etc. or the actual policy on the subject. This is we are just hearing this situation. We can't confirm it at this point. But as you rightly say, should it come through there will be a total change in our projections and our workings which we have been talking about over so many forums.

Rajiv Rupani My next question is regarding the Hyderabad property development. Sir, you just informed me that the work is going on the boundary walls. Sir, it is very important for me as a shareholder that the work goes on in full swing on the Hyderabad land. So can you update us all that when do we perform bhumi puja and work starts in full swing on the development of the 77-acre land?

Subhas Pramanik I think it is a bit early to tell you or even comment on this because there has been a slight improvement in the real estate environment or the markets in Hyderabad as of now. Taking the cue, several architects are shown interest in the land, they have visited and they are submitting their plans. In the meantime the walls as I said these are being constructed but that is more from the point of view of security and ensuring I mean that we don't have any encroachments there. But I would say that as this work is going on we are parallelly working with the architects to get out a good plan and then start the work, but if you ask me when do you want to break ground, do Bhumi Puja at the moment I do not have a date.

Rajiv Rupani And one more question regarding the Hyderabad market. Can you give me an idea as to what is the market response and whether the two projects namely Lodha, Bellezza and Rainbow Vistas which is adjacent to our land in Kukatpally, are they able to sell their projects? Any idea sir?

Subhas Pramanik Again I can only give you from hearsay, I do not have specific figures or a confirmation from the developers on this. But Bellezza is still actively doing marketing of their towers. As far as Rainbow is concerned what I have heard is that their first block is more or less full and they are now doing bookings on second and third, that's what I know and this is again just hearsay, I am not talking from confirmed news.

Rajiv Rupani And sir the other question I had is that why does Gulf Oil have to exchange facility for loans availed by Hinduja Realty. Can you clarify the same for all participants?

Subhas Pramanik Yes, this is a standard situation. If the developer wants a loan he has to give some security of the property on which he is building and that is where we come into the picture.

Rajiv Rupani My last question is regarding the acquisition.

Subhas Pramanik Can we take this a little later, I mean after we finish this review? So we will take all these acquisition questions in one block.

Moderator Thank you. The next question is from the line of Bharat Sheth from Derivium Tradition, please go ahead.

Bharat Sheth Now, I have got two questions. One is on mining; second is on Bangalore property. Now, as far as the mining is concerned I think we are quite aware and we have discussed this again and again. Now unfortunately I think the situation in last nine months I think instead of we all have a hope that the situation will improve but I think rather than improving I believe as per the reports what we are getting from the media I think the situation is deteriorating that's the fear what I am having. Whatever newspaper reports we have in the last few days according to that I think Odisha government has come pretty heavily on even the steel companies who have got the captive mines like Tata Steel and SAIL and whatever reports we are getting is that they are asking for some heavy penalties from a lot of the steel producers and I think there has been order, as per the newspaper reports to stop all the mining work in Odisha and you also recently mentioned that the Shah Commission is reviewing the scenario and I think it will give its findings in next few weeks. Now, looking at the numbers, you have said that that our capital employed on a Y-o-Y basis have gone down and our losses have gone down, but sir I think if we look at on a Q-on-Q basis then I think our losses have in fact little bit increased on Q-on-Q basis as far as the mining goes and even the capital employed is more or less the same as far as the Q-on-Q is concerned. So, my worry is what's the roadmap for the next two quarters? Is there a sign that whether the situation will improve in the next six months or so? I believe that the way the Odisha government is going and the way even the Supreme Court is going on the Karnataka and the Orissa issues I think it's going to take at least six months or whatever to start these operations on a full-fledged basis. So where do we stand which means the losses are going to continue? I mean just I want to have your mindset on this.

Subhas Pramanik Now, I think some part of this question has been answered in the earlier discussion with the other two participants. What you say is very right. You see there has been a sudden turnaround in the kind of stance by the government. Earlier they were allowing mining and some of these mines have been in operation from 1950s, 1960s onwards, these leases are from those days and now suddenly the government is doing an u-turn and it is saying that unless you have captive consumption we will not allow you to mine, so this is one thing which has affected the sentiments there dramatically.

The second part is that again if they start correlating the license is that they have given for mining versus the captive consumption requirements of each party even for those people who have this, I mean what you call steel mills or sponge iron or whatever it is. Now there again we expect problems to happen because all of them are not matched. So we are actually expecting problems there and as you have rightly pointed out that what is the picture for Q3, Q4 we are also not very clear that's why even earlier also I avoided making any specific statements on our performance there or what we plan to do. Now, I think the picture will emerge only by end of this month after Diwali may be more details will be available.

