



“Gujarat Alkalies and Chemicals Limited Q4 FY 2016 Results Conference Call”

May 30, 2016



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Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY2016 Results Call of Gujarat Alkalies and Chemicals Limited, hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now, hand the conference over to Mr. Rohan Gupta, Senior Research Analyst of Emkay Global. Thank you and over to you Sir!

Rohan Gupta: Thank you Vivian. Good morning ladies and gentlemen, on behalf of Emkay Global Financial Services, I welcome all the participants who have logged in for the conference call of Gujarat Alkalies and Chemicals Limited. From the management we have with us today Mr. P.K. Gera, IAS, Managing Director of GACL. We also have people joining from the Company like Mr. H. B. Patel, Executive Director (Finance) & CFO, Mr. Pankaj Pujara, Chief General Manager(Projects), Mr. G. S. Paliwal, GM, Marketing, and Mr. Sanjay Bhatt, Company Secretary and AGM (Legal, CC and CSR).

These people will be helping us in understanding the Company a little more in detail. Sir, first of all let me thank you very much for giving us the opportunity for hosting this conference call and we appreciate management effort for interacting with the investors. Sir, thank you very much and good evening gentlemen. Sir, first I will request you, if you can take us through your current Q4FY2016 results performance. You can also give us brief about



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year ending FY2016 annual performance and it will be great if you can share a little bit industry dynamics, what have changed and then we can open the call for Q&A session sir, please go ahead Sir. Over to you! Thank you so much.

Management: Thank you so much. I am delighted to inform that the last quarter of the 2015-2016 was a remarkable quarter for GACL and more important reasons for the Q4 which everyone has been asking us and I have been telling perhaps it may be repetition for some. Our production increased in the Q4 is about 8% as compared to last quarter i.e. from 380154 metric tonnes to 401063 metric tonnes because of the higher capacity utilization at Dahej. Sales value grew at 12% and our improved realization resulted Rs. 544 Crores as compared to Rs. 488 Crores in the last quarter of the previous year.

The natural gas prices played a major role effective from 01.01.2016 with captive power generation at Dahej to bring higher PLF because of the cheaper gas prices and overall production in power itself reduced our cost by Rs. 15.4 Crores. Raw materials cost also was very competitive with the increased production, the raw materials cost went up but still overall there was a reduction. With reduction in the cost utilities impacted the bottom line and operating cost also came under control to increase our performance.

So as you can see the cost relation happened to be in our favour and since everything went in the line we expected, so we can say overall the net worth of the Company as on March 31, 2015 came



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to Rs. 2101 Crores whereas in March 31, 2016 it grew to Rs. 2304 Crores. So it was a whopping Rs. 200 Crores increase in the net worth and if look at the annual performance of 2015-2016 when compared to 2014-2015, all this is in the website and it has been given to the stock exchanges as well.

The sales value increased from Rs. 1932 Crores to Rs. 1956 Crores, i.e. 1.25% and I am rounding off the figures instead of going into decimals and the production for 2015-2016 was again higher from 14,99,360 metric tonnes to 15,19,641 metric tonnes and operating costs before income and interest was reduced from Rs. 1772 Crores to Rs. 1739 Crores and this was a reduction about 1.87%, which is very significant. This came largely due to decreasing power cost by about Rs. 16.23 Crores as we have cheaper LNG which made our power plant we could operate our power plant at Dahej.

Profit before tax has gone up from Rs. 215 Crores to Rs. 265 Crores which is 23% higher although PAT has decreased. There was deferred tax liabilities which had decreased our PAT and loans as regards loans our total borrowing increased in the year by Rs. 91.67 Crores which was due to ECB that our Company has raised of 30 million US dollars from HSBC for our new windmill plants which has been reducing our operating cost over the years and there was stringent cost conservancy and cost control exercise which were carried out which helped the Company to improve its probability and optimizing the operating cost.



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The expenses on repair and maintenance have gone up due to high cost of preventive maintenance, but that allowed us to operate at a very good production levels. Since market was available, we could increase our total sales during the year and employees and workers were quite motivated. We had harmonious relations with them. There was no production loss to any man-day loss and there was continued industrial peace at both of our plants. That is what I can tell you at the moment.

Moderator: Thank you very much. The first question is from the line of Suyash Kapoor from Maple Vyapaar Private Limited. Please go ahead.

