

Gulf Oil Lubricants

Operator: Ladies and gentlemen, good day and welcome to Gulf Oil Lubricants India Ltd. Q2 FY27 earnings conference call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in 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. Probal. Thank you and over to you.

Operator: Thank you so much. Thank you to everyone for making the time to attend this post-Q2 results discussion call for Gulf Oil Lubricants. As always, we are joined by members of the senior management of the company, Mr. Ravi Chawla, who is the Managing Director and CEO, and Mr. Manish Gangwal, Whole-time Director and CFO of the company. The format will be as always. Ravi and Manish will give their opening brief on the results, and thereafter we can move into an interactive Q&A session. Without further ado, I will hand over to the management. Ravi?

Ravi Chawla – Managing Director & CEO: Thank you. Good afternoon, everyone, and thank you for joining our Q2 call. We would like to start by passing on our festive greetings to all of you in advance for the coming season. We are very happy to share with you that Q2 has also been a very robust quarter for us.

We have continued the strong lubricants volume growth that we saw in Q1. Q1 was also a quarter where there were supply issues, and we showed agility and grew more than 3–4 times the market. Q2, again, is a testimony to our strong business model, which is very robust and consistent. We expected the monsoon, being a low-seasonal quarter, to play its role, but we are delighted to share that the team has delivered these results, which are again industry-leading, with 16% growth.

Despite a tough situation internally in terms of cost challenges and also the West Asia crisis, we are seeing costs remaining at the levels they were at. I think it has been a very good all-round performance by all segments. Each and every segment of ours has been able to grow. Even the B2C segment has shown that we are able to generate primary and secondary sales.

The two segments that performed very well, as we have given in our press release, were the OEM franchise workshop segment and OEM factory fill. OEM factory fill picked up for us in double digits; in fact, OEM franchise workshops grew in the high double digits. The B2B industrial segment was also a very good segment for us in this quarter, again growing in the high double digits.

We continued our focus on looking at new customers, and some of the B2B industrial customers that came in contributed nearly one-third of the incremental growth. We are very happy to share that. We have a large number of OEM franchise workshops, about 7,000, with OEMs that have been with us. We have a very good portfolio of OEMs, ranging from commercial vehicle OEMs to car OEMs, tractor OEMs, and industrial OEMs, across India. That has been a very positive factor for us.

We have really shown agility, which has continued in a challenging environment. Manish will talk a bit more later about some of those things, but our calibrated price increases have also given us a good return overall, given that there have been many challenges in the market.

Report is AI-generated and may contain inaccuracies.

Gulf Oil Lubricants

We are also happy to share that during this quarter, we started the biggest investment ever in the history of Gulf in terms of an advertising campaign, with our campaign for our Pride product and also our repositioning of our brand under "Born to be Behtar," what we call "Kuchh Behtar Kar," which means "performance beyond limits." That was the start of our motorcycle campaign.

Our mechanic engagement and BTL activities continued with greater vigour. We also continued to focus on premiumization as part of our strategy and continued to gain momentum in this area.

We also had the Chennai plant, as you know, working on several ESG and environmental initiatives. The Chennai plant was awarded the IGBC Platinum certification, which is a significant milestone and again shows our strong commitment to sustainability.

Overall, it was a very good quarter for us. Given what we are seeing, the monsoon quarter produced a very good result for us. There are definitely challenges, but our growth engines are going very strong. One of the key factors is agility in execution, strategic pricing interventions, and effective opportunity conversion supported by customer acquisition and growth.

I will now hand over to Manish to give some granularity on a few things, and of course, we will be happy to take your questions after that. Manish?

Manish Gangwal – Whole-time Director & CFO: Thank you, Ravi. Good afternoon, everyone. As Ravi mentioned, we had a very strong quarter. On the back of a strong Q1, we have delivered another quarter of growth momentum, where our volume grew by nearly 16% and revenues grew by 44%. This has been robust, volume-led, profitable growth, where our EBITDA, in line with our volume and revenue growth, also delivered strong 37% growth on a quarter-on-quarter, year-on-year basis.

At the same time, it is important to note that we have been able to maintain our margins more or less near the guided band of 12% to 14%. The margins for the quarter are 11.8%, which is very close to our guided band.

On a per-litre basis, which we have highlighted in our previous calls as well, in an inflationary environment it is better to look at the per-litre metric. We have been able to protect our per-litre margins, which means that the cost increases have been passed on to customers and consumers on a per-litre basis.

In such a challenging environment, where supply security was important for our customers and consumers, we have been able to deliver every single litre that our customers, partners, and OEM partners were looking forward to.

