



# Gulf Oil Lubricants India Limited

February 10, 2023

**BSE Limited**  
**Scrip Code: 538567**

*Through: BSE Listing Centre*

**National Stock Exchange of India Ltd**  
**Scrip symbol: GULFOILLUB**

*Through: NEAPS*

Dear Sir/ Madam,

**Sub.: Q3 & 9MFY '23 Earnings Conference Call Transcript**

**Ref.: Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015**

We enclose herewith the transcript of the 'Q3 & 9MFY '23 Earnings Conference Call' conducted on February 06, 2023.

This information will also be hosted on the Company's website, at the web link:

<https://www.gulfoilindia.com/investors/financials/transcription-of-conference-call/>.

**For Gulf Oil Lubricants India Limited**

**Shweta Gupta**  
**Company Secretary & Compliance Officer**

Encl.: as above

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HINDUJA GROUP



“Gulf Oil Lubricants India Limited  
Q3 & 9MFY '23 Earnings Conference Call”  
February 06, 2023



**MANAGEMENT: MR. RAVI CHAWLA – MANAGING DIRECTOR – GULF  
OIL LUBRICANTS INDIA LIMITED  
MR. MANISH GANGWAL – CHIEF FINANCIAL OFFICER  
– GULF OIL LUBRICANTS INDIA LIMITED**

**MODERATOR: MR. NITIN TIWARI – YES SECURITIES**



*Gulf Oil Lubricants India Limited  
February 06, 2023*

**Moderator:** Ladies and gentlemen, good day, and welcome to the Gulf Oil Lubricants India Limited Q3 & 9MFY '23 Conference Call hosted by YES Securities. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Tiwari. Thank you, and over to you.

**Nitin Tiwari:** Thank you, Mike. Good day, ladies and gentlemen. On behalf of YES Securities, I welcome everyone to Gulf Oil Lubricants India Limited's third quarter FY '23 Earnings Call. We have the pleasure of having with us today the Mr. Ravi Chawla – MD & CEO and Mr. Manish Gangwal CFO. I will now hand over the call to Mr. Chawla for his opening remarks, which shall be followed by a question-and-answer session. Over to you, sir.

**Ravi Chawla:** Yes. Thanks, Nitin. Good day. Good evening to all of you. Let me start by wishing all of you a very Happy New Year since the first time I'm meeting in the New Year, and hope all of you are well. This is the quarter 3 call for the investors. I'd like to start off by sharing our delight that we've had an all-round good Q3-FY2023 and many milestones achieved. But let me start with revenue which has grown year-on-year by 30%.

We've also seen EBITDA crossing INR 90 crore for the first time with a 17% growth and also we have seen a double-digit 10% growth in volumes, which definitely for us has been a good achievement from the team. We saw an environment where we had some subdued demand from the rural, especially motorcycle segment, there were continued cost pressures in some of the key inputs and the INR was depreciating.

We've seen excellent all-round efforts and which really shows that we have a strong brand and business model. We continue to deliver 3 to 4x the market growth, and definitely, we are gaining market share and our distribution is growing well. Double-digit growth in distribution, a lot of efforts on the ground, both with ATL/BTL. We're investing in our brand, and really, this sets us up well for the future growth trajectory. While we saw costs being going up in some ways, it has steadied, but margin management will continue to remain a key focus area, and we'll use a balancing approach of volume versus margins as we have seen some stability in the base oil cost.

We are looking at reviving growth in agriculture, 2-wheeler and rural demand, which, as you saw in the budget, a lot of good things coming in. Last quarter, we saw the commercial vehicle oils doing very well, and we also saw the B2B segment's demand for oils going up, which is really good for us. The overall B2C, B2B ratio in Q2-FY2023 was 58:42. There was some slowness we mentioned in MCO, agri but really, we have seen all other segments doing very well, and delivered excellent growth.

We've also seen that a lot of the initiatives are undertaken to improve our distribution we are estimating now has gone up to 80,000 as compared to 70,000 earlier. We are definitely looking



at opportunities to grow our market share further in the passenger car, motor oil segment, where we have seen, again, good demand coming in.

Overall, I would say that a lot of the programs we have put in, are giving us results. Demand should be good in the coming quarter, and we should be able to manage our margins. To add a bit on the EV fluids, we are happy to share that we tied up with 3 OEMs, and we are looking at other 2 OEMs where we can supply EV fluids.

We have looked at certain things in the EV value chain like our Indra chargers, which we are now piloting to see how we can localize it, and working with our partner, ElectreeFi, to get more customers. Some more decisions on the EV are being discussed at Board level, so that should be some more moves into that. I'd ask Manish to now come in with a few more details, and then we'll later on -- happy to take questions from all of you. Thank you.

**Manish Gangwal:**

Thanks, Ravi. So, yes, I think, as Ravi mentioned, it was a very good quarter in terms of overall profitability, with EBITDA crossing INR 90 crore, and we have seen a slight sequential improvement in the EBITDA margins as well. During the quarter, we have seen that gross margins also have stabilized at around 37% Q-o-Q, in spite of a higher AdBlue offtake during the quarter and that's also giving us a signal that the input cost side pressures are stabilizing

We would like to highlight that during the quarter, we have done good improvement on the working capital side, and our overall working capital has improved by nearly 10 days in the gross working capital cycle. In last September, 2022 quarter, it stood at 114 days which is now at 100 days which is a very good improvement, I would say.