Suyash Kapoor: Good afternoon Sir. Regarding GACL, I have one question regarding that the Company has any buyback policy because this quarter, the EPS has shot up really considerably so does the Company have any buyback policy? because your share price at present does not reflect the true potential of the Company Secondly does the Company have any ESOP policy, employees' stock option policy and third question if you can answer all one by one? Third question is that you manufacture some plethora of chemicals. There are lots of chemicals, if we go to your annual report where you manufacture various chemicals, Sir, as far as this financial year is concerned, which were the products which were significantly contributing to increase in the probability as compared to the previous financial year?

Management: We are not contemplating any buyback at the moment; right now there is nothing of that kind at the moment.



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Suyash Kapoor: But does the company have any policy, you need not contemplate at this moment or you may not contemplate for one year or two year down the line but does the company is having policy?

Management: Therefore, we have not got a policy, but yes, you have brought to my notice, I will definitely consider placing a policy for the board's consideration now that you have brought to my notice. That is a good idea. We may like to have the policy.

Suyash Kapoor: Regarding ESOP policy?

Management: ESOP policy because we had meeting of our personnel committee. Personnel committee meeting was there day before as regard ESOP we do not have any contemplation, but Board was not averse because the problem we have to negotiate with our employees, whose settlement gets due on the January 1, 2017. So we will discuss this possibility for giving ESOP to employees in GACL at that time.

Suyash Kapoor: Sir, regarding any dividend policy do you have? Various Companies now are putting into the dividend policy on board so does your Company have any dividend policy?

Management: Every time we look at the market conditions and our requirement and we decide accordingly. We do not have policy as such; because it is very difficult have a policy, because once you make a policy you will have to stick to it. You cannot have a policy and do not stick to it, so it is better not to have a policy, simple that we look at the market condition and the board.



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Suyash Kapoor: I agreed with full honour, but my point of submission is that let us say 15% of the net profit or 20% of the net profit you are ready to distribute shareholder so in case if you make profit in case God forbids, if there is loss then you would not contribute to any investors.

Management: Normally if you have observed this Company has distributed the dividend in the range of 16% to 19% of the PAT and many times the even the PAT is low, we continue to at least keep the investor interest in mind and accordingly declare the dividend.

Suyash Kapoor: That is very kind if can formulate policy it will give lot of confidence to the investors.

Management: We will have to decide on that policy and will do that at appropriate time.

Suyash Kapoor: Third question was regarding of plethora of chemicals you manufacture. You manufacture a lot of chemical. Sir, this financial year is concerned if we compare this financial year the entire financial year with previous financial year, which were the chemicals, which have contributed significantly, if you can mention about the products?

Management: The top contributors are caustic soda 52%, caustic potash 9%, hydrogen peroxide about 10%, chloromethane 7%, phosphoric acid 9%, aluminium chloride 6%. These are the top line.

Suyash Kapoor: The final question in nutshell can you give us the strengths, weakness and the opportunity and threats, which the company is



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facing? Do you face any significant threat from China or any other major producers of this product, which have recently maintained?

Management: The problem our threats are primarily from imports and we have to be very competitive and the power is very important cost, the power in caustic soda and we are bringing new elements our elements are 20 years plus old and while putting elements, fifth generation elements we are putting in our plants. By December we would be able to complete more than 700 elements out of about 1400 the 50% of elements will be fifth generation which will bring down our power cost and increase the profitability as a result and they will be ready for the coming year, but yes the biggest threat this Company has is from power cost. The power cost currently we are using in the natural gas now worst case scenario if I describe you is gas going up the level in 2015, and we are having take or pay liability with GAIL and imports coming into our country from Iran and China they have cheaper power available with them in that country so we are constantly watching and we are in the market to make money as far as availability of the demand and would supply of this products.

Suyash Kapoor: The final question Sir, if you can comment on the sundry debtor part of the Company, if you can comment on the credibility of payment, who are you major customers and as far as credentials of being if you can comment on the sundry debtor's part?

Management: If you look at the sundry debtors receivable level, it is rather remaining constant and our credit period, we are getting depending on the market conditions and on credit worthiness of



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our dealers, distributors and the ultimate users, we are keeping a close watch, so the chances of getting delay in the payment, we are controlling or rather harnessing going out of control.

Suyash Kapoor: Sir, major customer if you can say who are your major customers or which segment you caters the most?

Management: There are many major customers mainly Hindustan Unilevers, Indokem, Deepak Nitrites these all are our major customers, whom we are supplying the products.

Suyash Kapoor: I will be in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Abhijeet Dey from BNP Paribas. Please go ahead.

Abhijeet Dey: Good evening Sir. A few questions from my side, you mentioned about the changing membranes and elements, which your Company is undertaking. So in the last fiscal year what has been in progress and how much you spent towards that already?