As Ravi mentioned, it has been a very agile performance in a challenging environment. Cost increases were happening, price increases were taken on a timely basis, and the result is that we have delivered one of our strongest quarters, which is Q2.

Overall, our core lubricant volume was 47,000 KL versus 40,500 KL last year. This means that we added 6,500 KL during the quarter, which gives us 16% growth. AdBlue and year-to-date volume were 95,000 KL, which means that over last year's H1, we grew approximately 17% in volume.

Report is AI-generated and may contain inaccuracies.

Gulf Oil Lubricants

We all know that this was a monsoon quarter, so there were slightly fewer vehicle movements during this quarter, especially truck movements, which were lower because of the monsoon in various parts of India. That also resulted in slightly lower consumption in certain categories.

One reason why our AdBlue volume, which was 33,000 KL in this quarter, was slightly lower was the lesser volume compared to our usual level. On an H1 basis, we were almost flat on AdBlue. We delivered close to 73,000 KL, which was a flattish kind of AdBlue delivery.

On the core lubes side, we performed exceptionally well. We clearly delivered 3–4 times the industry growth in H1. With this, we would be happy to take questions. Thank you.

Operator: Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Pankaj from {? Avis ?} Capital. Please go ahead.

Pankaj – {? Avis ?} Capital: Very good afternoon. Thank you for the opportunity, and congratulations on the great set of results. I have a quick question. My first question is on working capital. Our inventory days and debtor days have meaningfully increased in H1 if you compare them with FY22 numbers. I wanted a little more colour and clarity on that. Is the working capital requirement that we have incurred in H1 normalized, or are we looking forward to seeing some improvement in the coming times?

Management: As we mentioned, there have been significant cost increases and price increases. Therefore, both inventory values and receivable values have gone up, which are reflected in the increase in working capital.

In terms of the number of days, we are still within our usual band of approximately 95 to 105 days. In terms of the number of days, we have not seen any meaningful increase. However, absolute values have gone up simply because pricing has been tremendously high.

Pankaj – {? Avis ?} Capital: Working capital has historically been at a level below 80 days. Are we expecting that to increase to around the 100-day level? Is that the guidance for the coming period?

Management: It all depends again on the pricing situation. If prices remain at these levels, we have to support our customers and distributors with slightly increased working capital because their working capital requirement in terms of amount also goes up.

We have to be pragmatic about that, but in terms of the overall number of days, we would say that the level we have reached should be close to a peak. From here, if prices do not escalate significantly further, we should see some moderation.

Pankaj – {? Avis ?} Capital: Thank you. My second and last question is that we recently had a fire incident at Valsad. What is the quantum of the loss, and is it all covered by insurance, or are we expecting something to affect our P&L as well?

Report is AI-generated and may contain inaccuracies.

Gulf Oil Lubricants

Management: The stocks are covered under insurance. Obviously, the entire fire has been extinguished, and we see that the equivalent of approximately 4–5 days of production has been lost in terms of inventory.

We are going to run some extra shifts at both our plants. Both our plants are also running at full capacity, and all our other 25 warehouses across India are fully operational. If required, we will shift some material from other locations as well. Therefore, we do not anticipate any disruption to our customer supplies.

Pankaj – {? Avis ?} Capital: Great. Thank you, and all the best.

Management: Thank you.

Operator: Thank you. The next question is from the line of Mukund Agarwal from B&C Advisors. Please go ahead.

Mukund Agarwal – B&C Advisors: Hello. Thank you for the opportunity, and congratulations on the great set of numbers. Am I audible?

Management: Yes, please go ahead.

Mukund Agarwal – B&C Advisors: I wanted to know how H2 looks compared to H1.

Management: In terms of which parameters are you asking?

Mukund Agarwal – B&C Advisors: In terms of sales.

Management: Sales?

Mukund Agarwal – B&C Advisors: Yes.

Management: [off-mic discussion] How does H2 look?

Management: You see, Q1 had very good growth of 17% for us. We mentioned then that supply security was also an added element, but obviously we performed very well. Q2 has delivered 16% growth, which is again a good, robust quarter.

Normally, when the festive season arrives in October, November, and December, followed by January, February, and March, H2 generally has good conditions. We expect H2 to be good. However, because H1 also benefited to some extent from the supply issue, we expect H2 to have the normal 3–4% growth of the lubricant industry.

The lubricant industry generally delivers 3–4% average growth, and we will deliver 2–3 times that. That is how we look at H2. We hope that the situation will be better for us because we have been able to push some other segments.