Although, on the other side the central government is very worried and they are trying to encourage mining and get single window clearances, this and that, so many things are being said but again single windows have been talked up of even earlier and nothing happened out of it. So, I do not feel that there is going to be a quick resolution to this problem, but at the same time as I have said there are certain new mines also which are getting started up and as we have given in the press release we have started new operations in a new mine of this Adhunik but then again as you may say that okay, is it going to be under the scanner, I don't know, as of now touchwood it is not so that's how the thing is going. I think it is a kind of situation where we have to go with the tight and the local situation there. At the moment it's difficult for me to give you that this is the forward position.

Bharat Sheth No, I appreciate that. I think it's very difficult for anybody to understand the mining scenario in the country as of now. Now, coming back to this Adhunik thing which we have mentioned in the press release. Now, suppose the stand which the Odisha government has taken that I mean they want only the captive mining to take place in Odisha, they want none other than captive mining should be operational. So where do we stand in Adhunik mining, I mean is the Adhunik mining, the mine is for their captive consumption or it is for some other purpose?

Subhas Pramanik Adhunik, that is one thing we checked before we started work, of course they have captive, they have Adhunik steels and all that, but if you ask me correlations and all that that frankly I do not know or we have not checked that point.

Bharat Sheth Now, sir coming to Bangalore property, just wanted to know at what stage we are in, what's the status going on, are we moving as per the timetable schedule? I mean if you can just brief on the status of the project as of now.

Subhas Pramanik We are slightly behind on our schedules, it is about a month or five weeks behind schedule, we should be able to make up but that was mainly due to getting all these exemptions, certificates and all that but in the meantime having got this we have also started stacking up on a lot of metal and all that which we need. As soon as we get all the clearances in place we can start work immediately, excavation work has been going on and we are ready for basement work so all that is going on, material, equipment everything is on site so that's the kind of here, but now that we have these approvals from SEZ authorities and entry tax, at least we have now got what you call statutory side under control.

Bharat Sheth So sir when should we start, what time period we should be start selling or giving on the lease, I mean our major model is on lease over there so…?

Subhas Pramanik As I told you it will be this last quarter of next year.

Moderator Thank you. Sir, would you like to take questions on your recent acquisition?

Subhas Pramanik Yes, if there are no others on our performance issues.

Moderator Thank you. The next question is from the line of Ajit Surana from Dimensional Securities, please go ahead.

Ajit Surana I had a question on the mining division. If the situation is so bleak, has the management thought of closing down the division and if it would do so, how much would the losses be?

Subhas Pramanik We have not gone into any details on that and we are still hoping that this thing will turn around. I think it is going to be a little premature for me to answer this question as of today.

Moderator Thank you. The next question is from the line of Naresh Kumar, individual investor, please go ahead.

Naresh Kumar This was regarding Houghton. We have read the press reports and also the article in Economic Times today which talks about it makes a good case of the refunding and also the potential synergies and benefits, I just want to understand a bit on that Mr. Pramanik. What are we looking at? It's a very large company we are taking over for a size of Gulf Oil. What are we looking at in terms of growth of Houghton? Any synergy benefits we are looking for Gulf Oil Corporation itself? Because there is also a talk of margin benefit of 2%, I do not know whether it is on Houghton or Gulf. And also how will it impact our earnings after paying the interest, is it EPS accretive and really how? Because that has become now bigger than the businesses on hand we have now. We are just keen to understand how that plays out in the next three – five years.

Subhas Pramanik Just to start the discussion on this, let me just tell you that it is a great synergic fit with our Lubricants division. See, we have been in automotive we have gone into greasers we are in marine, but we never had a very strong portfolio in industrial. Now, this gives us that it completes the picture now, so that's the first part. The second part I would now give it over to Mr. Ravi Chawla who will answer the specific issues which you talked off including the margin gains, and the next part of it which you asked about interest and all that, how it is likely to affect us and all that that will be handled by Mr. Manish Gangwal our CFO, okay. So, I am giving it over to Mr. Ravi Chawla.