Management: Actually in the beginning of last year, we started procuring those things. We are now receiving all these procured items and we are going to install all these new elements during the current financial year actually and so the effect of those newly replaced items was seen in the last quarter of this year and the next year of course.

Abhijeet Dey: Okay will there be any disruption to the production Sir because of this?



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Management: No actually we have planned way of replacing these elements and so we go one by one electrolysis so basically it does not affect our rate of production and we do it progressively and in a planned way without affecting the production line.

Abhijeet Dey: So Q3 of this year in the December quarter, there was a jump in repair and maintenance cost, what was that due to Sir?

Management: It was basically we were just addressing the issue of ractiformer at Dahej. So it was a huge expenditure to bring it back to the normalcy for conducting the operation and I think as a result, we are having the better Q4 performance at Dahej.

Abhijeet Dey: Okay that was one and Sir secondly how much would you spend in capex Sir last year FY2016?

Management: It was in the range of roughly Rs.180 Crores.

Abhijeet Dey: This includes your wind power capacity?

Management: Wind mill?

Abhijeet Dey: Sorry how much for the windmill?

Management: We had installed 31 megawatts for windmill with total outflow of Rs.200 Crores plus. Normal capex was Rs.60 to Rs.70 Crores. This year again we are planning to install roughly 15 megawatt of windmill.

Abhijeet Dey: So what is the plan for FY2017 apart from the change in membranes etc., anything apart from that?



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Management: Actually these membranes would cost us roughly Rs.100 Crores and another Rs.100 Crores, which may be in 2017 & also partially in 2018.,

Abhijeet Dey: Okay.

Management: Apart from that we have taken up some debottlenecking projects for our potassium hydroxide and Chloromethane that would be around Rs.160 Crores, so almost 80% to 90% of that amount would be spent in this financial year.

Abhijeet Dey: So 15 megawatt of wind mill plus Rs.100 Crores of, because of membrane change and Rs.160 Crores the large part of that this year, all in FY2017 right?

Management: That is right, yes.

Abhijeet Dey: Sir if you gave the overall production volume for the year, but if you can give break that up into your product like Caustic Soda, Caustic Potassium, Phosphoric Acid, Chloromethane, etc., that will be great

Management: I gave you the percentage of the contribution, what exactly do you want?

Abhijeet Dey: The sales volume numbers the sales volume number if it is handy with you, the sales volume Sir?

Management: Can I give you installed capacity for the two complex, which is separately, it is on the website I thought yes, although like Caustic Soda as against the installed capacity of 160,000 our



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actual production in the 2015-2016 is 177,000 that is the Baroda, we are talking about. If you look at the Caustic Soda in the Dahej, it is 259,000 we did about 207,000, so that is at Dahej, Chloromethane that is only at Vadodara, we are coming up Chloromethane plant at Dahej as against 37,950 we did 38,000 in 2015-2016. Hydrogen Peroxide as against 13,860 we did 15,463, Caustic potash 18,810, 23,340 and Phosphoric Acid at Dahej complex 26,400 is our installed capacity as against that we did 27,392. Hydrogen peroxide 26,542 we did 27,565 that means 103% most of our products were touching 100% or more than 100%. There are small products like sodium chlorate, which was a new start in that year that was the only product perhaps which was around 58% or stable bleaching powder that is the product we produce to absorb the chlorine primarily so that chlorine balance we can be made , so we produce stable bleaching powder to meet the market demand like that. But otherwise our main bread and butter subjects were well above 80%, more than 100% in fact except in Caustic Soda at Dahej, which was at 80%, otherwise everything else was at 100% and above.

Abhijeet Dey: Sir for your sodium cyanide plants Sir, what is the current update on that?

Management: Current update is that we have stopped that production because we are not getting the HCN from the Reliance. So we are looking for new products on the same side because utilities are all erected and working condition with little modification, we might come up with a new product there. We are trying to look for technology and there are various possibilities / offers from us. We will be



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taking it up very shortly. Currently Sodium Cyanide as a product is no longer available with us.

Abhijeet Dey: Sir you mentioned that you have started new project, one was with Hydrazine Hydrate in the plants. How much will they contribute this year to your top line?

Management: No, not immediately this year, what we have done is that being an indigenous development of technology, we are proud to say that with IICT, Indian Institute of Chemical Technology, we have filed a patent for this technology that we have developed for Hydrogen Hydrate. We have plan to commission in September 2018. Our Board has approved in its recent meeting on 26th May, an investment of Rs.160 Crores for this project.

Abhijeet Dey: Recently there was a press reports regarding water shortage at Dahej and in case of seawater in the Sardar Sarovar Dam, etc., so was your production impacted Sir during this month, in the month of May?