There is slightly weak demand coming from the agricultural season this month, and that is something we will have to factor in. However, we will obviously try to push and achieve 2–3 times the market growth, which will take us close to double-digit growth in H2 in volume terms.

Report is AI-generated and may contain inaccuracies.

Gulf Oil Lubricants

Mukund Agarwal – B&C Advisors: Also, if crude prices rise from here, will it be possible for us to pass on the price increase to the consumer and maintain the same margin?

Management: We have to keep a very close watch on crude movements. As we all know, and as we have briefed our investors on many earlier occasions, base oil, which is our key raw material, is a derivative of crude and has a time lag before the impact of crude reaches base oil.

We have to wait and watch. So far, we are not seeing any major change in base oil pricing from the recent crude rally, which was from \$100 to \$115. However, we have to keep watching that very closely.

If required, we will have to take calibrated pricing actions, but as of now we are not seeing that in base oil. We also carry inventory for at least 45 days and sometimes 60 days of base oil.

Therefore, not immediately, but if crude sustains at these levels and rises further, we may have to take certain actions to pass on further price increases.

Mukund Agarwal – B&C Advisors: Also, in multiple conference calls previously, we have said that we are currently targeting a margin of 12% to 14%, but in the coming period we will target 14% to 16%. When and in which year should we start expecting those margins?

Management: Our medium- to long-term trajectory is to move to the 14% to 16% band, which we have highlighted earlier as well.

We also have to factor in that what has happened in the last 6 months is a significantly inflationary situation. Our top line has gone up significantly, whereas our endeavour is to protect our per-litre margin.

That is why we have been guiding investors to focus more on the per-litre metric. If the top line and bottom line go up by the same amount, the percentages decline.

This time also, we are at 11.8%, although on a per-litre basis we may be slightly higher than in previous years. Our endeavour is to protect the per-litre metric, and whenever there is an opportunity and prices stabilize, we will start our journey towards 14% to 16%.

However, this is a medium-term journey. It is not going to happen in one or two quarters.

Mukund Agarwal – B&C Advisors: This year, will we also be paying a similar dividend compared to last year, in percentage terms relative to profit?

Management: Over the years, we have been increasing our dividend payouts. Last year, I think we had close to 65% to 70% dividend payouts.

Obviously, we are looking very closely at the utilization of the cash we carry on the balance sheet. We continue to evaluate other strategies to be implemented in terms of mergers and acquisitions and so on.

If there are opportunities to invest money in our existing business or in adjacencies around the businesses we are evaluating for mergers and acquisitions, we will prioritize those opportunities.

Report is AI-generated and may contain inaccuracies.

Gulf Oil Lubricants

If we continue to generate cash, we would obviously like to return the cash to shareholders based on our past trends whenever we are in surplus and do not have an immediate utilization for the cash.

Mukund Agarwal – B&C Advisors: Thank you. That is all from my side.

Management: Thank you.

Operator: Thank you. Anyone who wishes to ask a question may press star and one on their touchtone telephone.

The next question is from the line of Dhaval from Choice International Limited. Please go ahead.

Dhaval – Choice International Limited: Thank you for the opportunity, and congratulations on the great set of numbers. My first question is on Tyrex revenue for the first half. If possible, could you provide some colour on that?

Second, if possible, I would like to understand the OEM, B2B, and B2C share currently as a part of revenue, and where we expect the B2C share to be approximately one year from now.

Management: On Tyrex, Manish will add to this, but we have had a good quarter. I think Tyrex delivered 78% growth in revenue. Of course, the base is low, but we still performed well. Last year it was 18 crores, and now we have done more than 33 crores.

As you can see, electric vehicles are selling more, and we are also seeing an increase in buses. We have requirements from OEMs, and we have also started talking to CPOs.

For us, Tyrex is an area where, as we have announced, we are going to increase capacity to 3,000 chargers, and that will happen sometime toward the end of this year.

For us, Tyrex has a good portfolio in the DC market. We are now also looking at expanding the product portfolio for buses. It was a good quarter, showing that EV requirements in terms of chargers are increasing.

That is a positive development. We are also looking at segments such as mining and construction equipment that will use these products. A lot of synergy with our software-as-a-service company, ElectreeFi, is going to materialize, and we are adding new OEMs there.

We are also glad to share that many private buses and construction equipment companies are now looking at these options. It was a good Q2 for Tyrex, and we will also have expanded capacity coming in, with new products in the pipeline.

I think the second part of your question was about B2C. The B2C business also depends on our brand, distribution, and distributors. We are happy to share that distribution growth is going well.

We used to talk about 90,000 outlets, but that is growing by approximately 10% to 15%. Every quarter, we try to increase it over the previous year. We have seen 16% growth in the number of outlets.