And with that, our cash flow from operations for the 9-month period is at INR 180 crore, so which a fantastic sign is, I would say. Overall, finance cost continues to remain high because of the volatile INR versus dollar, because we import lot of raw material which are in -- dollar-denominated.

So during the quarter, also out of INR 10 crore of finance cost, nearly INR 4.5 crore is the forex impact of mark-to-market. But other than that, I would say, overall, we have seen an improvement in the profitability at PAT, PBT level also. Overall, for the 9-month period also, we have -- our revenue has grown at 42%, EBITDA growth at 30% and PAT growth at 15%. So, overall, these are good numbers.

I would say also during the quarter, and recently, last 10 days ago, we have been awarded with the plaque award for the best Excellence in Financial Reporting from the Institute of Chartered Accountants, for our annual report '21-'22, in the category of INR 500 crore to INR 3,000 crore companies, which is a very, very heartening thing for the entire team here. And of course, it gives a confidence on our financial reporting statements and the disclosures. So that is also -- I would say, we want to highlight.

Yes. Over to Ravi again. He wants to add a few more points.



**Ravi Chawla:**

Yes. So, as we have seen the motorcycle segment, which I mentioned, is seeing sometimes different demand coming in rural, we've seen consumers shifting to brands which are definitely at the lower end and to address this, we revamped our economy segment brand called GulfZipp, and we have had two offerings which have been launched at different price points which will help us to cater to the rural markets and some of the lower end market.

So two brands like GulfZipp Smart and GulfZipp Plus hopefully, will help us to definitely get the growth back. Rural demand, which has also been subdued -- the company believes in long drain oils, as we've been talking about. Our flagship brand, Gulf XHD Supreme+, has been now improved further, and we have launched it with a longer drain interval with a campaign with M.S. Dhoni.

Basically, the industry-leading benchmark has been set by this XHD Supreme+ at 1,000 hours, which is the drain interval claim on this product, and that is the highest in the industry today. So happy to share these two launches which have happened, and will help us to further grow and gain market share in these two segments. Yes, Manish.

**Manish Gangwal:**

So we can go now to the Q&A. Yes. Over to Nitin for Q&A, please.

**Moderator:**

We have the first question from the line of Gunit Singh from CCIPL.

**Gunit Singh:**

I have a couple of questions. So firstly, I'm a bit new to the company. So I would like to understand what would be the impact of EVs on the company in the long term into the lubricants space? So what would be impact of EV? Secondly, I would like to know if we would be having any buybacks in the future, in the coming quarters or maybe next financial year. And thirdly, in view of this EV impact, what are the diversification plans of the company? Are we planning to take over some other firms, or are we planning to diversify into new EV specific products or anything like that? So these are my three questions.

**Ravi Chawla:**

Basically, as we've been briefing all of you, the lubricants, as we look at it and also the experts, which is Kline and others have seen, India is the third largest market of lubricants and as we see the penetration of vehicles is still going up, whether you take 2-wheelers, commercial vehicles, tractors.

And of course, industrial segment is also going up. So with the growth that we have, and the anticipated EV penetration, which will happen mainly in 2 and 3 wheelers, in buses, cars the data that we have and we estimate based on all this, for the next 10 to 15 years, we see the lubricant demand continuing to grow at 2% to 3%, and also the experts have given that opinion. There is going to be an increase in commercial vehicles, IC engines, in all segments. Of course, we are seeing that the 2-wheeler segment, 3-wheeler segment, the bus segment, the car segment will see EV going to different levels every five years, and that will have some impact.

Overall, the growth of core lubricants is going to continue for more than a decade so this is our reading and we have estimated, also the experts have backed that up. We are diversifying, as I



mentioned during my opening remarks. We have looked at investments in the EV value chain where we can leverage our brand, our distribution, and we have various solutions with B2B customers, OEMs. We have announced and invested in a global company who is into car chargers, Indra, and those chargers have been tested in India in terms of their performance, and we're looking to bring those in.

And the second investment we have made is in a Software-as-a-Service company, the brand name, ElectreeFi, and we are working closely with them to expand their customer base. We have also got a few other areas we are identifying, and we'll come up with those plans shortly, it is discussion, and we are working on those. So in these two areas, I would like to share this and Manish, maybe you can comment on the buyback and add to whatever I had. Yes.

**Manish Gangwal:**

We have been following distribution policy. We have announced dividend policy as well. If you see the track record of last seven, eight years, company has been distributing 35% upwards of the profits back to shareholders, either by way of dividend or buyback which we did last year. And, in fact, with the buyback, the payout was upwards of 60%.

So company is looking into, as Ravi mentioned, lot of investment opportunities in the allied activities in terms of electric vehicles, EV value chain. We continue to deploy resources. Our current business of lubricants is growing double-digit continuously, and we foresee the same to continue in terms of growth.

