Gulf Oil Lubricants India Ltd.

Q2 & H1 FY27 Earnings Conference Call
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Hosted by ICICI Securities

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MODERATOR: **MR. PROBAL SEN – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Gulf Oil Q2 FY27 earnings conference call hosted by ICICI Securities 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 'star' then 'zero' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Probal. Thank you and over to you, sir.

Probal Sen: 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 the 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 sir and Manish sir will give their opening brief on the results and thereafter, we can get into an interactive Q&A session. So, without further ado, I'll hand over to the management.

Ravi Chawla: Good afternoon, everyone, and thank you for joining our quarter 2 call. We would like to start off by obviously passing on our festive greetings to all of you in advance, the coming season.

And very happy to share with you that the quarter 2 for us has also been a very robust quarter. We've continued the strong lubricants volume growth, which obviously we saw in quarter 1. Quarter 1, I would say, was also a quarter where there were supply issues and we showed agility and we grew more than 3x, 4x the market.

And quarter 2, again, kind of is a testimony to our strong business model, which is very robust and consistent. So, the 16% growth in a quarter in which we expected the monsoon, being a low seasonal quarter would play its role. But really delighted to share with you that the team has come up with these results, which are, again, I think, industry-leading with 16% growth.

Despite a tough situation internally in terms of cost challenges and also West Asia crisis, we have seen obviously the costs remaining what they were. And I think for that, it's obviously been a very, very good all-round show by all segments.

So, each and every segment of ours has been able to grow. Even the B2C segment has obviously shown that we've been able to get primary, secondary sales. Definitely, the two segments which came out very well as we have given in our press release is the OEM franchisee workshop, even OEM factory fill picked up for us, double digit. In fact, OEM franchisee workshops was high double digit. And the B2B industrial segment also was a very good segment for us in this quarter, again, going into high double digit. We continue our focus to also look at new customers. And I think some of the B2B industrial customers that came in, nearly 1/3 of the incremental growth is from new customers. So very happy to share that.

And we have a large number of OEM franchisee workshops, about 7,000 numbers with OEMs who have been with us, and we have a very good portfolio of OEMs right from the commercial vehicle to the car OEMs, to the tractor OEMs, to industrial OEMs right across India. So that has really been a very good positive for us.

We've been able to really show the agility continued in a challenging environment. Manish will talk a bit more later about some of those things. But I think our calibrated price increases have also been able to really give us a good return overall given that there were lots of challenges in the market as we have seen.

And we also are 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, positioning on ‘Born to be Behad’, what we say ‘Kuch Behad Kar’, that is actually ‘Performance Beyond Limits’. So that was a start off of our motorcycle campaign. Our mechanic engagement BTL activities continued with greater vigor. And we also continue to focus on premiumization as part of our strategy and continue to gain momentum in these.

We also had the Chennai plant, as you know, working towards a lot of ESG and environment initiatives. The Chennai plant was awarded the IGBC

Platinum certification. And really, that is a significant milestone, again, showing our strong commitment to sustainability.

I think overall a very good quarter for us and given what we are seeing, the monsoon quarter, a very good result for us. And definitely, there are challenges, but as we see our growth engines are going very strong. And one of the key is the agility and execution, strategic pricing interventions, effective opportunity conversion supported by customer acquisition and growth.

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

Manish Gangwal: Thank you, Ravi. Good afternoon, everyone.

So, as Ravi mentioned, we had a very strong quarter. On the back of a strong Q1, back-to-back, we have delivered another quarter of growth momentum where our volume grew by nearly 16% and revenues grew by 44%. And this has been, I would say, a robust volume-led profitable growth where our EBITDA also in line with our volume and revenue growth have delivered a strong 37% growth on Y-o-Y basis.

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

And on the per litre basis, which we have been highlighting in our previous call also that in these inflationary environment situations, it is better to look at per litre, which we have been able to protect our per litre margins, which means the cost increases have been passed on to customers, consumers on per litre basis. And that is in such a challenging environment where the supply security was important for our customers, our consumers, we have been able to deliver every single litre, which our customers and our partners, our OEM partners were looking forward to.

So, as Ravi mentioned, it has been a very agile performance, given outside environment was very challenging. Cost increases were happening. Price increases were taken on a timely basis. And the result is that we have delivered one of our strongest quarter, which is quarter 2.