Report is AI-generated and may contain inaccuracies.

Gulf Oil Lubricants

Given that our brand is number two, we obviously need to create more touchpoints. We are investing again with mechanics and others, and we expect our B2C growth to be at least close to the requirement of 2 times the market growth rate.

In fact, we want to exceed that, but given that there were some challenges last quarter, we will focus on achieving at least 2 times market growth in the B2C segment. We are moving in the right direction. In H1, we saw 2 times the market growth rate in B2C, just to clarify.

Dhaval – Choice International Limited: That is helpful. Thank you.

Management: Thank you.

Operator: Thank you. The next question is from the line of Arya from Emkay Global. Please go ahead.

Arya – Emkay Global: Thank you for the opportunity, and congratulations on a good set of numbers. My question is regarding the future outlook.

Crude oil prices are still elevated, and with base oil prices moving with a lag of almost one or two months, the incremental increase in base oil prices is yet to be seen. How do we see Q3 and Q4 from a cost perspective? Are we looking at any price increases, or are any other price increases planned for the upcoming quarters?

Management: I think we replied to this in the previous question. Some participants asked a similar question. We have already replied, but just to reiterate, we are watching crude movements and their eventual impact on base oil very closely.

Some of our other cost components, such as additives, have also been strengthening in terms of cost, and additive companies have been taking some price increases.

However, we have to wait and watch for a sustainable rise in crude. Short-term movements in crude do not really impact base oil because there is a time lag. By the time the increases are absorbed, there is sufficient time to recalibrate.

If crude sustains at an elevated level and impacts base oils after 40–50 days, we may have to look at price increases segment-wise.

However, we have taken sufficient price increases so far to pass on the current impact and protect our per-litre margins. Our endeavour will be to continue doing that and keep recalibrating based on movements in base oil and other input costs.

Arya – Emkay Global: Thank you. That was my question.

Management: Thank you.

Operator: Thank you. The next question is from the line of Dhvani from EquiTree Capital. Please go ahead.

Dhwani – EquiTree Capital: Hello, am I audible?

Report is AI-generated and may contain inaccuracies.

Gulf Oil Lubricants

Management: Yes, please go ahead.

Dhwani – EquiTree Capital: First of all, congratulations on the good set of numbers. I wanted clarity on Tyrex revenue of 33 crore. Was that for the quarter or for H1?

Management: This is for Q2.

Dhwani – EquiTree Capital: It is for Q2. Thank you. My question is: what is the cumulative price increase taken across our lubricant portfolio since September 2021? How much of the input cost inflation have we passed on, and is further pricing action expected?

Management: We have just replied to the same question in the previous discussion.

Dhwani – EquiTree Capital: Around 25% or something?

Management: We want to highlight again that we operate in many different segments. We have our B2C business, OEM businesses, B2B businesses, and industrial businesses. Each segment requires different pricing actions.

To give you an idea, in the channel business, which is our B2C business, we have taken three price increases so far.

In the OEM businesses, which constitute a good part of our business, we have quarterly price variation clauses, and we are in a position to pass on or pass back depending on how the [trails off]

Management: input costs move. Of course, over the last 6 months, some of the major OEMs have been helping us with monthly price variations. The movement in raw material costs was so fast and swift that we had to approach them again with monthly requests.

For B2B, we have to negotiate, work with the customers, understand, and explain the rationale for our price increases. That takes slightly longer.

Overall, different segments have different pricing actions and pricing levels, and they also operate at different price points. Depending on that, we are calibrating. Our endeavour, as we keep reiterating, is to protect per-litre margins.

Dhwani – EquiTree Capital: Understood. Have we gained any market share recently?

Ravi Chawla – Managing Director & CEO: We have been actively growing 2–3 times the market over the last many years. Dhwani, if we are continuing that with 17% and 16% growth, I think we are gaining market share quite well in terms of the overall market.

We have 7% to 8% total market share. If we are growing 2–3 times the market, we would definitely be gaining market share year-on-year and quarter-on-quarter.

Dhwani – EquiTree Capital: Thank you. All the best.

Ravi Chawla – Managing Director & CEO: Thank you.

Operator: Thank you. The next question is from the line of Hardik from ICICI. Please go ahead.

Report is AI-generated and may contain inaccuracies.

Gulf Oil Lubricants

Hardik – ICICI: Thanks for the opportunity. I have a couple of questions.

First, could you help us with guidance for AdBlue volume for the rest of the year and for the next financial year?

Second, on pricing, if you look at the blending pricing versus Castrol, what would be the pricing gap between us and Castrol?

