



“GOCL Corporation Limited
Q2 FY2019 Earnings Conference Call”

November 16, 2018



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Moderator: Ladies and gentlemen, good day and welcome to the GOCL Corporation Limited Q2 FY2019 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aditya Bagul from Axis Capital. Thank you and over to you Sir!

Aditya Bagul: Thank You Tanvi. Good afternoon ladies and gentlemen, on behalf of Axis Capital, a warm welcome to Q2 FY2019 conference call for GOCL Corporation Limited. We have the management represented by Mr. S. Pramanik - Managing Director, Mr. Ravi Jain - Chief Financial Officer, Mr. A.M. Kazmi - Chief Operating Officer and Mr. A. Satyanarayana - Company Secretary. I shall hand over the call to Mr. S. Pramanik for a brief discussion on Q2 numbers post which we will open the floor for Q&A session. Over to you Sir!

S. Pramanik: Thank you Aditya. Good afternoon to all participants in this conference call. Since we have agreed to the request of the shareholders at the AGM that we will be having this conference call every half year, so this will be really a review of H1. In H1, we have achieved a turnover of about Rs.266 Crores of which is roughly flat compared to the previous H1. We could not make a major shipment, four shipments actually of export items which are lying in Chennai port awaiting ship's arrival. Otherwise we would have been much higher.

The net profit for the H1 has been Rs.13.93 Crores versus Rs.13.19 Crores, a growth of about 6%. So, although we have had a flat turnover, we have been able to improve our net profit position on account of several factors, which I will discuss a little later. As far as change in product mix is concerned, that is one of the items which have given us a change in our bottomline, although the revenues have not been growing to that extent in this quarter, barring exports as I told you. The electronic sets have picked up well and we have really been able to produce and sell about 110% more than last year, in non-electrics we have been able to do about 14% more, cartridges we have been able to touch about 17200 tonnes in this half year which is about 7% more and in special products for defense, space, etc, we have been able to do 40% more.

The order book as of now stands at about Rs.780 Crores, which includes exports, special products and metal cladding. Incidentally metal cladding opportunities have grown in the last one year and we are in a position now to execute more orders, which we are taking and we expect this trend to continue for the next two to three years minimum. The reason is that there has been industry wide capex growth in the country. The other thing is that CIL normally floats its two-year tender later near the



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end of two years, but this time they have started the event earlier because demand for coal has started increasing and Coal India production is projecting a higher growth in the coming two years.

In keeping with this kind of a trend, which we are seeing, we have been able to get our license capacities increased in bulk explosives by about 33% to 205,000 tonnes besides storage of bulk explosives which we have been able to get licenses for increase by 46,000 tonnes. We have earmarked this year Rs.20 Crores as capex for all these increases and the various other process changes that we are doing now. What I have been trying to tell you in these figures is basically that there has been a change coming in the type of product mix that we are handling. We are seeing a lot of change taking place in the energetic side, where our conventional products, which we were selling, are literally getting phased out in favour of non-electric and electronic products. So for the shift which is taking place and we have been putting a lot of emphasis on new products which are already developed or are in the final stages of testing. Also new process changes are taking place to be able to gel with this new market trend which is emerging.

In view of the reduction in market prices, which we have been talking about for the last one-and-a-half years we are doing a lot of upgradation of processes and cost rationalization programs. So this is the other angle, which we are now looking at. So the capex, which we are putting in this year, is actually going to address these kinds of new product development and upgradation in processes.

As far as Realty is concerned, we have really not been able to do much differently in this last two months since we had the AGM, but all efforts are on to be able to get more leases for our SEZ portion in the two buildings that have been completed in Bangalore. We have been able to progress further on the approvals required to get the master plan approved in Hyderabad. So these are the two developments after AGM date, which was the end of September. Other than that we do not have any immediate items to report in the Realty sector, but efforts are on and our objective is to first get the buildings No.2 and No.3 at Bangalore fully leased out.