Overall, our core lubricant volume was 47,000 KL versus last year 40,500 KL, which means we have added 6,500 KL during the quarter, and that gives us 16% growth. And YTD 95,000 KL, which means over last year H1, we have grown 17% in volume, roughly.

AdBlue in this quarter, we all know that this was a monsoon quarter. So, there were some lesser movements of vehicles during this quarter, especially the truck movements are slightly lower because of monsoons in various parts of India and that results in slight lower consumptions also in certain categories. And one of the reasons why our AdBlue, which is 33,000 KL in this quarter, there was slight sort of a lesser volume, we would say, as compared to usual. But on the H1 basis, we are almost flat on the AdBlue. We have delivered close to 73,000 KL, which is flattish kind of AdBlue delivery.

But on the lubes, core lubes volumes, we have done exceptionally well. Clearly, 3x to 4x of the industry growth we have been able to deliver in H1.

I think with this, we would be happy to take questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Pankaj from Avis Capital.

Pankaj: Congratulations for the great set of results. The first question is on working capital. Our inventory days and debtor days have meaningfully increased in H1 if you compare it with FY26 numbers. So just wanted a little more color and clarity on that. Is it a normalized kind of working capital requirement we have kind of done in H1? Or are we looking forward to see some improvement in coming times?

Manish Gangwal: So, as we mentioned that there have been significant cost increases and price increases. So, both inventory values and receivable values have gone up, which are reflecting in the working capital increase. In terms of number of days, we are still in the usual, our band of gross 95 to 105 days. So, in terms of number of days, we have not seen any meaningful increase. But yes, absolute values have gone up here because of the pricing, which has been tremendously high.

Pankaj: The working capital historically has been at kind of sub-80 levels. So, are we expecting that to increase to, say, 100-odd days level? Is that what the guidance for the coming time there?

Manish Gangwal: See, it all depends again on the pricing situation. If the prices remain at these levels, we have to support our customers. We have to support our distributors with slightly increased working capital because their working capital requirement in terms also goes up. So, we have to be very pragmatic in that. But in terms of overall number of days and all, we would say the amount which we have reached, should be one of the near to peaks. And from here on, if the prices are not escalating further significantly, we should see some moderation.

Pankaj: Okay. And my second and last question is, you recently had a fire incident at Valsad. So, what is the quantum of loss? And is that all covered by insurance? Or are we expecting something to come at our P&L also?

Manish Gangwal: So, the stocks are covered under insurance. And obviously, the entire fire has been since doused and we see that close to 4, 5 days of equivalent of production has been lost in terms of inventory, which we are going to run some extra shifts in both our plants. Plus, both our plants are running fully and all over India other 25 warehouses which we have are fully operational. And if required, we'll shift some material from other places also. So, we don't anticipate any sort of disruption to our customer supplies.

Moderator: The next question is from the line of Mukund Agarwal from BMC Advisors.

Mukund Agarwal: Congratulations on the great set of numbers. I wanted to know how does H2 look like compared to H1?

Manish Gangwal: Sorry, in terms of which parameters you are asking?

Mukund Agarwal: In terms of sales.

Manish Gangwal: Sales?

Mukund Agarwal: Yes.

Ravi Chawla: So, you see now for us, Q1 has been very good growth, 17%. We mentioned there that supply security was also an added element. But obviously, we did very well. Quarter 2 has come at 16% growth, which again a good robust quarter. If you look at normally H2 when the festive season comes now, October, November, December and then Jan, Feb, March is also, H2 is normally having good conditions. We are expecting that H2 will be good.

But because you see H1 has also had a bit of a, I would say, blip because of the supply issue. We expect H2 to have the normal 3%, 4% growth which lubricant industry takes in terms of average lubricant growth, and we will do 2x to 3x that. So that's the way we look at H2. And we are hoping that, of course, the situation for us is always better because we've been able to push some of the segments.

There is a little bit weak demand coming in from the agri season as we look at this month. And that is, of course, something which we will have to factor in, but we will obviously try to push to get that 2x to 3x growth, which will take us close to double-digit growth in the H2 in volume terms in lubricants.

Mukund Agarwal: Okay. And also, if the crude prices from here rises, will it be possible for us to pass on the price to the consumer and maintain the same margin?