Third, as you mentioned that our share would be 7% to 8% and we are growing at 2–3 times the industry, by what percentage would the OMCs' share have declined in the last 6 to 12 months?

Management: Coming to AdBlue, this quarter has seen a slight decline, as we highlighted earlier. Being a monsoon quarter, volumes are usually lower.

Going forward, in H2 as well as in the coming years, our endeavour is to grow AdBlue volumes at close to double digits. We are focused on growth because AdBlue is applicable only to BS-VI vehicles. As the population of BS-VI vehicles increases, we see demand increasing.

However, growth will no longer be exponential as it was during the last 5 years. It will now be calibrated in line with market growth and the BS-VI vehicle population.

We estimate that we should grow our AdBlue volumes in double digits. Our guidance has been 10% to 15% in the past, and we are maintaining that going forward.

Hardik – ICICI: What about the pricing gap between Castrol and us?

Management: We can comment on our own pricing. Our price points are based on various strengths in our product categories.

For example, we have a very strong brand in our two-wheeler motorcycle range and in our diesel engine oils, which are strong products with many unique selling propositions in the market. Our pricing positioning is quite good in those categories.

There are certain categories where we have to continue working, increase our brand position, and take pricing actions accordingly. Pricing depends on various segments and product categories.

We will not compare ourselves with anyone, but we have our own price monitors and price positioning in the areas where we operate.

Ravi Chawla – Managing Director & CEO: Just to give you one more input, as a brand we believe we are among the top two or top three in most categories, and overall we are close to a joint top-two position.

Based on that, the positioning can change, and of course it aligns with that rather than changing. That is really where we position ourselves in the market.

Hardik – ICICI: In terms of market share, what share would the OMCs have lost in the last 12 months?

Gulf Oil Lubricants

Ravi Chawla – Managing Director & CEO: We do not have that data right now. As you look at the industry, these are all estimates. In terms of gaining market share, that information is not available right now.

Hardik – ICICI: That is really helpful. Thank you.

Ravi Chawla – Managing Director & CEO: Thank you.

Operator: Thank you. The next question is from the line of Varadarajan from Antique Limited. Please go ahead.

Varadarajan – Antique Limited: Thanks for the opportunity. Looking at freight and other incidental costs of trade these days, are we also seeing a similar situation in the procurement of base oils? Apart from quoted prices, are there significant increases in freight, insurance, and other incidental costs?

Management: Mr. Varadarajan, I think freight rates have gone up. Sea freight rates have gone up because everybody is recalibrating their supply chain, including the refiners from whom we buy most of our base oils.

Everybody is facing elongated vessel movement periods when the Strait of Hormuz is not operating fully. Obviously, those prices are reflected in the overall base oil cost.

Most of our purchases are on a CIF basis, so all these costs are built into the base oil cost or global price indices. We do not see any additional incremental impact because our prices are always on a CFR or CIF basis.

Varadarajan – Antique Limited: Understood. Thank you.

Operator: Thank you. The next question is from the line of Raghav from BMC Advisors Private Limited. Please go ahead.

Raghav – BMC Advisors Private Limited: Congratulations on the good set of numbers. Over the last two quarters, we have seen an unusually significant change in inventories in the consolidated P&L, with inventory adjustments of approximately 109 crores in Q1 FY23 and 88 crores in Q2 FY23, compared with relatively insignificant amounts in the preceding four quarters. Could you give a reason for that?

Management: Prices have gone up, as we have been highlighting. Prices have increased because pricing for end products has gone up, whether in our lubricant business or our charger business. In the charger business as well, copper prices and other costs have gone up significantly.

Overall, these inflationary impacts are present. In addition, we made some extra purchases to secure supplies because sometimes when we receive a cargo and want to secure supplies for the future, we make tactical purchases.

The combined impact is that we are seeing elevated values. If the situation returns to normal, whenever that happens, we will see moderation in this as well.

Report is AI-generated and may contain inaccuracies.

Gulf Oil Lubricants

Raghav – BMC Advisors Private Limited: Thank you.

Management: Thank you.

Operator: Thank you. The next question is from the line of Devang from Sameeksha Capital. Please go ahead.

Devang – Sameeksha Capital: My question is on EBITDA-to-CFO conversion, which has been low for the last half year as well as for this half year. Has some seasonality entered our cash flows? How are they generated between the first half and the second half?

Management: There is no particular pattern. This first half has really been about the crisis we have been explaining in earlier questions. Prices have gone significantly higher, and we had to deploy additional working capital.