So overall, the Board has utilization of cash policy and they deliberate and decide on the way forward. So specifically, we will not be able to comment on buyback, but we have a very strong cash distribution in the past, which is roughly in the range of 40%.

**Moderator:**

We have the next question from the line of Swechha Jain from ANS Wealth.

**Swechha Jain:**

I might have two basic questions because I'm attending this call for the first time, as I have recently started tracking your company. Sir, my first question is, if you could give us the revenue and the volume breakup segment wise [inaudible 0:13:55]?

And my second question is, if you could help us understand the margin. So I needed the revenue breakup and the volume breakup segment-wise, Q3 and 9 months. Then, if you could help us understand the margins that we have in B2B and B2C, and if you could give us the cash and the receivables number for December?

And my last question is, sir, you mentioned about the investments in two companies, right, Indra and ElectreeFi, if I've heard that correct. If you could help us understand how much investments have been made? And what does ElectreeFi do? And how these two investments are going to help us overall in our EV strategy. So what are we thinking on the EV side on a long-term basis?



And just if you could explain the industry, like how much are the fluids required for the EV? And how does the overall industry you think on the EV fluids is going to shape up with the EV penetration increasing?

**Manish Gangwal:**

Yes. So maybe I will start with the revenue breakup and all. So, if you've seen our press release, we have achieved close to INR 2,200 crore of top line for the 9M FY2023, and for Q3-FY2023, it was INR 781 crore. Typically, our ratio of B2C, B2B sales is 60:40 which means 60% is B2C and 40% is B2B but in this quarter, it was 58% for B2C and 42% for B2B, versus last quarter, 57:43 so there is a slight improvement in the B2C versus last quarter. But overall, because of the slowdown in retail -- in rural and certain segments like agri and motorcycle, we have a scope to further improve our B2C ratios back to 60% in the coming quarters.

On the overall product classification side, roughly 40% of our sale is diesel engine oils.

Personal mobility, which is including motorcycle and car oils, is in the range of 20% to 22%, industrial products around 15%, and other automobile products are around 25%, which are gear oil, greases, AdBlue, et cetera. So this is the product breakup. Overall, our gross working capital is around 100 days this quarter at the end of December 2022. And as I mentioned in opening remarks, we are a net debt-free company, and close to INR 200 crore of net cash is there on the balance sheet. So I think we have covered our financial side. On the EV side, maybe Ravi can take and explain.

**Swechha Jain:**

Sir, just volume breakup would you be able to give?

**Manish Gangwal:**

So for the quarter, we had 34,000 kl volume of core lubricants and AdBlue, which is a category, which is doing well for us now, that was 21,000 kl for the quarter so total volume was 55,000 kl.

**Ravi Chawla:**

Yes. On the investments, Indra is an investment by our parent company, Gulf Oil International and us. We have invested about INR 30 crore in Indra and also our parent company is also investing. Indra is basically into chargers for destination charging for cars, and we are looking at that product being brought to India. In the case of ElectreeFi, which is a Software-as-a-Service company.

It provides the software which connects the vehicles to the whole charging system, to the battery systems, and it provides its platform for many companies. In fact, 40%-50% of a lot of the segments are on this software service. They are expanding now. And we have invested 26% as our stake in their company, and helping them grow the customer base. The way we see this is that, Gulf with its brand, its distribution and, of course, as a mitigation strategy, the EV value chain presents a number of opportunities due to which we have started with this, but this is definitely one of the things to take ahead for us.



So we'll be coming up with specific areas we've been investing, and we'll also look at how we can leverage our brand, our touch points, our distribution, and our B2B relations, both in India and in few global markets. We have done a study, and we are going to come up with that shortly.

On EV fluids, currently, we are supplying to Switch Mobility, which is into electric buses, Piaggio which is into 3-wheeler, and also to Altigreen, which is into 3-wheelers. We are -- also giving our products to many of the OEMs who are both traditional OEMs and expanding to EV and also to new OEMs bring in EV.

Basically, electric vehicles will not have an engine, so they'll not have engine oil. So the consumption is much lower than what an IC engine has, but they would require fluids for transmission, brake or cooling, and those kind of fluids will be required, grease, et cetera.

So the market is not going to be very large in terms of volume, but it is an important element, and we are being part of the environment here with a good share of lubricants in all these segments. It would be a natural extension to give EV fluids and it is to be a segment where the product would evolve in terms of the thermos and electric properties that are required in an EV.

And that's really where we have a global portfolio, and we are working on expanding that as the business develops. It's not going to be very large in terms of volume, in terms of the overall. So as I mentioned in my remarks, the core lubricant segment continues to be a segment growing in India, which is the third largest market, and that continues to give us both revenue, and continuous increase in market share.