Manish Gangwal: So, we have to actually have a very close watch on the crude movement. As we all know, and we have been briefing our investors on many earlier occasions that base oil, which is our key raw material, which is a derivative of crude, has a time lag in terms of coming, the crude effect coming to base oil. So, we have to wait and watch.

So far, we are not seeing any major change in the base oil pricing of the recent crude rally, which is from $100 to $115. But we have to clearly keep watching that very, very closely. And if required, we'll have to take calibrated actions on pricing. But as of now, we are not seeing that in the base oil. And we carry inventory also for at least 45 days to sometimes 60 days of base oil, which are there. So not immediate one, but if the crude sustains at these levels and rise further, we may have to take certain actions to pass on further price increases.

Mukund Agarwal: Okay. Also like in the multiple concalls mentioned before, like we have been saying that right now, we are targeting a margin of 12% to 14%. But in the coming time, we'll target to 14% to 16%. So, when, by which year do we start expecting those kind of margins?

Manish Gangwal: See, our trajectory in the medium to long term is to go to that 14% to 16% band, which we have been highlighting earlier also. We have to also factor in that what has happened in the last 6 months is a quite inflationary situation,

where our topline has gone up significantly, whereas our endeavour is to protect our per litre margin. And that's why we have been guiding our investors to focus more on per litre because if your topline and bottom line goes up by the same amount, you know the percentages drop.

So that is where we are seeing that this time also, we are at 11.8%, although per liter wise, perhaps we are slightly higher than our even previous years. So, our endeavour is to protect per litre. And whenever there is an opportunity and the prices stabilize, we will again start our journey towards 14% to 16%. But it is on a slightly medium-term basis. It's not going to happen in 1 to 2 quarters.

Mukund Agarwal: Okay. And this year also, will we be passing on similar dividend compared to last year, like the percentage-wise in terms of profit?

Manish Gangwal: So, over the years, we have been increasing our dividend payouts. And last year, I think we had around close to 65%, 70% dividend payouts. And obviously, we are looking at utilization of cash, which we carry on the balance sheet very, very closely. We keep looking at our other strategies to be implemented in terms of M&A, etcetera.

And if there are opportunities to invest money in terms of our existing business or adjacencies around the businesses which we are looking at in terms of M&A, we will be prioritizing that. And if we continue to generate cash, so obviously, we would like to return the cash to shareholders based on our past trends whenever we are surplus and we don't have an immediate utilization of cash.

Moderator: The next question is from the line of Dhaval from Choice International Limited.

Dhaval Popat: Congratulations on great set of numbers. My first question is on revenue for Tirex for first half, if it is possible for you to provide any color on that? And second, if possible, sorry if I have not been on the forefront but then B2B, B2C share that you have right now as a part of the revenue? And where do we expect the B2C share to be probably 1 year down the line? If you can provide some color on that?

Ravi Chawla: So, on Tirex, Manish will add, but we've had a good quarter. I think Tirex, 78% growth in revenue. Of course, the bases are low, but still we have done, I think last year was INR 18 crore, now we have done about INR 33 crore plus. So, as you can see that EV cars are selling more, we also see the buses going up. So, requirements, both in terms of the OEMs, the kind of CPOs also we have started talking to.

So, I think for us, Tirex, as we also announced, we're going to take the capacity up to 3,000 chargers, and that will happen sometime end of this year. So clearly, for us, Tirex with a good portfolio on the DC market, buses. We are now obviously also looking at expanding the product portfolio.

So, a good quarter to look at how the sort of EV requirements in terms of chargers are going up. So, a positive thing. And of course, we are also looking at some segments like mining and some construction equipment who are going to use this. And a lot of synergy with our software as a service Company, ElectreeFi, is going to materialize, and we are adding new OEMs there.

And also, glad to say that a lot of private buses and construction equipment is also now looking at options. So, a good quarter 2 for Tirex, and we'll also be having the expanded capacities, which will come and new products, which will be in the pipeline.

I think the second part you asked on B2C. So B2C business is also dependent on our brand and of course our distribution and distributors. So happy to share that, our distribution growth is going well. We used to talk about 90,000 outlets, but that's growing by about 10% to 15%. Every quarter, we try to take it up over previous year. And we've seen a 16% growth in terms of our number of outlets.