Mostly, you are seeing this because of the additional working capital requirements. Last year, H1 also somehow had a similar pattern, but there is no particular seasonality coming into effect here. It is coincidental that both H1 periods have been similar.

However, this particular H1 had a clear situation where global prices went up, and we had to support our customers with additional receivable days or amounts.

Devang – Sameeksha Capital: Until crude and base oil prices remain elevated, will our working capital also remain elevated?

Management: We have already factored the current cost dynamics into the H1 cash flows. From here on, in H2, if prices remain at these levels or trend within this range, incremental cash generation should be added to cash flows rather than going into working capital.

We are quite close to the peak of working capital if things remain at current levels.

Devang – Sameeksha Capital: Understood. That is all from me. Thank you.

Management: Thank you.

Operator: Thank you. A reminder to all participants: anyone who wishes to ask a question may press star and one on their touchtone telephone.

The next question is from the line of Dhaval Popat from Choice International Limited. Please go ahead.

Dhaval Popat – Choice International Limited: Thanks for the opportunity. I wanted more colour on cash deployment. We already have about 1,200 crores, and this cash balance continues to grow over time. Could you provide some colour on when and how we will deploy this, and at what pace?

Management: Mr. Dhaval, we have just answered this point in the previous questions. We are cognizant of the fact that we carry 1,200 crore of cash on the balance sheet.

Gulf Oil Lubricants

The plan is clearly to have a war chest for mergers and acquisitions within the lubricant space, within our current business, and in adjacencies around it. We are focusing very clearly on the industrial segment as a major driver of growth for the Indian economy as well as for the lubricant sector in the coming years and decade.

We are also looking at mobility as a major driver of Gulf Oil's next growth phase. We continue to evaluate opportunities. We have made some investments, as you all know, and we are exploring opportunities in and around those EV businesses and the value chain.

We also remain open to looking at merger and acquisition opportunities. That is how we have been monitoring the space.

In the interim, we have also increased dividend payouts. Wherever we felt that we did not have an immediate need for the cash, we increased payouts to close to 65% to 70%.

Dhaval Popat – Choice International Limited: Okay.

Management: Mr. Dhaval, I hope you have got your answer.

Dhaval Popat – Choice International Limited: Yes. Thank you.

Management: Thank you.

Operator: Thank you. The next question is from the line of Prashant from Gulf Oil. Please go ahead.

Prashant – Gulf Oil: Thank you for the opportunity. Can you please update us about the ongoing capex plan and the progress of the ongoing construction?

Management: The expansion at Chennai is on track, and we should be able to have the increased capacity by the end of this quarter.

The Silvassa capacity expansion is progressing well, but we see that there could be a delay of one or two months. The spillover may occur into Q1 of next year in terms of readiness, compared with our earlier target of March 2023.

We should perhaps be ready by Q1 of next year. In the interim, we are running third shifts at both plants wherever required to fulfil our needs.

Prashant – Gulf Oil: How much is the capital outlay for the ongoing capex, including both plants?

Management: We were estimating 55 crore earlier, as announced. We now see an incremental requirement of 5–7 crore, which the board has sanctioned recently.

The total capex for the expansion is now approximately 60–62 crore.

Prashant – Gulf Oil: Thank you very much. That is it.

Management: Thank you.

Gulf Oil Lubricants

Operator: Thank you. The next question is from the line of Ankit, an individual investor. Please go ahead.

Ankit – Individual Investor: Good evening. Congratulations on a very good set of numbers. I have two questions.

One is on the personal mobility front. If you can, or on the overall lubes front, could you mention the split between the B2C and B2B channels? Within the lubes segment, what will be our export contribution?

Management: The B2C-to-B2B ratio has generally been around 55-45, with 55% being B2C and 45% being B2B, roughly.

In this quarter, it was slightly closer to 50-50, where B2C and B2B were approximately equal. In general, if you look historically and going forward, B2C will be in the range of approximately 50% to 55%.

That is the range we are looking at going forward because we also have a fast-growing industrial business.

In terms of personal mobility, Ravi may want to add.

Ravi Chawla – Managing Director & CEO: Personal mobility is quite strong for us. 21% of our volume comes from personal mobility. We have a large motorcycle business both in the market and with aftermarket OEMs.

Our market share in PCMO, or passenger car motor oil, is less than 5%. That is where we are making significant investments. We are looking at new independent workshops through a programme called {? Custom Carstop ?}.

While we do not want to lose sight of our motorcycle business, we have just launched the Pride campaign. We want to make further inroads in passenger cars, and there is a great deal of focus there.

Ideally, we would like our personal mobility business to increase by at least 3-4%, with a large part of the increase coming from passenger cars.