- Moderator:** We have the next question from the line of Aditi Chaturvedi from E&Y.
- Aditi Chaturvedi:** I had a question with respect to the volume. If you can give a breakup with respect to the B2B and B2C? And -- so yes, AdBlue, you have already given, so, if you can, please?
- Manish Gangwal:** So Ms. Aditi, I think, we have mentioned already that overall lubricant volume is 34,000 kl for the quarter and 21,000 kl is AdBlue. And within that, roughly 40% is diesel engine oils, and the personal mobility is around 20% to 22%. Industrial oils are around 15% and others are around 25%. So that's our usual break up.
- Aditi Chaturvedi:** And can we know the percentage of ASPs in terms of the turnover? And battery turnover as of now?
- Manish Gangwal:** In this quarter, our battery turnover is around INR 20 crore, and YTD, we will be at around INR 60 – 61 crore in terms of our battery business. Rest all is lubricants and AdBlue.
- Moderator:** We have the next question from the line of Harsh Maru from Emkay Global.
- Harsh Maru:** Sir, my question is on AdBlue. So what do we see the addressable market size for AdBlue, and what is our outlook for FY '24? So that would be my first question. And the other is, have we seen translation of cool off in base oil as well as additive prices like improving margins for the





current quarter? Is that like trend of cost prices cooling off reflecting in the margins, if you can throw some light on that?

**Manish Gangwal:**

So we'll take the second question first. Basically, we have seen some sort of stability in the base oil pricing, which is a key raw material for us in line with crude but this has been partly offset by the depreciating rupee. As you see every quarter, the rupee has been on a depreciating mode. If the rupee continues to remain in this range, which is there today, and crude also is in the range of around \$85, we see stability in the input cost. Although the additive costs, which are another key critical components of the entire process, continue to remain very high.

And other inputs costs like packaging and freights are quite stabilized now. like As long as there is no dramatic movement in crude or rupee, we should see stability in the input cost going forward, which we have seen already partly coming in Q3-FY2023 as well. So, now on the AdBlue market, Ravi, over to you.

**Ravi Chawla:**

Yes. So AdBlue basically is being used in all BS6 vehicles, mainly heavy-duty trucks, passenger cars, medium-duty trucks, buses, light duty vehicles and also in some non-road mobile machinery. . These BS6 and some BS4 have also started using AdBlue. So the technology which -- basically the emissions that come out, it is this liquid that is mixed urea, automotive urea and specialized water, which is sprayed into it, and the emissions, they reduce the NOx and therefore, it controls the emission levels and you get something which the environment is friendly with.

Roughly 3% to 4% of the diesel consumption is used here, and our estimate is that in 2023, it will be around 500 million litres and there's an increase happening -- probably 30%-40% increase every year which will happen, and that's the volume this market will have. Gulf is well placed because we're very strong in the commercial vehicle segment and also in the other segments like light-duty vehicles. We have also been a pioneer in making AdBlue.

We started our plant many years ago, and now we are well poised with our brand distribution and OEM tie-ups to leverage this and we are growing along with it. It is definitely a price-sensitive segment, so we have seen single-digit margins. We continue to grow on this and we would expect a 30%-35% increase of the market size every year. We'll have to basically see how we can further grow in this, and we are well poised to use this opportunity because it is synergistic with our commercial vehicle and other segments.

**Moderator:**

We have the next question from the line of Keshav Garg from Counter-Cyclical Investments.

**Keshav Garg:**

Sir, I wanted to understand that, as the drain interval of new engines keep on increasing, so the first fill keeps on getting more and more important, and maybe eventually a stage will come where it will be only first fill, and it might last almost for the whole life of the vehicle. So in that case, the industry is basically shifting from B2C to B2B, and since B2B margins will be a fraction of the margins in B2C, sir so, then how do we deal with this adverse situation?



**Ravi Chawla:**

Yes. So, Mr. Garg, it is not like that because a lot of the vehicles, whether you take trucks, cars, 2-wheelers, tractors, the factory fill what you have is generally based on a period and kilometres, after which it has to be changed. So what you're talking about is highly synthetic lubricants which go into some special applications, which are lifetime.

In certain cases, you do have products which are very expensive products. So I would say 98% of the market is still going to be lubricants, which will require chain based on the kilometres used and the period of use. You will continue seeing that the lubricant requirement will continue in the cycle. Just to give you an example, if you have a truck and you're using a lubricant for 50,000 kilometres, then you will change your lubricant because a lubricant will then be required for working the engine, cooling the engine, making sure the lubrication is fine.

So there is going to be a cycle. Normally, what you see is, the vehicle growth in India is, say, 7%, 8% an average overall, and lubricant demand is growing 2%, 3%, because the lubricants are getting better in terms of their long drain and their usage so that's generally how the industry is growing 2% to 3% every year and you will see this continuing in terms of consumption.

**Keshav Garg:**

Sir, so, let's say that 5 years back approximately what was the bifurcation between B2B and B2C? Now you said that 40% is B2B. What was this 5 years back approximately?

**Manish Gangwal:**

Gulf split is what we spoke about.

**Keshav Garg:**

So today we are selling 40% to B2B customers. So 5 years back, approximately, this might be lower, must be like 30% or even lower, right?