Ravi Chawla See basically, in terms of what Mr. Pramanik said is it completes the portfolio for us in terms of the industrial grades specifically metal working fluids is where Houghton is the market leader today, it is a very fragmented market but they have made two acquisitions and now they are the market leaders, so there is going to be synergy of I would say two to three areas definitely to start with. One is the base oils and additives, which is the basic raw materials. There we see a synergy both for the Houghton products and the Gulf products because it is a similar thing. Then definitely that is a procurement strategy which is there. Specific to India, yes, we also see a lot of synergies in the logistics and manufacturing optimizations because we have a plant, we are starting a new plant similarly, globally there will be synergies because they have plants in certain locations, we have plants in certain locations. The second or third area I would say is extremely important to us is the product range which they provide being experts in the high end metal working fluids, there would be opportunities with the customer base that we have jointly. Just to give you an example an OEM in India would not be buying Lubricants from us but metal working would be an opportunity for Houghton. Similarly, there would be products they have in their range which we can cross sell to steel segment, machinery segment so these are clearly three areas where we see a lot of optimization and of course right down to the warehousing level and backend administration IT, so those are areas which and plus Houghton being a market leader in the segments especially developed markets like Europe and USA, if you will see them they have been particularly strong but really growth coming from Asia Pacific again gives a lot of scope for us to look at the synergies here and we are pretty excited about it and India itself is a good opportunity and the market share worldwide if you see the figures is upwards of 12% today in the metal working fluids area. So, I think the 2% figure you saw in Economic Times is basically what we see is basically on one of the aspects of procurement.

Naresh Kumar Base oil procurement synergies because both Houghton and Gulf are going to procure the same thing right?

Ravi Chawla With this we become the 9th largest lubricant company in the world; Gulf Oil per se if you take the whole piece in terms of global.

Naresh Kumar Sure, we are also keen to understand the financial kind of nitty-gritty of that.

Ravi Chawla What particularly in the financial? May be Manish can…

Naresh Kumar What's the impact going to be in Gulf's consolidated earnings? Although it is taken over by your UK subsidiary, but there is going to be impact on consolidated figures for Gulf because the interest which **(Audio gap) 34:08 to 34:11** :that's going to be charged and is there going to be enough cash flow after the loan which how can itself has taken? So we are just keen to understand what's the impact on Gulf's the listed company's balance sheet and also how does it pan out in the next three, four, five years in terms of cash flows, can it lead to debt reduction because consolidated-?

Manish Gangwal Basically if you see our press release on the Houghton acquisition, this is a blue chip company, it is already a well earning company with 858 millions of revenue and EBITDA of 132 million over the last trailing months if you see. And even if we remove the additional interest burden which will come on the Houghton balance sheet, there will be sufficient cash as we can see from the EBITDA which will be there to service the entire that Houghton balance sheet is capable enough to service the debt.

Naresh Kumar How does it impact overall the Gulf figures? You have 132 million EBIT. What is the depreciation and interest on that 700 plus million after depreciation and tax, what will be the PAT like either for the last September or going forward? I am just trying to understand will…

Manish Gangwal As you would have noticed in the Lubricants sector in India, it is not a very capital-intensive industry. So the depreciation is not a very significant figure there although they have 12 manufacturing facilities across 10 countries. Even after considering the depreciation and the local taxes, at this stage what we can say is that there will be sufficient consolidation of PAT in the consolidated balance sheet of the company which the figures itself can be worked out from the press release yourself roughly.

Naresh Kumar Out of 1045 million, it appears that only 260 million has to be paid as cash by Gulf, while the rest is a loan which Houghton itself is taking. Is that understanding right? I mean the cash flow is only 260 million out of Gulf UK. That's right, correct?

Manish Gangwal That is a correct understanding.

Moderator Thank you. The next question is from the line of Ravi Purohit from Security Investments, please go ahead.

Ravi Purohit Most of my questions have been answered, just one small clarification may be I missed the earlier part of the con call if that is the case. $260 million is what we have to pay for the consideration for this right and the remaining will be taken over as debt by Houghton itself?

Manish Gangwal Yes.

Ravi Purohit And this $260 million is going to be taken on Gulf Oil's balance sheet?

Manish Gangwal No, it is in the UK subsidiary of the company.

Ravi Purohit Correct, but how does that company propose to raise this $260 million?

Manish Gangwal If you see the press release and the other articles in the news we have mentioned that parent company has assured for arranging the equity portion of it.

Ravi Purohit So parent is the Indian company?

Manish Gangwal Parent is the Gulf Group.

Ravi Purohit But just trying to understand, how is that going to be, it is like equity infusion, loans and advances, how is that going to be funded?

Manish Gangwal Exact modalities are being worked out, but it may be in the form of subordinated loan without interest or there are several other possibilities we are working out at this stage. But, I would like to only clarify one thing that there is no cash outflow projected from Indian entity.

Ravi Purohit So, will it also be safe to assume that there will unlikely to be a very significant equity dilution for this company or that's not an assumption that we should make at this point of time?

Manish Gangwal As I mentioned there are several combination permutation possible which we are trying to work out but no equity dilution in the Indian company GOCL listed companies.