To that extent a lot of work has been done with international property consultants and local brokers and we expect that results to start flowing in, by last quarter of this year. We are optimistic about it and we hope that we will be able to meet the kind of situation emerging, although north Bangalore still remains a little weak only because of lack of social infrastructure which is required by most IT/ITES organizations.

So with that I would like to now hand over to Mr. Ravi Jain our CFO to take you through the major features of our financials.

Ravi Jain:

Good afternoon everyone. Our MD has already briefed the highlights of our performance and financial results for H1 2018-2019, adding to that please note we have moved our accounting from I-



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GAAP to Ind-AS last year itself. Therefore, our previous year figures are also under Ind-AS and comparable. We are fully GST compliant as on date.

Coming to H1 results we have CFS total income of Rs.256 Crores compared to Rs.250 Crores in the previous year H1 which is 6.1% higher, mainly due to improved performance of GOCL standalone as well as its major subsidiary IDL Explosive Limited. As regards to H1 PBT, we also have improved performance of Rs.13.93 Crores compared to Rs.13.19 Crores previous year, which is 5.6% higher mainly due to improved profit in IDL as well as in GOCL standalone we have maintained the profit as previous year. In Energetic and Explosive segments, our turnover has improved by 8% mainly due to value added items like e-DET and Raydet and in mining segment we do not have any activity.

Coming to the Realty segment, MD has already briefed our lease rent from the lease executed for one floor will start from December 2018, but we have accrued the income of Rs.25 Lakhs under Ind-AS for Q2 2018.

As regards to IDL H1, revenue improved by 7% to Rs.198 Crores compared to Rs.185 Crore in the previous year, PBT has also improved by 7% to Rs.10 Crores compared to Rs.6 Crores in previous year, although we have taken a hit due to higher ~~product~~ forex losses.

Coming to our UK subsidiary HGHL Limited, you may have observed that we have reported other comprehensive income of Rs.148 Crores in Q2, which is basically due to increase in the fair valuation of Houghton due to surge in the stock prices of Quaker ~~and~~ at NASDAQ. The prices of Quaker on September 30 2018 were US \$198 compared to US dollar \$130 on March 31, 2018. We have also got advantage of forex fluctuation in our favour. As regard, combination of Houghton with Quaker, we understand they are making progress in both US and European regulatory authorities and are expected to receive the approval and close the deal sometime in January 2019. That is all from my side.

S. Pramanik: Aditya, I think we could take any questions which the participants may like to raise.

Moderator: Sure. We will now begin the question answer session. We have the first question from the line of Akshay Sathija, an individual investor. Please go ahead.

Akshay Sathija: Thank you for the opportunity. Sir could you throw some light on the phase I project Hyderabad in terms of what plans do we have, how many acres, how much we planned to sell or lease, what will be the commercial part of it or what will be the residential part of the project?

S. Pramanik: As far as Hyderabad is concerned we have already given all this data earlier but ...

Akshay Sathija: Could you just share or could you elaborate on the master plan?