**Manish Gangwal:**

Yes. So because our focus has also been on improving our industrial portfolio, and there, we have seen high double-digit growth over the last 5 years, and we continue to remain quite focused on growing our industrial portfolio as well because we still have a comparatively lower market share in our industrial less than our overall market share so we want to grow our both portfolios, automotive and industrial. Our mix is also shifting because our B2B is also growing— which is more a route to market.

So the product split for us continues to be around 85% being automotive products and 15% only our core industrial products. Even B2B customers buy a lot of automotive products, those with large fleets where we directly supply. B2B for us is where we are directly supplying, including the OEM first fill. Factory fill is also a B2B for us.

**Keshav Garg:**

And sir, I also wanted to understand that all the EV fluids that you are selling to your customers, so on a per vehicle basis, what -- how much is the contribution? I mean, let's say, if it is INR 100 for only -- for a IC vehicle, and for EV vehicle, that is how much? Is it INR 50, INR 40, INR 20, like ballpark?



- Ravi Chawla:** It depends on the segment. Basically, the engine oil is not going to be used. Engine oil is definitely more than 50%, 55% of what the consumption of the vehicle is so that will go away because EVs will not require engine oil.
- Keshav Garg:** So sir, I understand that. Sir, I'm saying, let's say, for an INR 10 lakh passenger vehicle, if it's a IC vehicle and we are selling INR 100 worth of lubricant for that, instead of that, to a INR 10 lakh EV of the same segment, how much will be the value of the fluid that we are selling? I mean, I understand that there is no engine oil that we'll sell to EV.
- Ravi Chawla:** As I told you, engine oil will be roughly 55% plus. So that will go.
- Keshav Garg:** So basically, let's say, only...
- Ravi Chawla:** It could be even higher for a motorcycle. When it's an EV vehicle, it will only take transmission oil, brake fluid, grease, and some coolants. Engine oil is the major component in a vehicle.
- Manish Gangwal:** And also, we have to see that the vehicle population of EV right now is too small to see how much of the vehicle need a replenishment of the EV fluids, at what drain intervals. This is a very evolving area, and we need to continuously monitor the data for next 2-3 years to understand this very clearly.
- Ravi Chawla:** Yes. And as mentioned earlier, the growth in lubricants is going to continue 2% to 3%, which it is today, because the number of IC engines will continue growing and using this. We don't see that the demand for lubricants will come down, even with the EV penetration that is going to happen for the next 10-15 years.
- Keshav Garg:** And sir, lastly, just wanted to touch upon one issue especially in the light of what you are saying that this business will continue to grow for more than a decade. Sir, so, it becomes more pertinent to appreciate that our stock price is back to 2014 levels, whereas the business has grown many folds and our price-to-earning ratio has also fallen from a peak of almost 40x in 2017 to less than 10x today.
- Sir, so, a share buyback makes more sense when the share is undervalued so that we can buy back and capitalize on the lower share price to extinguish higher number of shares and increase our earning per share permanently. Sir, so, instead of the generous dividend that you are distributing, if that funds can be diverted towards the share buyback, so, shareholders will gain a lot, and also it will be far more tax efficient. Sir, so, kindly consider that suggestion.
- Manish Gangwal:** So the Board will obviously look into all aspects as you are suggesting, while deciding the pay-outs.
- Moderator:** We have the next question from the line of Hemal, an Individual Investor.
- Hemal:** I have actually -- you mentioned gross working cycle. If you can provide some basic on net working -- What is the net working -- is it also close to 90, 80 days or 100 days or what is the...?



**Manish Gangwal:**

Net working capital usually is around 55 to 60 days.

**Hemal:**

Now I have another question basically on this cost. I think you -- cost of raw material. You did mention if everything remains as -- this \$80 or \$82, \$85 oil and the cost pressures are out, and for moment, if you remove AdBlue, right, for whatever reasons that's a single margin, are we expecting the margins to be back to the normalized 15% of the last time, as you had mentioned 12% to 14% is what we should look at overall.

But if you remove these AdBlue volumes that are increasing, are we back to the normalized? Do you expect this quarter 4 to be back to the normalized 14%-15% margin for our core lubricant business that these two have?

**Manish Gangwal:**

For your benefit and for the benefit of everyone, you see the prices have gone up multifold, I mean nearly 30%, 40% increase in the prices over the last 1-year period in terms of passing on the input cost so that increases the top line, while not necessary the per litre margins remain similar. You pass on the per litre cost increases to the end consumer to recover. Our per litre margins are back to the range of around INR 24 - INR 25, which has been the band in some of the quarters, we have also made even INR 27, but mostly in the range of INR 24 - INR 25. We are back to that level.

We have been able to protect our per litre margins, but as a percentage, these are looking weaker because of the top line growth which has happened. We mentioned in the earlier questions that input cost is stabilizing. While we remain cognizant of the competitive pressure as well, because, in a competitive environment, we have to be pragmatic in terms of our margin management. So we'll continue to follow both in terms of chasing volume and having a decent margin management.

**Hemal:**

So do you expect any price decrease? Have we ever -- is that even in the ballpark that it's weak for competitive pressure of anything, given our volume and balance strategy? Is there any price declines that have already started this quarter or any price increases? Or if you can shed some light on that, it would be very helpful.