Moderator Thank you. The next question is from the line of Ajit Surana from Dimensional Securities, please go ahead.

Ajit Surana Most of the questions have been answered, but I want to ask one question, where is the predominant market for Houghton International, is it in the western world or more towards Asia.

Ravi Chawla As you know it is a US-based company, the major markets for them are Western Europe is close to 35% and the Americas is close to 30% for them. But the growth is going to come in the Asia region, so those markets are quite matured as you know. Wherever metals are there they will follow. So a lot of the auto industries, the interesting areas probably are the can making industry and aluminum which is growing very well; Aluminum is now substituting steel for various efficiencies. So wherever the growth is going to happen in this we see a good growth happening in those areas.

Ajit Surana What is the return on capital expected or being done by Houghton at the moment?

Manish Gangwal No, we can share that, they are earning better EBITDA margins than the industry and being the market leader.

Ajit Surana No, EBITDA margin does not give you a full picture. If you can give me the return on equity that they are currently enjoying would give me a better picture because we have seen, all the acquisitions done by Indian companies in the last several years had been the winner's curse, they are very happy to do the acquisition but subsequently things do not pan out the way they thought it would pan out. So I am just asking for the RoE at currently for this company?

Manish Gangwal The return on capital is something had to be looked at in various different situations depending on the industry to industry. This is as I mentioned not a very capital-intensive industry.

Ajit Surana But you are paying a billion dollar for it, so it is fairly capital intensive in terms of money that you are spending.

Manish Gangwal We appreciate that, but it is a very efficient EBITDA earning blue chip company.

Ajit Surana I am asking, give me a broad ballpark number as far as the return on equity that it currently enjoys.

Manish Gangwal Yes, till the time complete structuring is done it will be very difficult to comment on this question.

Moderator The next question is from the line of Sanjay Parekh from Reliance Mutual Fund, please go ahead.

Sanjay Parekh Can we get some more color on Houghton in terms of last five years what has been the growth in revenue? This EBITDA of 132 million, how has been in the last four, five years? Some more details on the company if you can explain because pretty large acquisition compared to our size. So we get some more perspective that will help. The second question is just on the funding part, I am not yet clear. So now as I understand it is an LBO. So 75% of this would be on the company itself, 25% funding will be the equity part, but at all point my only question was that would the recourse of debt clearly because we are going to be the economic beneficiary, the recourse or guarantee on the debt would be from our side and the equity structuring ultimately would lead to some sort of dilution. I understand it is at a fluid stage but I am just not able to reconcile, if you can help me please.

Manish Gangwal As I earlier mentioned that we have been assured by the parent as of now on the arranging the funding for the equity. There are various permutations and combinations which are possible including a subordinated interest free debt to the parent including as you mentioned then if it makes the tax efficiencies and all there may be some debt also arranged by them but no cash outflows have been planned from the Indian entity as of now as per the current structure what we have in mind. And in terms of your past EBITDA of the company we would like to mention and we have already mentioned in the press release that Houghton has done two major acquisitions; one in 2008 and another in 2011 of DA Stuart and Shell's Metal Working division and they have really consolidated their position in this MFW segment thereafter and there have been a significant change in the company's customer base and EBITDA margins over the last three to five years.

Sanjay Parekh How old is this company?

Manish Gangwal This company actually is 145 years old; founded in 1865 we have mentioned in the press release.

Sanjay Parekh So, before the private equity ownership, who owned this company, if you can help?

Manish Gangwal I think it was another private equity player. This is the current; AEA is the seller right now. Before that I am not very clear as of now.

Sanjay Parekh And clearly when you would have bought it you would have tried to know, one clear intention for PE is profit making. So would we know at what price they would have bought and what price they would have sold just to get an idea?

Manish Gangwal That we are not aware of how at what price AEA bought.

Moderator Thank you. The next question is from the line of Sandeep Hemraj from PCS Securities, please go ahead.

Sandeep Hemraj My question is, is there any CAPEX plan for Houghton?

Manish Gangwal Yes, there is a normal CAPEX plan of approximately 8 million to 10 million every year.

Sandeep Hemraj And this debt of $785 million that Houghton would be taking at what cost would that be coming in, any ballpark figure?

Manish Gangwal In the range of 6% to 6.5%.

Sandeep Hemraj Has it been tied up or this is…?

Manish Gangwal Committed debt tied up.

Sandeep Hemraj And from which financial institution coming from?

Manish Gangwal From US-based banks.

Sandeep Hemraj And I just want to know for this, would there be any guarantee that would be required from Gulf Oil?