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- S. Pramanik:** Okay. We are talking about 100-acre integrated development. In the 100 acres, of course, we have handed over to the government about nearly 10 acres of land for widening the roads and putting a 100-foot road through the plot. With this, basically the total development will be about 10 million square feet of a mixed development which will be 60% commercial and 40% residential. The commercial sites will have IT/ITES. We have planned a hospitality sector, recreational areas, green belt, healthcare. And of course, there will be some retail to cater to the people who are working or residing in this area. So that is the overall development plan which we are trying to do in phases. In Phase 1, we are targeting now about 23 to 25 acres of the development at the confluence of two of the major 100 feet roads, one going across and one abutting our development area. That is the general idea. We have submitted the master plans for the whole 100 acres as well as Phase I of the development as I was telling you.
- Akshay Sathija:** Okay. Sir, I believe five years ago from same project Hyderabad land, we had announced that revenue shares of GOCL would be 35%?
- S. Pramanik:** Yes, that is correct. The sharing ratio is 35:65, 35 to GOCL.
- Akshay Sathija:** Sir, but considering that the land prices at Hyderabad has gone up by 30%-40% and the announcement was done five years ago, do we expect some revision in the arrangement or the arrangement is going to be the same?
- S. Pramanik:** At the AGM, we have mentioned that the Board has seized up this matter and they will be taking up this decision once the plans are in some readiness for construction or handing out building I mean orders.
- Akshay Sathija:** Okay. Sir another question here, Sir by when can we expect the settlement to be completed from Quaker chemical merger or and the shares we have already received do we plan to monetize them or?
- S. Pramanik:** There are two questions here. One is when the merger is going to get completed. We were earlier talking about December 2018, but now the new press release which has been given by Quaker mentions that it is expected to be happening around January, so until we get some more details we are not able to really give you a firm date.
- Akshay Sathija:** Okay. And Sir one more question on the Bangalore project, that each one of us like, do you have any timeline by when we can expect, are they close to be leased or something on those lines?
- S. Pramanik:** See that is an issue which we are also trying to take up with our developers, they have given us several deadlines but unfortunately nothing concrete has come out, we have had a lot of queries which are coming in, we have had a lot of site visits which are going on and several discussions are on with



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major property consultant and international consultants because basically people interested in our kind of property are international clients, who would like SEZ based in India. So that is going on, but nothing has fructified to be able to tell you that. Therefore, I mean I would like to only give you the messages when we get them that something more has been finalized, but in the mean time, as Mr. Ravi Jain has said that we have got - I mean the first client he has already started functioning from there and he is supposed to be working with nearly about 500-600 employees, so many of them have already joined and he has started functioning from our campus.

Akshay Sathija: Sir final thing, Sir on standalone basis, the company has been generating profits worth of Rs.3 Crores to Rs.4 Crores for past of previous quarter. Sir, are we neglecting our business or what is happening on that front? It is revenues - profitability generated from the standalone point, it is very low?

S. Pramanik: If you just reflect back on what I told you, basically there has been a shift-taking place in the market of products which are required from the energetic sector. The standalone results are reflective of the activities in Energetic sector. 40% of the products which we have been selling till about a year ago has all shifted out, there is hardly any demand now for that, so all our facilities etc, are being shifted to the new products which are basically non-electric and electronic products. This shift has not taken place to this extent in the export market, but we have to cater to the domestic shift because that is a major portion of our business as of now. That is why you are seeing that the turnovers are flat but the bottomlines are quite steady. I mean we are basically still delivering a bottom line of about 5.2% and 5.6% this time as in the last year Q1. On consolidated basis. The standalone figures are around 11.1% PAT. Basically, we have rationalized cost and brought in change to new products. Although, the turnover is not showing much of it, the bottomline is showing up. That is the major change which has taken place.

Akshay Sathija: So, by when can we expect some changes in the business or in the standalone?

S. Pramanik: Standalone is quite good. It is at 11.1% this year as against 11.9 last year. In our kind of industry, getting more than this is sometime quite difficult unless the product mix changes again dramatically, we are working towards that.

Akshay Sathija: Okay Sir, that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Rajiv Rupani, an individual investor. Please go ahead.

Rajiv Rupani: Regards to you Pramanik Sir and the team. Sir, I needed an update on the Bangalore 40 acres, you just mentioned in your opening comment that like the two buildings, which are ready, should be leased by March end.