**Ravi Chawla:**

No, we are not seeing any price increase now but definitely, you see there is the trade and the Bazaar market and other places. There are schemes which people would give competition so we have to react to certain schemes segment wise, which we continue doing on a normal basis also plus in terms of our B2B and OEM business, there are price variation clauses which are built-in clauses. If the base oil is coming down, there will be a pass on. So you have to manage this. And as Manish said, it's a balance between volumes. We are hoping that we can improve our margin also through mix.

But I think, as we have been saying, we would like to be ideally in 14% to 16% but as Manish explained to you that, though our rupee has come in, our top line has gone up by 30%, so then the percentage comes down. We would like to do both, improve our margin, improve our



percentage, but I think it's a journey. We improved our EBITDA margin from 11.1% to 11.5% by 40 basis points we have taken it up.

So I think this is part of the balancing, and we are also gaining market share. We are happy to gain market share and keep a balanced approach in terms of margin versus volume gain. We are hoping we can do better, but we do want to also be competitive.

**Hemal:**

The reason where I was coming from is, if our working cycle is improving and our margins go in the right direction, I think the market is not giving our company appropriate valuation, right? I hope you will agree with me. And what -- I would love to hear your viewpoint as to -- what is your viewpoint as to how the market value -- see, buyback and all things that one -- and the Board can decide. But what should be the valuation? And how do we improve fundamentally from the business perspective, gaining market share, gaining volumes?

These are -- you are doing a fantastic job as always. I said that the revenue growth has always been consistent. But there is something that is not working out from a valuation perspective. So would love to understand your perspective as to how you believe, as management, you will be able to highlight that to the market and grow it? It may be a combination of several things. Like it's just not the growth, but growth, margins, cash flow from operations, buybacks, and that can potentially play in that -- [inaudible 0:38:33] in the right direction. That's where if you can share your views, that'll be fabulous.

**Manish Gangwal:**

As a management, we would not like to comment on the market valuations. We can comment on the company's performance, in which -- I am sure you and everybody on this call will appreciate that we have been continuously outperforming. We have grown our volumes much ahead of the market.

And 2 to 3 years minimum of the market growth rate, we have been able to deliver our volume growth. We have been continuously gaining market share. We have also been able to deliver good EBITDA growth, good PAT growth. We have continuously been generating good cash flows. Our ROC, ROEs are at a quite decent levels in terms of our industry.

We have also been investing in the new age EV wherever we are finding opportunity, and we are looking at more in terms of what we can play the role in EV value chain. We have been giving consistently 40%-plus dividend pay-outs. We have announced last year a buyback as well. The company is on the right track in terms of performance and gaining market share and continue to outperform. Beyond that, we will not like to comment on the valuation.

**Ravi Chawla:**

Just to add to that, as a strategy, as Manish has rightly said, we have also built our brand, by investing in it for so many years, and today -- we believe, we are among the top three brands. Some of our internal data shows we are amongst the top two as per brand recall and brand consideration. One of the things is to increase our distribution which we are focusing on in the B2C market. We are continuously obviously innovating on products with the long drain and other things.



So our strategy is to grow. And as I've been highlighting in the call earlier, lubricant industry is set to grow in spite of all the challenges we see with EV. It is set to grow 2% to 3% over the next decade and more, which is very clear, and you will see that from the capacities being built up, and of course, the interest in the Indian market and it is continuing to be a sunrise industry.. And definitely, that is something which we would also like to keep communicating, that the growth is in the core lubricants.

And of course, we are doing things in the EV, which will leverage our brand, our distribution. And of course, this is our strategy which we can communicate and assure you that we are working very hard on this.

**Moderator:** We have the next question from the line of Sabri Hazarika from Emkay Global.

**Sabri Hazarika:** So I just have a conceptual question. So regarding your long drain interval oils that you keep launching, so the net value of these oils, they are like overall accretive for the company. I mean, in terms of margin, basically meeting up with whatever the volume decline could be because of long drain. Is that the right way to assess this?

**Ravi Chawla:** So we have been pioneering long drain oil since more than 15 years, in commercial vehicles, we give double drain interval and that helps us to get customers to see more value in Gulf, and definitely, we get a good price for that. We've moved our price positioning also up due to these impact in some of these products. I think that is where we believe that in certain segments, long drain is an important delivery like -- especially diesel engine oils.

Even in our motorcycle we've had products which signal quality based on the drain interval. These are some of the segments we have chosen where we position the product as a market leader product. We've also seen that other products have come up from other players in terms of drain interval. We are a pioneer here, and I think that's been one of our hallmark strategies.

**Sabri Hazarika:** So logically, net-net, it is like revenue neutral or probably revenue accretive, it is not like...

**Ravi Chawla:** Definitely. You are adding more value and you are able to also get more value out of it.

**Sabri Hazarika:** And sir, second question is relating -- I mean, has there been any update on manufacturing batteries in India? Or you are just like fine with this local sourcing model right now?