And also, that given our brand is number two we need to obviously create more touch points. We are investing back with the mechanics.. And we expect that our B2C growth will at least be close to that margin, that requirement of 2x the market growth rate. In fact, we want to exceed it. But given last quarter, there were some challenges on that. And we will focus on getting at least 2x growth to the market in terms of the B2C segment for ourselves. And we are in the right direction there. H1, we have seen 2x the market growth rate in B2C, just to clarify to you.

Moderator: The next question is from the line of Arya from Emkay Global.

Arya Patel: Congratulations on a good set of numbers. So, my question was regarding the future outlook as to the crude oil prices are still elevated. And with my base oil prices moving with a lag of almost 1 month or 2 months, the incremental uptick in the base oil prices is yet to be seen. So how do we see our quarter 3 and quarter 4 from the cost point of view? And also, are we looking at any other price hikes planned for the upcoming quarters?

Manish Gangwal: So, I think we replied just in the previous question, some participant asked for this similar thing. We have already replied to this question. But just to reiterate, we are watching very closely the crude movement and its impact on eventually base oils. Some of our other cost components like additive, et cetera, have been strengthening further in terms of cost and additive companies have been taking some price hikes.

But we have to wait and watch for the sustainable rise in crude because the short-term movements in crudes are really not impacting base oil because it has a time lag. And by the time it absorbs the increases, there is sufficient time to recalibrate. So, if crude sustains at an elevated level and it impacts base oils in down the line, 40, 50 days, we may have to look at price hikes segment-wise. But again, we have taken enough price increases so far to pass on the current impact and protected our per liter margins. Our endeavor will be to continue to do that and keep recalibrating based on the movement in base oil and other input costs.

Moderator: The next question is from the line of Dhwani from Equitree Capital.

Dhwani: Sir, first of all, congratulations on good set of numbers. First, I wanted a clarity on Tirex revenue of INR 33 crore. Was it for the quarter? Or was it for the H1?

Manish Gangwal: This is for quarter 2.

Dhwani: Okay. And the question that I have is like what is the cumulative price increase taken across our lubricant portfolio since September '25? Like how much of the input cost inflation have we passed on? And is further pricing action expected?

Manish Gangwal: So again, Dhwani, we have just replied in the previous question, the same.

Dhwani Nemavat: Can you quantify it or something?

Manish Gangwal: We just want to again highlight that we operate in many segments. We have our B2C, we have OEM businesses, we have B2B businesses, industrial businesses. So, each segment demands different pricing actions. If we to give you an idea, in channel business, which is our B2C, we have taken 3 price increases so far.

In OEM businesses, which is 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 input cost moves. Of course, in these times, last 6 months, most of the OEMs have been helping us with monthly price variations because the movement in raw material cost was so fast and swift that we had to re-approach them with monthly requests. So, it's different. B2B, you have to do a bit of negotiation, and you have to work with the customers and understand and explain our price increase rationale. So that takes slightly longer time.

So overall, different segments have different pricing actions and pricing levels, and they operate at different price points also. So, depending on that, we are calibrating. Our endeavor at the end, we keep reiterating is to protect per liter margins.

Dhwani Nemavat: Understood. And have we gained any market share recently?

Ravi Chawla: Yes. So, we have been actively growing 2x to 3x the market, I think, over the last many, many years. So, Dhwani, if we are continuing that with the 17%, 16%, I think we are gaining market share quite well in terms of overall market. I think we are 7% to 8% total market share. So, if we are growing 2x to 3x the market, we would definitely be gaining that market share year-on-year, quarter-on-quarter.

Moderator: The next question is from the line of Hardik from ICICI.

Hardik Solanki: A couple of questions. Number one, if you can just help us in giving a guidance for the AdBlue volume for the rest of the year and for next financial year? Secondly, on the pricing part, if you look about the blending pricing versus Castrol, what will be the pricing gap between us and the Castrol? Thirdly, if you can just help us understand, as you mentioned that our share would be 7% to 8%, and we are growing at 2x to 3x of the industry, so by what percentage OMCs share would have dropped in the last 6 to 12 months?

Manish Gangwal: So, coming to AdBlue, you see this quarter has been slight dip as we have highlighted earlier and being a monsoon quarter, the volumes are usually lower. But going forward, in H2 as well as in the coming year, our endeavour

is to now grow AdBlue volumes near double digit, because AdBlue is only applicable to BS-VI vehicles. And as the population of BS-VI vehicles goes up, we see the demand going up. But it will not be exponential the way it used to be last 5 years. It will be now calibrated in line with the market, market growth, and the vehicle population of BS-VI. So, we estimate that we should grow our AdBlue volumes by double-digit 10% to 15% is what our guidance has been in the past. So, we stick to that going forward.