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- S. Pramanik:** Yes, that is our focus just now.
- Rajiv Rupani:** Okay, so I mean how likely it is that over next six months it should be leased?
- S. Pramanik:** I think I have already answered Mr. Akshay a little earlier on the same issue that as of now there is a lot of discussions and site visits, but nothing has really fructified, so I mentioned that we will now make a statement as soon as we get some signed document before we are able to give you any further detail. As of now I am not to getting into a dialogue on this because we have given you dates earlier and unfortunately the market trend there, especially in North Bangalore, has not been keeping up with whatever kind of projections we have been looking due to the social infrastructure lagging behind. So as I said, the first lessee has already started operations and already his employees have started joining and shifting out from other locations etc., so that location lot of activity level which will help.
- Rajiv Rupani:** Okay. Sir and I had a follow-up question. Last con call you had told us that, the social infrastructure is coming up and the metro is coming to the airport, so you had updated me that the balance area will be developed over a next three years, so can you give us an update on that?
- S. Pramanik:** I think we have already given you an update in the AGM when you attended and I have already said that from the AGM till now there has not been much movement except that we are having a lot of site visits, discussions etc., other than I have really no update as of now.
- Rajiv Rupani:** No but at the AGM, a bit of my answers were not answered to because....
- S. Pramanik:** I cannot take up an AGM issue here, but as of now I do not have any specific update to tell all of you about the developments in Bangalore except that we are focusing on the first two buildings before we take up other building. General approval is there. If you recall we made a statement also in the AGM that we are now looking at customers who require built to suit. So therefore, once the built to suit items come in we will start looking at how to develop the additional land and how we should apportion and ask for changes in the master plan for which we have already got approval.
- Rajiv Rupani:** A small update I need on block 4, I mean have we received the approvals and when do we plan to start?
- S. Pramanik:** The block 4 is been put into the build-to-suit area, therefore, we have not moved at all on that block.
- Rajiv Rupani:** Okay.
- Moderator:** The next question is from the line of Govindlal Gilada, an individual investor. Please go ahead.



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Govindlal Gilada: Good afternoon Pramanik Sir.

S. Pramanik: Good afternoon Mr. Gilada.

Govindlal Gilada: So I got two questions. First one thing is Bangalore, one floor we have leased out, is it not? That is what I have been told. What range we have leased out?

S. Pramanik: It approximately comes out to I think Rs. 43.2.

Govindlal Gilada: 43.2 per square feet?

S. Pramanik: That is right.

Govindlal Gilada: Per square feet per month?

S. Pramanik: Yes, that is right.

Govindlal Gilada: Okay so this Bangalore total, I think, SEZ portion all the buildings put together we are developing something 50 lakh square feet?

S. Pramanik: We have developed only buildings 2 and 3 as of now. We have not gone any further. The total development as we had said would be around 5 million square feet.

Govindlal Gilada: Yes, 50 so right now till three buildings how much it is...?

S. Pramanik: Two buildings are ready.

Govindlal Gilada: Okay two buildings, how much square feet you have developed out of 50?

S. Pramanik: It is about 1.5 million.

Govindlal Gilada: Our share is 30% right?

S. Pramanik: Yes, approximately.

Govindlal Gilada: So this is okay, then Hyderabad first phase, you have told that some 23 or 25 acres we are developing. So once the work starts from the permissions we all get, so how long it will take first phase to complete Sir any rough idea?



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- S. Pramanik:** No, all our estimates are really going out, so I would not like to venture a new date till I get something concrete in hand.
- Govindlal Gilada:** No I am not asking when we will start. I am asking when all the approvals are in place when you start constructing, from there how long it will take?
- S. Pramanik:** Once it is all in place, then normally it takes about maximum three years.
- Govindlal Gilada:** Okay that is what I am asking, so out of that 10 million you told for whole 90 acres?
- S. Pramanik:** Right.
- Govindlal Gilada:** For this latest 25 means one fourth, something around 2.53 million we will make?
- S. Pramanik:** No it may not be exactly like that. You see the reason is, it is a 60:40 mix, so in a 60:40 mix in some areas you may get more I mean commercial which will be high rise building or multifloor and the residential may not be multi stories in that block. So that direct ratio may not work.
- Govindlal Gilada:** Okay whatever it is, so what we will get our share GOCL 35% or for higher sale because of land prices are up?
- S. Pramanik:** 35% as of now there is no change in that.
- Govindlal Gilada:** Yes as of now, but I request...
- S. Pramanik:** We have replied to that in the AGM, so I do not want to reopen that issue here.
- Govindlal Gilada:** Okay again I am requesting, because I am searching land for my house in last six months rates have gone up 30%-40%. I was looking something in Banjara one lakh rupees per yard, now it is 150, that is what I am just brining what is drawn to reality, okay, so this construction what residential and commercial we are going to build? So this residential totally we are going to be selling outright right? No on right from residential portion?
- S. Pramanik:** I could not follow this question on residential.
- Govindlal Gilada:** Residential portion you will be selling outright know or will be leasing what is ...?
- S. Pramanik:** That model is not yet finalized, but as far as we understand HEPL feels that most of it should be on sale basis. I do not have any concrete figures to share with you.