Management: That is correct. This kind of a situation has happened for the first time because the drought-like situation that is happening all over the country. So government had not allowed any excess water to flow into the Narmada river. All industries in Dahej are drawing water from GIDC particularly they supply water to all in the industry located in Dahej, so the wells which were drawn, on various points of the river and that part of the river is not very far from the sea. Whenever there is new moon or full moon the levels of sea water goes up, pushes the water into the river and as a result the salinity levels go up. We were not that badly affected.



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To be fair to GIDC, they have been pumping water from various points and giving to various customers like ours, so we have faced deficit and we are now contemplating of putting up some alternate measures because this risk we had not contemplated. This kind of a drought like situation in the last month, we are a water intensive industry, we are thinking of recycling the water more, so that whatever fluid that goes into sea that with a permission of the Pollution Control Board, we bring the level of the pollution affluent at the level acceptable to under the law and release it in the sea that will be maintained, but we would like to take out water from that and reuse it or store it and make arrangement for storing for such contingencies.

Abhijeet Dey: But has the overall situation in GIDC area come back to normal now?

Management: I do not think so; I mean it is 50% normal.

Abhijeet Dey: So has that resulted in pricing going up Sir, consecutive prices have they moved up because of this development?

Management: Yes, because the supply has reduced, but imports are taking place because it is an open market. If you would produce less other people will rush in the supplies, basically because transport time is important. They cannot come in one day, the minimum it takes about a week or 10 days at least to come, any supply from imports.

Abhijeet Dey: Two final questions Sir, what was the PLF of our captive power plant 90 megawatts in the last year i.e. January-March quarter?



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Management: 42%.

Abhijeet Dey: 42% and this quarter you are expecting it to be higher?

Management: I think we will be able to run at the same level. Around 50%. We have a range of power supply mix from different sources. Just not to be dependent on any single source so we plan to run it at around 50% this quarter.

Abhijeet Dey: Okay, but natural gas price would have come down further quarter on quarter I would guess?

Management: Yes, but then we are matching the cost from other sources also, so we have a balanced basket of power sources. We should be able to maintain the same type of cost of power what we are getting on the power plant.

Abhijeet Dey: Sir one final question you mentioned about settlement of wage agreement due from 1st January 2017 what would be the likely increase in wage cost?

Management: Very difficult to say at this stage, too early.

Abhijeet Dey: Okay, but you will start working after sometime right?

Management: Yes, we started working on; expectations, what are the expectations and what we can give. The two have to match after all. So we are trying to do that exercise now.

Abhijeet Dey: All the best Sir for the future.



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Moderator: Thank you. The next question is from the line of Raj Gandhi from Sundram Mutual Fund. Please go ahead.

Raj Gandhi: Thanks a lot for the opportunity sir, you mentioned that this quarter Q on Q you have seen 8% production growth, is that correct.

Management: Yes.

Raj Gandhi: Your revenue growth is about 17%, so you had about 10% pricing gain Q on Q?

Management: Perhaps, yes you can say that.

Raj Gandhi: Where would current realizations be?

Management: Current is too premature to give any concrete reply.

Raj Gandhi: Not for the quarter, let us say the May month, which is over now, so just for that one, is it maintains that level?

Management: May month is not yet over, it is tomorrow, and it is difficult to say.

Raj Gandhi: Okay, broadly would it be a same level or prices have given off?

Management: Because we may not be able to achieve that, Dahej is having a water problem, it is easy to say.

Raj Gandhi: No not production, but pricing at least?



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Management: No whatever pricing it may be unless you meet the supplies. So it is not possible to give you a good answer to satisfy you unless we have this call in the first week of June sometime.

Raj Gandhi: On water supply, you mentioned that it is as high as 50% water supply cut is there?

Management: Yes water supply is not available and sometimes it is available, so it all depends upon the new moon and the full moon, the tidal levels. The supplies from the dam were cut and though we have been promised that they will be restarted; because the sweet water when comes down it pushes seawater back. Otherwise seawater increases inside and it happens on the new moon and full moon more than any other day, so the impact is not uniform.

Raj Gandhi: At what level utilization is Dahej running because of this water level?

Management: It would be around 50%.

Raj Gandhi: Okay so likely to continue for how much time Sir?

Management: Till monsoon when it comes. We are all waiting for the rains. One single pre-monsoon shower in catchment area of Narmada will bring a lot of relief to us.