Hardik Solanki: Okay. And what about the pricing gap between Castrol and us?

Manish Gangwal: So, we can comment on us. Our price point based on various strengths in our product categories. In case of, for example, we have a very strong brand in terms of our 2-wheeler motorcycle range and in terms of our diesel engine oils, which are really strong products with a lot of USPs in the market.

And our pricing positioning is quite good in those categories. And there are certain categories where we have to keep working and increase our brand position and keep taking pricing actions accordingly. So, pricing depends on various segments and product categories. We will not be comparing with anyone, but we have our own price monitors and price positioning where we operate.

Ravi Chawla: Just to give you one more input. As a brand, we believe we are in the top 2, top 3 in the categories, most of the categories overall joint top 2. So based on that, the positioning can change. And of course, it aligns to it rather not change. So that's really where we pitch ourselves in terms of the bazaar market.

Hardik Solanki: Okay. And in terms of what market share the OMCs would have lost in the last 12 months?

Ravi Chawla: Look, we don't have that data right now. So, as you look at the industry, these are all estimates. And in terms of gaining and market share, that's really not available right now.

Moderator: The next question is from the line of Varatharajan from Antique Limited.

V. Sivasankaran: Look at the freights and other incidental costs of trade these days, are we also seeing similar kind of a thing in terms of procurement of base oils, like apart from the quoted prices, is there a significant escalation in the freight and insurance and other incidentals?

Manish Gangwal: So Mr. Varatharajan, I think the freight rates have gone up, sea freights have gone up because everybody is recalibrating their supply chain, including the refiners where from we are buying most of our base oil. So, everybody is facing those elongated periods of vessel movements when the Strait of Hormuz is not operating fully. And obviously, those prices reflect in the overall base oil cost. We have our most of the purchases on CIF basis. So, all these are built in the base oil cost or the global price indices. There is no additional incremental impact which we see because our prices are always a CFR, CIF basis.

Moderator: The next question is from the line of Raghav from BMC Advisors Private Limited.

Raghav Agarwal: Congratulations on the good set of numbers. My question is, over the last 2 quarters, we have seen an unusually significant change in inventories in the consolidated P&L with inventory adjustments of approximately INR 109 crore in Q1 FY27 and INR 88 crore in Q2 FY27 compared with relatively insignificant amounts in the preceding 4 quarters. So, can you give a reason for that?

Manish Gangwal: No, so prices have gone up. As we have been highlighting that the prices have gone up always because of the pricing being higher for end products, whether it is for our lubricant business or for our charger business, there also the copper prices, et cetera, have gone up significantly. So overall, these inflationary impacts are there.

Plus, we have had certain extra buying to secure supplies because sometimes when we get a cargo and we want to secure for future, we have been trying to buy those tactical buying also. So, the combined impact is that you see elevated values. But if the situation comes back to normalization, whenever it comes, we will see moderation in these two.

Moderator: The next question is from the line of Devang from Sameeksha Capital.

Devang Patel: My question was on the EBITDA to CFO conversion which has been low for last half year and as well as this half year. Has some seasonality come into our cash flows, how they generated between first half and second half?

Manish Gangwal: There is no particular pattern about it. It's that this first half has been really about this crisis, which we have been explaining in earlier questions that the prices have gone significantly higher, and we had to deploy that additional working capital. Mostly, you are seeing this because of the additional working capital requirements.

Yes, last year also H1 somehow had a similar pattern, but there is no particular seasonality which comes into effect here. It's just that it is coincidental that both H1 have been similar. But this particular H1 had a clear situation where globally, the prices have gone up, and we had to support our customers also with additional receivable days or amount.

Devang Patel: So till the time crude and base oil prices remain elevated, our working capital will also remain elevated?

Manish Gangwal: So, as we are seeing that the current cost dynamics, we have factored in already in the H1 cash flows. So now from here on H2, if the prices remain at these levels or trend in in this range, the incremental cash generation should be all added to the cash flows rather than going into working capital. We are pretty much close to the peak of the working capital if things remain at the current levels.