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- Govindlal Gilada:** Okay agreed, so remaining this commercial will be also sale and lease or it is on total lease?
- S. Pramanik:** Commercial is mainly, as we see things moving will basically be all lease, we do not see too much of sales going on in that area, but it is quite possible that if the target audience are multi-national, then it is quite possible that many of them may want to give us an offer for buying.
- Govindlal Gilada:** But suppose there is demand we are open for even sale also know, it is not hard and solid, we will lease only?
- S. Pramanik:** No that is what I am saying. I do not have a completely watertight business model now to discuss with you. But our experience till date has been that most people want long leased areas.
- Govindlal Gilada:** Now in permission part, most of the permissions are in place? Something we can expect in six months to happen? Any rough guess, I am asking, I am not asking for hard and rough rule?
- S. Pramanik:** We have been trying to tell you whatever we were getting from the developers but I do not have concrete dates to share with you, as soon we as I get it we would certainly share with everybody.
- Govindlal Gilada:** No any rough guess I am asking because
- S. Pramanik:** I do not want to make a guess because we were to get - so many days are over and we have not been able to move at the pace at which we were expecting.
- Govindlal Gilada:** Sir last question is how much on that account loan is due in our balance sheet to be repaid by lubricant?
- S. Pramanik:** \$80 million US as on date, which we are supposed to complete by November 2019.
- Govindlal Gilada:** That when it will be repaid Sir by....
- S. Pramanik:** It will be paid by November 2019, it was total 300 million, we had paid 120 in one go, balance 180, now it has been reduced to 80 million and it is going to be over by November 2019.
- Govindlal Gilada:** So 80 million it will be nil by next one year.
- S. Pramanik:** Yes.
- Govindlal Gilada:** Sir I am through from my side. Thank you very much.



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- S. Pramanik:** Thank you Mr. Gilada.
- Moderator:** Thank you. The next question is from the line of Rajiv Rupani, individual investor. Please go ahead.
- Rajiv Rupani:** Yes, Pramanik I just needed a small update on Houghton. Sir GOCL was to receive some cash component also and at the AGM you said, what I knew was about \$17 million, so can I have an update on that?
- S. Pramanik:** Sorry we do not have an update on that because it is linked to expenses to be incurred etc., by Houghton and by Quaker in the final settlement considering the expenses for various kinds of approvals and clearances etc, so that is still open. We do not have an update on it yet.
- Rajiv Rupani:** Okay Sir no problem and I needed a small update on the Bangalore project. Sir, we have taken time extension from government for the IT exercise, so can we have an update on that till what time we have an time extension now, it is valid?
- S. Pramanik:** Yes, it is valid and they are giving us extension as and when we are asking for it, so there is no issue on that.
- Rajiv Rupani:** Okay and lastly on Bangalore, you know earlier you had posted to BSE and given us a update as once that 30 acre IT SEZ is complete, GOCL would receive about Rs.70 Crores annual rental income so as and when this whole project is complete this would projection remains the same, would you please guide us?
- S. Pramanik:** Projections will be changing because of the basic assumptions that we made at that time and now are slightly different. As Mr. Gilada was saying land prices are moving up, so if we do a sale then it is...
- Rajiv Rupani:** I am talking about Bangalore Sir.
- S. Pramanik:** I am still talking about Bangalore because if we do built to suit, the model is different from what the earlier model where we are talking about building and leasing. Moreover, the rentals are different now from our earlier estimates. We have been able to get some good rates for the first one and we expect that it should be improving as we go along.
- Rajiv Rupani:** Okay. And Sir my last question. Sir at the AGM also I had asked this question. Now you have informed us that the Bhiwandi land value is about Rs.600 Crores and the Houghton stake is about Rs.400 Crores to Rs.450 Crores. So, I was thinking you know if this could be used by my company to take the company to the next level, invest in the defense business or develop our own land bank in future, can you give an update?