Manish Gangwal As I mentioned the equity funding is $785 million is completely on the Houghton assets without any guarantee from Gulf Oil or any other Gulf? This balance equity portion is what is being assured by the parent to be arranged and the modalities are being worked out.

Sandeep Hemraj In the resolution recently that you are proposing to pass, you are increasing your debt structure from 1,000 to 2,000 crores. That's primarily for development of the Bangalore land. The guarantee that you are giving towards development of the Bangalore land, nothing to do with this –

Manish Gangwal Absolutely right and the debt is not on GOCL balance sheet, it is just because the guarantee is there, we have to technically increase the limit.

Moderator Thank you. The next question is from the line of Chintan Sheth from SKS Capital, please go ahead.

Chintan Sheth Just wanted to know how much debt Houghton is getting currently?

Manish Gangwal The current debt is approximately 430 million to be repaid out of 800 million being **rest at (Inaudible) 48.49** so the net debt at the end of post completion will continue to be only $785 million.

Chintan Sheth Okay so that is the net of you are talking about and the cost of which is you have said 6.5%, right?

Manish Gangwal Yes, it is a USD funding with a cost of approximately 6% - 6.5%.

Chintan Sheth And the valuation at which you have been on EBITDA basis, the current TTM basis, it is coming around 7.9 to 8 times. So being an industry person, as per your understanding is this a premium to what the currently global SSR being valued or there is a stiff discount? I just wanted to know whether it is value buy or aggressive buy.

Manish Gangwal Considering the status of Houghton being the blue chip company with the world leader in segment they are operating we would say it is a value buying for us. And if we have analyzed the past several deals which internationally have happened is below the average of that.

Moderator Thank you. The next question is from the line of Sanjay Parekh from Reliance Mutual Fund, please go ahead.

Sanjay Parekh Sorry Manish I missed one question. How much is the debt in Houghton right now?

Manish Gangwal 430 million is the current debt.

Sanjay Parekh So, now 1,050 is the total consideration we are paying, right, I mean 1.05 billion.

Manish Gangwal Yes.

Sanjay Parekh So, of that how much goes into the company, how much goes to the PE, if you can help me please I am not able to get it?

Manish Gangwal As I mentioned 430 million is the current debt that will be repaid.

Sanjay Parekh That goes into the company.

Manish Gangwal Balance goes to the seller.

Sanjay Parekh So, it becomes a debt-free company…

Manish Gangwal It is a debt-free cash-free.

Moderator Thank you. The next question is from the line of Bharat Sheth from Derivium Tradition, please go ahead.

Bharat Sheth I wanted to understand I mean what's the standalone company's CAPEX plan as of now? We have last time when we have spoken I think we were going out with some Greenfield plant in Chennai. So is there any concrete steps in that direction?

Ravi Chawla When you say standalone what do you mean?

Bharat Sheth I mean in the domestic company, the Gulf Oil India.

Ravi Chawla Because Mr. Pramanik has answered the question earlier. So yes we are going ahead with the second project in the southern part. So those plans are on as scheduled so that should happen shortly.

Bharat Sheth And second thing is on this Metal Working Fluids in which the Houghton is a dominant market leader in that. Now, how do we envisage? Since it is a billion dollar acquisition, so how do we envisage the synergies to our existing customers to whom we are supplying. So are we expecting any competitive edge over competitors over here in the domestic market because of this?

Ravi Chawla Yes, certainly, I mentioned the synergies, the points was the product portfolio. You see Houghton brings with itself, they are a market leader, well established and the synergies are going to be helpful because as we talked to leading OEMs and people who really use this kind of, just example is if you are drilling, lubricant at the end is not expensive in terms of the cost but nothing should go wrong with the lubricant, otherwise the whole operation will go. So those kind of customer base certainly having an offering like an Houghton product, which is very highly R&D oriented and backed by all of that will be a value add for our customer base. It is the other way also. Global OEMs using Houghton products. Would also bet we should be able to go and make in terms of our products, the other side on the automotive side we could approach them.

Bharat Sheth Right, so I think it is win-win for us.

Ravi Chawla One of the things about this entire thing is that Gulf Oil in the industry we are in and Houghton in the industry they are in, the synergy is actually complement and supplement each other quite well.

Moderator Thank you. I would now like to hand over the floor back to Mr. Prashant Tarwadi**.** Mr. Tarwadi please go ahead.

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

Subhas Pramanik Thank you very much for the participation. It has been also good to clarify several issues with you because we have been getting a lot of phone calls but didn't have the time to really react to so many queries on the phone and I am happy that we have been able to clarify so many issues. I take this opportunity to wish you all a very happy and prosperous Diwali and thank you for joining in.

Moderator Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.