Raj Gandhi: Just in terms of your power cost if I were to see, it is still at about 26% of the sales. If I were to remove the pricing gains in this quarter, your power and fuel cost in your first nine month average is about 29%. This quarter it is just 26%, but if I were to take out the pricing gain, it will be about 29% of the revenue, so



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almost the same level, so from this quarter the full benefit yet to flow through?

Management: If you see, the natural gas prices got reduced from 1st January 2016, whatever the reduction you are seeing, it has come down from 29% to 26%. It is the result of this natural gas price which could come down, we think we will have to just wait and see the trend of continuity of RNLG price remain same or rather it comes down.

Raj Gandhi: Sir did we get the entire \$5 because to lot of users they have passed on \$3 this quarter and \$2 is going to come next quarter, so what is the arrangement that we have Sir, will the further \$2 next quarter?

Management: I am not getting your call.

Raj Gandhi: Sir, this quarter renegotiation which has happened, totally \$5-6 have come off from the earlier level, so apparently some users have been given \$3 in this January to March and another \$2 is going to come from April quarter, so what is the case with us Sir?

Management: We are having a dialogue with GAIL with whom we have long term contract till 2028, so we are trying to resolve that matter first.

Management: I hope you understand that from \$13 to \$6. We have paid up to \$13 in the calendar year 2014 but it is now \$6 approximately.

Raj Gandhi: So, it is \$6 from January itself.



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Management: Actually, it kept on reducing gradually and now from April 1 it goes to \$6.

Raj Gandhi: What would be the average for this quarter?

Management: Difficult to say at this stage, this quarter means the first quarter?

Raj Gandhi: No Sir, Q4, the quarter, which went by what, was the average?

Management: It is linked with the Brent price.

Raj Gandhi: Sir, we hear the salt price has started coming down, have we been getting benefit of that?

Management: Salt is not a very big component but yes we have got 11% to 15% reduction in cost from different places.

Raj Gandhi: Sir this GIPCL which is a group captive power which also drew from Qatar, so that benefit also have we got, because it will be a pass through, right?

Management: GIPCL the difference is that we have to wheel that power. On the wheeling there are various taxes, which come from the state government. Whereas in our own plant we do not have to pay those taxes. The unit power cost that is very low because it is within our plant. Whereas GIPCL, we have to pay the duties and taxes and subsidies, cross subsidies for agriculture that government levies on us. So that is why the comparison is not that great to make, but it is cheaper than grid power.

Raj Gandhi: Did they pass on the benefit of Qatar to us Sir?



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Management: Of course, they generate only when it is available at a competitive price, otherwise they do not generate it.

Raj Gandhi: Sir is it possible to give the average power cost during the quarter just to get a sense?

Management: Difficult for this quarter but for the entire year, we say it was around the same level which used to be there in 2014-2015. Average power cost of the company for running both the complexes was at the same level as compared to 2014-2015. There is not much of increase there on average.

Raj Gandhi: What is the level now?

Management: Close to 5.8 to 6.10, that is the average we can take.

Raj Gandhi: This short-term loans and advances have gone up year on year and your long term loans and advances have also gone up. The combined total has gone up by Rs. 258 Crores, what does this relate to?

Management: In the year we had gone for this 31 megawatts windmill. W The long term loan has gone up because we have raised 30 million ECB during the year.

Raj Gandhi: Sir this loans and advances?

Management: Yes.

Raj Gandhi: This is the short-term loans and advances given out by our company to others?



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Management: No, once we had to look to cash and cash equivalent we have drawn from there and it has gone as advances for the project.

Raj Gandhi: Sir because typically short-term loans and advances you used to have or all which you give?

Management: We had capex of KOH expansion, CLM expansion that we have to give to the consultant and supply.

Raj Gandhi: So this entire Rs. 258 Crores increase is because of this project capex?

Management: Yes.

Raj Gandhi: Sir, what is the current maturity of debt and the other current liability?

Management: It is matching during the year because we have credit period of average 53 days, 49 to 53 days of receivables. The one time credit we avail from suppliers, it is either 30 days, 60 days or 90 days depending on the transactions.

Raj Gandhi: But Sir, there is debt under other current liability; there is debt maturing within one year?

Management: That we only provide whatever ECB is there, due within 12 months. We have to provide it there?

Raj Gandhi: Sir Can you throw some light on the profitability of the projects that you were investing in, as you mentioned on this press release, you were starting up with two products; you have given



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the revenue details, what could be the margin like in those products?

Management: Very difficult to tell you at this stage because unless they are on stream how can we tell you like that.

Moderator: The next question is from the line of Ajay Vora from Reliance, please go ahead.

Ajay Vora: Sir you mentioned about quite a few projects which the Company is working on, so the total capex; it seems to be somewhere around Rs. 350-400 Crores, so what is the thought process on funding this, will it be completely through internal accruals and over what period?