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- S. Pramanik:** That position as we announced then remains the same. We are working on certain plans for utilization of that money when it comes in. Once we are ready the Board will take a decision as to how this should be utilized and we will be in a position to share that with you.
- Rajiv Rupani:** Thank you so much Sir. That is it from my side.
- Moderator:** We have a follow-up question from the line of Govindlal Gilada, individual investor. Please go ahead.
- Govindlal Gilada:** Any development on mutt land Sir?
- S. Pramanik:** No development. We have not got any hearing till date from the Supreme Court.
- Govindlal Gilada:** Okay. Then last question Sir from my side. I am hearing rumors that this GOCL will be merged with Hinduja Realty any sense in this Sir on what I am hearing?
- S. Pramanik:** Well I am hearing it from you. I do not have anything to comment on this sorry.
- Govindlal Gilada:** Okay, thank you very much.
- S. Pramanik:** Yes okay.
- Moderator:** Thank you. As there are no further questions I would now like to hand the conference over to the management for closing comments.
- S. Pramanik:** Well we have tried to give you a full brief of the position as on at the end of H1. What you will have noticed is that although the market trends are shifting, the demands are shifting, we are moving in a way to revamp all our product lines, our processes and therefore keep our market shares going and improving from year to year. We have also improved our position with respect to exports and we feel that we should be in a position to do much better in the export market. We have been able to go into new territories, gain new customers abroad and also been able to introduce some of our newer developments and new processed items into this market. The other area where we are doing well is the special products group, where we have been able to stabilize all our production facilities for the items, which we supply to defense and space areas. We have also been able to get into the aerospace area, where we have been able to get some transfer of technologies and we have been working on that. We should be in a position to start production of these items from maybe next year, in Q1 / Q2 that range. A little while ago I also did mention that in view of the capital expenditures now being made by various companies across India they require a lot of metal clad plates for new equipment which they are putting up, very large plants are coming up / modernizing to become more



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environmental friendly. That is another area where we proposed to put our attention and we have been able to discuss with a lot of major capital equipment manufacturer for supply of our metal clad plates.

So overall, on the basic core businesses of energetic and explosives, we are extremely steady and moving quite well. We are also putting in capex into these areas and we should be able to maintain our market share as well as improve all bottomlines. As far as realty is concerned, yes we are a bit slow on that side but then we are also moving steadily. We are not exposing ourselves to too much of capital blockage there because once the buildings come up we also have to look at the revenue side. So we are going in a very planned way. We are looking at customers, possible leasing options, built to suit options before we actually start that particular phase of development. So this is the overall position. But we are extremely steady and you are seeing that over the last six or eight quarters that we are moving very steadily, especially, our core businesses.

Thank you very much for joining us and we look forward to again sharing data with you and once the H2 results are ready. That would be somewhere around end May. So I look forward to that meeting and hope to give you more data at that point of time. Thank you very much.

Moderator:

Thank you very much. On behalf of Axis Capital Limited we conclude this conference. Thank you for joining us. You may now disconnect your lines.