Dhwani – EquiTree Capital: Noted. Just one more clarification on the 45% that you mentioned for B2B: does that include the industrial business, or is industrial separate from this?

Management: It is included, including industrial.

Management: Ankit, just to add, in terms of our motorcycle and car ranges, we are moving toward many high-end synthetic products. This is another endeavour where we hope to see some traction in the second half.

This is a range that we want to make approximately 10% of our portfolio over the next 3-4 years.

Gulf Oil Lubricants

Dhwani – EquiTree Capital: Noted. Would it be safe to assume that exports would be around 9% to 10% of the overall lube business?

Management: Over the last 6 months, exports have increased because of the global supply situation and the supply-demand situation. We have been able to export a higher amount. Currently, it is in the range of approximately 10%.

Dhwani – EquiTree Capital: Thank you so much. That is all from my side.

Management: Thank you.

Operator: Thank you. The next question is from the line of Mohit from Indium Investments. Please go ahead.

Mohit – Indium Investments: Hello, congratulations on a good set of numbers. My question is on other expenses. They are now 283 crores this quarter versus 321 crores last quarter. Would you please explain the rationale for this reduction?

Management: There are many elements in other expenses. The major components are freight and OEM-linked royalties.

It depends on OEM sales. The percentage of OEM sales relative to total sales also determines this. AdBlue volumes have been lower, which reduces freight costs.

Overall, these are the two major factors. Advertising and promotion, of course, remain at a similar level or are slightly higher because we had a major campaign for our Pride motorcycle range, as Ravi highlighted.

These are the two or three major items that have an impact. Some are linked to volumes, while some are linked to the mix of what we sell.

Mohit – Indium Investments: Understood. Thank you.

Management: Thank you.

Operator: Thank you. The next question is from the line of Probal Sen from ICICI. Please go ahead.

Probal Sen – ICICI: Thank you for the opportunity. This is an excellent set of numbers. I wanted to understand the margin profile and the outlook.

Obviously, this is currently a fairly challenging environment. Even with price increases, one cannot really hope for margin expansion. However, Ravi mentioned that OEM franchise workshops have driven volume growth, particularly in this quarter and probably over the last couple of quarters as well.

Is there a move back toward a more B2B-oriented share that is also driving a somewhat more muted margin profile in the current environment?

Gulf Oil Lubricants

If we look at the next 2–3 years, assuming that B2B or OEM relationships continue to drive volume growth, should we then expect margins to remain at the lower end of your target band, or does that not really have any relevance? I would like your thoughts on the overall scenario.

Management: It is a competitive field, and we have a segment-wise strategy. As you rightly said, we have OEM, franchise workshop, and market businesses.

The strategy is obviously to move to a higher margin band. The last 6 months have been very challenging.

If you look at our Unlock 2.0 strategy, it is about acceleration, premiumization, and transformation. We have discussed this in some forums.

When we talk about premiumization, it applies to all our businesses, including OEM franchise workshops and our market business.

The market business is where we believe the brand, being number two, needs continued investment, and distribution also needs to be at a higher level.

I spoke about some of the motorcycle products, such as Syntec. In an ideal world, premiumization would have increased margins. However, as we know, the challenging environment is still present.

We are not trying to increase our presence in one particular segment, but if we get business, we will not say no. If we get business, we will pursue the volume and the margin we can make, and each segment will make its own margin.

That has been our philosophy. We obviously want to grow in B2C and grow in high-end products, but if we receive more OEM franchise workshop business and it is profitable, we will not say no to it.

However, there is no attempt to specifically pursue that segment and change the way we want to approach the business.

As Manish was also saying, the mix is 55–45 between B2C and B2B. We would be happy if all segments grow together. Wherever there is an opportunity in a segment, we will pursue it because the market is dynamic.

Probal Sen – ICICI: I appreciate that. I was referring only to the fact that if the ratio remains at its current level, is it fair to assume that—without saying that we are necessarily targeting that mix—if that is the mix that develops given how challenging the environment is, analysts should factor in the slightly lower to mid-range of the margin guidance rather than factoring in expansion?

Management: As we have highlighted in some earlier questions, the percentages in these short-term inflationary environments look slightly lower optically. On a per-litre basis, however, our margins have been very stable and have actually grown.

If you look at the last year's H1 or the last year's full Q2 on a year-on-year basis, and even sequentially from Q1, our per-litre margins have increased.

Gulf Oil Lubricants

Our endeavour is threefold. Even if the mix remains the same, the bases are slightly different. If B2C grows at a certain percentage, say 2 times the market, and B2B grows at 3 times the market, the margin profiles are different.