Management: Whatever the projects we got the approval from the board, we have internally analyzed it over a period of next three to four years and you must have seen our accounts, we are generating at least Rs. 350 Crores plus and we can plough back in projects so that we can improve our topline.

Ajay Vora: Sir, if I just look at operating profit of this quarter somewhere close to Rs.130-140 Crores, so that you think on a sustainable basis will be sufficient enough to fund your capex requirement.

Management: Yes.

Ajay Vora: Considering now that caustic soda prices and the expansion, which has been announced by Grasim, what do you think about the overall demand supply scenario in the country, so do you think that these prices are sustainable going forward?



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Management: Looking through the current market scenario and what we project in upcoming time, we expect substantial growth in caustic soda industries and it is expected that CAGR in caustic industry will be more than 6.5% in spite of newcomers like Grasim Industries, but looking to the growth rate and demand we expect that future is very good for caustic soda industries.

Ajay Vora: Sir, your tax rate would continue to since we are investing in wind power and all our tax rate will continue to be the way it has been right over last one year or two years?

Management: We did not get your question.

Ajay Vora: I am saying that in current quarter we have hardly paid any tax mainly because of the benefits, which we must be getting, so going forward our tax rate would be nominal only?

Management: We are subjected to MAT and there is no choice or option left if we are in MAT and I think in another three-four years with the same state of expansion we would continue to be under MAT.

Ajay Vora: Sir, lastly going by the current rate do you think that we can really deliver similar performance in coming quarters barring the one-off event in this quarter where we faced shortage of water, but going forward can we deliver similar sort of performance?

Management: Actually we restrict ourselves to disclose on these aspects; but still considering the first two months of the year we are sure that we will try to maintain and possibly we may grow.



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Management: Let me be frank. It all depends on the monsoon right now. We are waiting for the monsoon. If the monsoon is okay, everything will be great.

Moderator: Thank you. The next question is from the line of Vipul Shah from Sumangal Investments, please go ahead.

Vipul Shah: Sir, my question is- you are installing these new membrane elements, Rs. 100 Crores this year and Rs. 100 Crores next year, so what will be the advantages, power consumption will come down by how much due to installation of these elements?

Management: Usually as a thumb rule per metric tonne of caustic soda when we put up a new element it should reduce by about 250 to 300 units but again it depends on what current density we are operating our plants, so yes, we can say minimum around 200 units per tonne would be the reduction in power consumption.

Vipul Shah: What is our average consumption of electricity for production of per metric tonne?

Management: It remains in the range of 2200 to 2400.

Vipul Shah: So roughly you would expect it to come down by 10% right?

Management: Yes.

Vipul Shah: Sir you gave caustic soda production figure at Baroda, it is 77000 or 177000, and I missed it?

Management: 177000.



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Vipul Shah: So you are operating at more than 100%.

Management: Yes, that is right. Baroda it is full capacity.

Vipul Shah: Wind unit, we are mainly putting for tax purpose or wind power produced sold through grid or it will be for captive consumption only?

Management: Mainly, for captive purpose because it is source of power for us. We would like to have a mixed basket of different power sources, so it is one of our sources of power.

Vipul Shah: So it will be mainly used for captive consumption right?

Management: Yes.

Vipul Shah: Right now what percentage of power is captive and what we source from outside?

Management: About 20% is coming from wind.

Vipul Shah: We have a gas-based power plant also at Dahej right, so what percentage comes from that power plant?

Management: In Dahej it is about 40%.

Vipul Shah: Wind is coming at Baroda?

Management: At both the places. We have kept wind allocated to both the places, Baroda and Dahej, out of about 156 megawatts about 90 megawatts is for Baroda and rest is for Dahej.



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Vipul Shah: Once this entire wind expansion is complete along with that Dahej gas plant, what percentage of power consumption we will be sourcing captively?

Management: We are targeting about 25% of the power overall coming from wind in both complexes.

Moderator: The next question is from the line of Pritesh Vora from Incedo, please go ahead.

Pritesh Vora: My question is sir last quarter results, our income has gone down and cost of material has gone down and income has gone up, so gross profit has expanded, what are the primary reasons for this gross profit expansion?

Management: Gross profit basically has gone because of three reasons, power cost has gone down substantially because of the natural gas price is less from January 2016.

Pritesh Vora: I am saying Sir, gross profit, I am not saying about the power cost?

Management: That ultimately translated into gross profits only and second is the realization has improved by roughly 2.7% during Q4 and the production has also gone up by 8%.