**Ravi Chawla:** No. So we are very close to finalizing the local manufacturing, we are in the process. As soon as we are through to it, we will be able to announce this.

**Sabri Hazarika:** And this is also targeted at, say, 14%-15% sort of EBITDA margin only, right, for the company?

**Manish Gangwal:** Yes. That's what we believe we can do, once we do the local manufacturing and streamline that.

**Moderator:** We have the next question from the line of Chirag from RatnaTraya Capital.



**Chirag:** Just two questions. One, could you just help us understand the interest cost component? I believe there is an FX mark-to-market on that. Just help us understand the movement of that a little bit more and also, is there any ability for you to sort of guide us on what that would look like in the future? And for the 9 months, if possible, could you share an advertising spend number as a broad percentage of sales or a number? It would be very helpful.

**Manish Gangwal:** As I mentioned in the opening remarks, out of the INR 10 crore of finance costs, nearly INR 4.5 crore is to our forex impact for the quarter, I mentioned, we have been importing our base oils and some of the additives and other input costs on which we follow a hedging strategy, which is to the tune of 50% to 75% depending on the market.

And on the open portion, whatever is the impact of rupee movement during the quarter, is accounted accordingly. So that's on the forex side. And what was the second question -- can you repeat the second question, please?

**Chirag:** That was on advertising, but I'll just come back to the first question -- just the first question a little bit. So essentially, for 25% to 50% of our purchasing exposure, whatever that movement was for the quarter in rupee, I believe 1% or close to that, that translates into INR 4 crore for us. Is that what you're saying? Is that broadly how I should understand this?

**Manish Gangwal:** It is also depending on the way we fund our working capital. We do take buyers credit for our imports, and this forex loss is mainly on account of the buyer's credit exposure to the tune of around \$35 million to \$40 million exposure. Indirectly, it's a raw material, but it is converted to buyer's credit and then the forex impact comes on that.

Second question was on the A&P side. I think we are close to 3% now in terms of our overall revenue in terms of ad spends, it has come down, but this is on the higher revenue because of the price increases as well so, this is a combined effect of both higher revenue because of price increases. We have moderated our A&P spend over the last 2-3 years because of the COVID and market situations. Earlier, we have been spending close to 5%.

**Moderator:** We have the next question from the line of Sohel Kamdar, an Individual Investor.

**Sohel Kamdar:** I would like to congratulate management for an achieving EBITDA of INR 90 crore. I have 2 questions. First is, I would like to understand what is the current capacity utilization? And is there any capex plan that you would like to share with us?

And the second question is regarding -- like you said, your lubricant growth is 2% to 3% in medium to long term. I would like to understand what kind of sales growth we can assume in long term because we are now taking -- talking about market share gain? So, what kind of growth we should expect? Thank you.



**Manish Gangwal:**

Our capacity utilization, for both plants put together is around 90% but when we say this, we usually mean on 2 shift basis. We can always increase the number of shifts and increase the capacity in terms of our actual production.

Capex guidance, we have given in the past and we continue to remain in the same trajectory that, annually, our capex spend is in the range of around INR 20 crore to INR 25 crore because we need to keep augmenting the new filling lines, keep adding some tankages, keep investing in IT and digitization initiatives. Overall, our capex is usually in the range of INR 20 crore to INR 25 crore every year.

**Ravi Chawla:**

On the demand and growth side, the lubricant industry, both automotive and industrial, our estimates -- and estimates from the experts like Kline -- Indian industry, which is the third largest industry, is growing 2% to 3%. As a strategy, we've been trying to go 2 to 3x times which means if the industry is growing 2% to 3%, we would like to at least grow 6% to 9%, and that is what we have been striving for. As we explained, we see the same outlook going forward, and we would like to grow.

Our CAGR growth and volume, just to give you an actual fact that we have more than 10% CAGR growth for the last many, more than a decade. This year also, we have grown, we have explained that Q3-FY2023 was a 10% plus growth. We are looking at growing in all segments that we are focused on and also both in B2B and B2C we see enough scope for market share and year-to-date, this year -- just to give you one more fact, we have been growing at more than 18% exactly, or maybe slightly higher.

We are growing ahead, gaining market share in the segments. In some segments, definitely, we see rural demand and all, which was slightly subdued, but we are still gaining market share even in those as well. Outlook is would be to grow, continue growing 2 to 3x the growth. Next year should be about 3%, 4% growth. We should look at double-digit growth again.

**Moderator:**

We have the next question from the line of Swechha Jain from ANS Wealth.

**Swechha Jain:**

Thanks Sir. I just have a follow-up question. Just wanted to understand, what kind of quarterly run rate in terms of revenue for next 6 to 8 quarters? And what kind of margins would you like or would you suggest or give guidance to for the next 6 to 8 quarters? I mean, are margins likely to move up to 13%, 14%, 15% kind of a band or they would remain in 11% to 12% kind of a band for 6 to 8 quarters? Just how do you think about it?

**Manish Gangwal:**

We just answered this question. We gave a volume guidance that we will be growing, 2 to 3x the market growth rate, which translate to roughly double digit in the coming quarter and year.