The 2 times growth in B2C will contribute much more in terms of margin than the balance. Therefore, even if we protect the 55–45 range and grow volumes faster in both categories—one at 2 times and the other at even 3 times—our margin profile should improve.

With the incremental volumes, operating leverage, which we keep discussing, will always take effect. That should add to the percentage margins at the EBITDA level.

We are confident that our eventual trajectory toward the targeted 14% to 16% will happen. As Ravi highlighted in an earlier question, our focus on synthetic and high-end products continues to be strong within the company.

As and when the contribution from those products increases, our margin profile will continue to improve. Over the medium term, we are confident of moving higher along that trajectory.

Probal Sen – ICICI: If I may ask one last question, from a market perspective, have you seen any difference in the way the OMCs have been operating in the lubricant market?

I ask this in the context of their priorities being to supply essential fuels in the market, prioritize LPG production at the cost of even petrochemicals, and so on. Has that also had an impact, in your view, in terms of their momentum or aggressiveness in the lubricant market over the last 6 months?

Management: The OMCs form 30% to 35% of the market. They are expanding their base oil capacity to reduce imports and manufacture base oil locally. They are also augmenting capacity to produce more products in-house.

The market is quite attractive, and everybody has a certain market share based on their operations.

In terms of a pattern, I do not know, because the question is that they have many businesses besides lubricants. Their focus will be spread across multiple areas.

For us, the focus is on what we believe we are good at. We have continued to do that for the last 15 years, as you know, and we will continue to do so.

There is no change in the way we are looking at things. Of course, we would like base oil supplies to improve for us if the OMCs offer that.

On the lubricant side, it is more or less similar to what we have been seeing over the past decade and more.

Probal Sen – ICICI: Understood. Thank you for the detailed answers. Back to you, operator.

Operator: Thank you. That was the last question for today. I now hand the conference over to the management for closing comments.

Gulf Oil Lubricants

Management: Thank you very much. Before we come to the closing comments, I would like to share some news with all of you. Some of you may know that the Gulf brand was born in 1901 in the USA as one of the seven oil sisters.

We are completing 125 years on November 10 this year. We announced and kicked off our celebrations yesterday for our 125th year.

We are a young brand. With the Hinduja Group, we have been present for more than four decades. We kicked off the celebrations yesterday with our Chairman, our brand ambassadors MS Dhoni and Smriti Mandhana, and the launch of the celebrations.

I am happy to share that the theme of this launch—not launch, the celebrations—was our new brand positioning. This is “Kuchh Behad Kar” for India, in line with our global positioning of “Together, We Are Unstoppable.” It also defines performance beyond limits.

The theme yesterday was “Born to be Behad.” We believe that we have always set limits and then gone beyond them, including with our long-drain oils and our 2–3 times growth relative to the market.

We are happy to celebrate this milestone with you. Not many brands reach this age, and we are very proud of it. Thank you for all your support.

In terms of the outlook, our strategic and operational execution priority has always been to grow 2–3 times the market. We see continued momentum, which you have also seen in Q2. In fact, Q1 and Q2 have both been well ahead of that.

We will continue to maintain agility in execution. We are looking at timely interventions to ensure that we achieve our per-litre margin, as Manish has been discussing, and maintain a sustainable EBITDA margin band.

One of the changes we are making from our master brand is to develop category brands, which will help us further increase market share across categories.

We are quite strong in OEM franchise workshops and B2B, and we will continue doing that. We will continue trying to gain customers and will definitely remain focused on it.

The coming quarter is a festive quarter. Except for the agricultural segment, which I mentioned earlier, we expect all other areas to give us the growth the market has been delivering, which is 3% to 4%, while Gulf has been able to grow ahead of the market.

In Tyrex, as I mentioned, we will complete our plant expansion in the coming quarter. Hopefully, we will then begin the changeover to higher production, which will give us an opportunity to leverage the expanded capacity.

Our software-as-a-service company is also gaining traction in the overall EV environment. India is seeing decent traction in electric cars. To give you an example, the number of electric cars sold in the first half is nearly equal to the number sold in the full year last year, with more models coming in.

Report is AI-generated and may contain inaccuracies.

Gulf Oil Lubricants

This represents a good transformation in the mobility segment. We will also continue to focus on synthetics and premiumization.

We look forward to catching up with you. As I started by greeting you for the festive season, I will leave you with the same thought: Happy Diwali to all of you and your families. We look forward to catching up with you again. Thank you very much.

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

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

Report is AI-generated and may contain inaccuracies.