Pritesh Vora: Volume has gone up by 8%?

Management: Yes. As far as other income is concerned, last year we had sale of investment in equity about 8 Crores which is not there this year, so the level of other income is at the same level more or less.



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Pritesh Vora: Why the other manufacturing and operating expenditure has come down as compared to last year as well as quarter-on-quarter?

Management: We had gone for competitive processing and the reverse auction in procurements as well.

Pritesh Vora: I am saying manufacturing expenses; manufacturing expense will not come in the procurement that will be cost of material.

Management: We are going with the reverse auction mechanism there also. Wherever it is possible the job workers, or the contractors we are using the reverse auction.

Pritesh Vora: So there is no one-off here, it will continue to remain at this level or manufacturing operations.

Management: You must add it or it may go down depending on the business situation.

Pritesh Vora: How do we track the cost of material consumed and income from operations the gross profit expansion, has gone this quarter, so how do we track that, what level it will remain for the quarter or for the years.

Management: Normally we have internal mechanism to keep a close look at the inventory levels of most of our items of continuous nature and those for replacement will have to buy or procure on call basis.

Pritesh Vora: Do your gross profit margin depends upon the crude cycle also or what? What are the major raw material cycles?



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Management: We cannot say if it is on crude cycle, but it is based on price realization during the given period.

Pritesh Vora: So that depends upon demand and supply?

Management: It depends on competition with private companies as well.

Pritesh Vora: How do you see this scenario going forward competition in your product scenario?

Management: We have to face the competition and survive wherever possible we can grow.

Pritesh Vora: I am just trying to assess sir what can be the normalized level of profitability in your business, since I also see in the last couple of years?

Management: Difficult to say that profit level this period is X and this could be X plus or X minus.

Pritesh Vora: But Sir I could see last four, five years you are continuously investing 200-250 Crores every year, I missed the capex figure this year which you are planning, what was the capex Sir?

Management: We have already disclosed and told you that we are going ahead with Hydrazine Hydrate and Phosphoric Acid projects, windmill project for 15 megawatts. We have ongoing two expansions in KOH and CLM and we have got the approval for phosphoric acid also. It may take time for 24 months to 36 months.

Pritesh Vora: Total capex is how much Sir?



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- Management:** Put together will be roughly 1000 Crores to 1200 Crores.
- Pritesh Vora:** 1000 Crores of projects you mean to say?
- Management:** Yes.
- Pritesh Vora:** Sir I could see last couple of years your ROCE, return on capital employed is in single digit, so when you conceive a project of 1000 Crores and all that what kind of benchmarks you have in your feasibility report, what kind of return ratios you expect when you conceive such projects?
- Management:** You know when we have any project to go ahead we take IRR as the benchmark and we go ahead with any plans or projects, which have, project IRR of 18 plus, if it is giving less than 18, we normally do not go ahead.
- Pritesh Vora:** So sir what is the reason your ROCE is single digit, if IRR is 18% and I understand lot of your older plants must have depreciated only. Why our margin is and return on capital employed is in single digit?
- Management:** The basic reason in chlor-alkali industry if you take repair and maintenance; O&M cost is sharply rising, even the HR cost of the Company is going in that trend. To maintain profitability under this situation when all your cost is going to the North and price realization are either squeezing or going down that we have to balance it and we have to wait for the opportunity for good market.



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Pritesh Vora: Sir, going forward how do we assume that what kind of ROCE, what kind of return ratio we can expect?

Management: We would like to cross double digit. That is our endeavour.

Moderator: The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities, please go ahead.

Jayesh Gandhi: Sir my question is regarding one of the big expansion plans that you had envisaged in 2015 closer to Rs. 3500 Crores, can you just tell me where are we currently in terms of valuing that expansion plans?

Management: As you may recall that Rs. 3500 Crores total investment plan what we had put up last year as our vision, the major product, the caustic soda project in joint venture with NALCO that was around Rs. 1800 Crores. There now we are in the process of selecting the technology both for the power plant and caustic soda plant. Other plans included expansion of our chloromethane, first debottlenecking in the existing plant and putting up of new plant, phosphoric acid plant which we are working on, hydrazine hydrate plant so all these plants, some of them we are in the process of trying the technology.

Jayesh Gandhi: If I can understand from what you are saying is it going to take some seven to eight years for this entire thing?

Management: It should be around four years in total on the plant investment.

Jayesh Gandhi: Are we going to be really aggressive from FY 2017-18, 2018-19 and 2019-20 in terms of capex?



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Management: Yes, these are the plans at the moment.