And in terms of EBITDA percentage and margins also, we have mentioned that depending on the market scenario, the competition, the input cost, crude movement, there are many variables in terms of gross margin and EBITDA margin but as a trajectory, we always look forward to





going up to our previous band of 14%-16% but before that, we have to move to the next trajectory of 12% to 14%, and then we will look for further improvements.

**Moderator:** We have the next question from the line of Babita Chetwani, an Individual Investor.

**Babita Chetwani:** So, I just had one question. So, we have heard a lot about the revenue. But on the cost of materials, or the COGS as we say, what are the three major components? And are you -- is the company also impacted by the rising inflation in those? And what would be the percentage in terms of the cost proportion? And how are we coping up with the rising inflation in those as well? Like base oil has been on a declining trend in this quarter, but how have the other components performed?

**Manish Gangwal:** We have, again, answered this question earlier that base oil, while it has been stable to downward trajectory following crude, other input costs like additives, et cetera, are still at a very high level and rupee also is in a band of 81 to 83, which is a higher band of nearly 10%,-11% depreciation during the last 9 months or a year so all these have impacted the input costs.

Inflation linked costs are more, I would say, from trade perspective, which are not very significant proportion of overall cost, but these also do impact overall numbers. The major impact is always from base oil, additives, packaging, et cetera,.

**Babita Chetwani:** So base oil I understand, right, but on the additives part, is the company taking any specific measures? Because there are no clear guidelines on how and when the additives are supposed to move, right. So, are there any clear measures around it?

**Manish Gangwal:** So there are specific -- formulations which are based on specific additives, and these are developed over a very long period of trial and are based on the recipes. It's not very easy to keep changing on the additive side. There is a sort of stickiness to additives, and there are a few major global suppliers.

But as a trend, we have -- they also follow their cost -- strength and they look at various chemical indices and all. There has been a very significant increase in additive over the past one year, but we believe that we may see some sort of stability there as well now.

**Moderator:** We have the next question on the line of Rahul Chandra from Sunidhi Securities.

**Rahul Chandra:** Hello. Yes. This is Rahul and congratulations for the good set of numbers. Sir, I have two questions majorly. Can you give the revenue percentage of AdBlue? Because, see, I'll try to link the question, which is, like your raw material cost per litre on the basis of the volume has significantly decreased on a quarter-on-quarter basis, around 8%.

So I feel that your increasing percentage in revenue of AdBlue is impacting your realization per litre. So, can you guide me like what percentage of the revenue would be AdBlue? And relating to AdBlue, do you need any additional capex in terms of plants? Or can you guide me for that particular thing?



- Manish Gangwal:** We have mentioned, the AdBlue volumes have been 21,000 kl during the quarter. We usually do not give the revenue guidance on the AdBlue separately.
- Rahul Chandra:** No, I don't want revenue guidance, but I want the revenue breakup of AdBlue as a percentage?
- Manish Gangwal:** AdBlue again is supplied through various channels so it will be very difficult to give you a number on the revenue. But overall, it's a low realization product, as you have rightly picked up and accordingly, the cost also is very low compared to the normal lubricants so because of combined effect, you see the realization as well as the cost of goods sold, both seeing a drop on per litre basis. While the percentages are different, but I can give you one data -- yes. So, basically, I was saying that from the gross margin perspective, also this is a lower gross margin product as compared to lubricants.
- Rahul Chandra:** You were going to tell me something...
- Manish Gangwal:** We need to have some capex on this but, again, that will be within the overall capex guidance of INR 20 -INR 25 crore. The capex requirement of AdBlue will also be met.
- Rahul Chandra:** So you increase your AdBlue volume as a base effect of 40% on a quarter-on-quarter basis. So the capex of INR 25 crore will suffice that volume growth, if I'm not wrong?
- Manish Gangwal:** We don't need any significant, major capex coming because of AdBlue.
- Rahul Chandra:** And my last question is, can you share the percentage of additive in your raw material costs, if possible?
- Manish Gangwal:** It's very difficult because, again, there are different type of additives, and going into diesel engine oil will have a different additive composition versus a motorcycle oil or a high-end passenger car oil so it's very difficult to give you a percentage.
- Moderator:** Thank you. That was the last question. I would now like to hand it over to the management for closing comments.
- Ravi Chawla:** Yes. Thank you. I think we've tried our best to answer most of your questions and share with you what we've been, in terms of the details. I would like to leave you with is that, definitely, we are seeing good momentum in the business. Our business model is surely giving us market share gains. We are focused on automotive and also looking at improving our market share in industrial, in passenger car, motor oils, and hoping that rural demand will pick up with the budget and the things we have seen overall in the macro environment.
- Margin management remains a key focus area. We believe, our retail sales will grow well, help us to deliver even better performance, while we also look at EV increasing our industrial market share, getting into EV initiatives. We are very confident that we'll be again able to deliver 2 to 3x the industry growth rate. And thank you, everyone, for your support. Look forward to catching up with you soon. Thank you.



*Gulf Oil Lubricants India Limited  
February 06, 2023*

**Moderator:**

Thank you. On behalf of YES Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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