Jayesh Gandhi: Sir you may clarify, currently you said Dahej capacity is working at 50% capacity right?

Management: Currently means it is last four days.

Jayesh Gandhi: But in the last entire quarter, Q4 we were working at 100% capacity?

Management: Oh yes, almost.

Moderator: The next question is from the line of Nitesh Jain from Axis Capital, please go ahead.

Nitesh Jain: Sir previously in the call you mentioned that with effect from April 1, 2016 the gas price for you has become \$6, so my question is for the January to March quarter 2016, what was the average cost?

Management: It was roughly 7.5.

Nitesh Jain: So from 7.5 it will become \$6.

Management: Right.

Nitesh Jain: Sir for central PSU, public sector undertaking they are all declaring & paying 25 to 30% of profit as a policy as a dividend but in our case like we have done 30 rupees EPS and dividend is only 4.5 rupees which is 15%, so do not think so that you should reward your shareholder by giving up more dividend?



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Management: The board takes that call. I am not chairman of the board either. We had placed these details before the board. The board felt we need funds for expansion for the next five years what we gave them to make this company from Rs. 2000 Crores to Rs. 5000 Crores from current level, so to bring that kind of expansion, either we take loans and pay that back or we are little conservative, you can say, because we would like to use as much our internal generation of funds for our own projects.

Moderator: The next question is from the line of Raj Gandhi from Sundaram Mutual Fund, please go ahead.

Raj Gandhi: Sir in the long term plus short-term loans and advances which have gone up by Rs. 240 Crores you mentioned that it has gone for project but I was just adding up the net fixed assets that you have including windmill and everything that has gone up by only Rs. 173 Crores, so just trying to see because in the short term advances you have lot of deposit to corporate bodies and all as well, so just if you could clarify whether lot of it has gone in to that?

Management: We have this CLM plant expansion and we are going ahead with one more 15 megawatts windmill and we are going ahead with some debottlenecking exercises at Dahej, all put together we have to release some of the amount and mobilization advance, those things are there.

Raj Gandhi: Sir you own almost 2.5% to 3% of GSPC Gas which is a listed entity now, so any plans to liquidate that holding to fund our capex given that it is almost 40 rupees per share for us?



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Management: Not at the moment, no plan as such.

Raj Gandhi: Sir could you just give the power mix for this quarter, you mentioned wind was 20%, could you give the possible power mix for by source so that we get an idea for the last quarter?

Management: Last quarter it was 20% was windmill and 80% was grid power, this GUVNL power as well as our captive power. 20% was wind, 40% was our internal generation and rest 40 we purchased from outside, that is Dahej.

Raj Gandhi: Could you now given the gas is cheap can you replace this with your own power to certain extent?

Management: No. We have tied up GUVNL through open access. We have commitments on that with take out pay liability that is why we will not be able to do much.

Raj Gandhi: But till when are these contracts there, once they die out the contracts die out?

Management: Perhaps then of course.

Raj Gandhi: Till when are these contracts there?

Management: Till 2028 I suppose.

Raj Gandhi: Even GUVNL and all these open purchase from grid and everything is also till 2028.

Management: We have back to back power purchase agreement with coal based power plant.



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Raj Gandhi: Typically all these arrangements are just two three years right?

Management: It is for 2028, both for GAIL and GUVNL, but there is a review clause in GUVNL and we can adjust the power mix based on the current gas prices and all, so there is the possibility to review the contract and either reduce or increase that particular component every two years.

Raj Gandhi: Every two years, when is the reset clause, when is the review period coming up?

Management: When the mix is in our favour and next review will be after two years.

Raj Gandhi: When is that review period coming up?

Management: Just now we reviewed it for 2016, so it will come in 2018 and we have adjusted because the gas power is cheaper right now, we hope that will remain at least for a year or so as compared, so accordingly we have reviewed it and followed it up.

Raj Gandhi: Okay, to this quarter you have reviewed it and taken benefit okay.

Management: This year, because next review is in 2018.

Raj Gandhi: This 300 TPD debottlenecking in Dahej unit, which you are planning, any progress on that?

Management: Dahej, we are now ready with the DPR and we are going to go ahead with that very shortly.



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Moderator: Ladies and gentlemen, that was the last question. I will now like to hand the floor over to Mr. Rohan Gupta of Emkay Global for closing comments.

Rohan Gupta: Thanks Vivian. Sir, thank you very much. I think we had a very long and interactive session and thanks for answering all the questions and on behalf of Emkay Global Financial Services I once again thank all the participants also and special thanks to the management for giving us the opportunity and hearing to the investors and answering them.

Moderator: Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining. You and us may now disconnect your lines.

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