Moderator: The next question is from the line of Dhaval Popat from Choice International Limited.

Dhaval Popat: I just wanted to have more color on the cash deployment already about INR 1,200 crore; I understand this will just keep growing with time. So, if you can

provide some color on how would we deploy this and at what pace or something?

Manish Gangwal: So Mr. Dhaval, again, we have just answered this point in the previous question that we have been cognizant of the fact that we carry INR 1,200 crore of cash on the balance sheet. And the plan is to clearly have a war chest for M&A opportunities within the lubricant space, within our current business, adjacencies around that, where we are focusing very clearly on industrial segment as a big driver of growth for the Indian economy as well as for the lubricant sector in the coming years or decades.

Plus, we are looking at mobility as a big driver of Gulf Oil's next growth phase. And we keep looking, we have done some investment, as you all know. And we are exploring opportunities in and around those EV businesses and the value chain. And also, we keep ourselves open to looking at M&A opportunities.

So that's how we have been watching the space and also in the meantime, we have increased the dividend payouts as well. Wherever there was a need that we felt that we don't have an immediate need of the cash. We have increased the payouts to now close to 65%, 70% as well. Mr. Dhaval, hope you have got your answer.

Dhaval Popat: Yes, thank you.

Moderator: The next question is from the line of Prashant, an Individual Investor.

Prashant: Can you please update us about the ongoing capex plan and the progress of the ongoing construction?

Manish Gangwal: Yes. So, the expansion at Chennai is on track, and we should be able to have the increased capacity by the end of this quarter. Silvassa capacity expansion is progressing well, but we see that there can be some 1, 2 months of delay and the spillover may happen to Q1 of next year in terms of readiness as against our earlier target of March '27. So maybe we should be ready by quarter 1 of next year. In the interim, we are running third shifts at both the plants wherever required to fulfill our needs.

Prashant: Okay. And sir, how much is the capital outgo for this ongoing capex for both plants included?

Manish Gangwal: We were estimating INR 55 crore earlier, which was announced. And we see that there is an incremental need of INR 5 crore to INR 7 crore, which the Board has sanctioned recently. So now the total capex for expansion is around INR 60 crore, INR 62 crore.

Prashant: Okay, thank you very much. That’s it.

Moderator: The next question is from the line of Ankit, an Individual Investor.

Ankit: Congratulations on a very good set of numbers. I have two questions. One is on the personal mobility front or overall lubes front; if you can just mention the

split of B2C and B2B channel. And within the lubes segment, what will be our exports contribution?

Manish Gangwal: So B2C, B2B ratio has been in and around 55-45, 55% being B2C and 45% being B2B, roughly. In this quarter, it was slightly around, let's say, around 50-50, I would say, where B2C, B2B were 50-50. But in general, if you take historically and going forward, it will be in the range of that 50%, 55%, which is B2C. So that's our range because we have a very fast-growing industrial business as well. So that's the ratio we are looking at going forward. In terms of personal mobility, Ravi, you may want to add.

Ravi Chawla: Yes. So personal mobility, we are quite strong; about 21% of our volume comes from personal mobility, but we have a large motorcycle, both with the bazaar and the OEMs.

Our market share in PCMO, passenger car is less than 5%. So that is where we are making a lot of investments. We are looking at new independent workshops with a program called Custom Car Stop. While we don't want to lose sight on our motorcycle, we've just launched the 'Pride' campaign. So, I think passenger car, we want to make further in roads. And I think there, again, there is a lot of focus. And ideally, we'd like our personal mobility to go up by at least 3%, 4% with a large part coming from the passenger car.

Ankit: Sure, noted. Just one more clarification. On the 45% that you mentioned for B2B, that includes the industrial bit? Or is it industrial is separate from this?

Manish Gangwal: No, it is including industrial.

Ravi Chawla: And Ankit, just to add, in terms of our motorcycle range and car range, we are moving towards a lot of high-end synthetic products. So just to tell you, that is another endeavor, which hopefully, in the second half, we will see definitely some traction. Yes, this is a range which we want to, over a period of next 3 to 4 years, make it synthetic range about 10% of our portfolio.

Ankit: Sure, noted. And sir, will it be safe to assume that the exports would be around 9% to 10% of the overall lubes business?

Manish Gangwal: Yes. In the last six months, exports have gone up because of the global supply situation as well supply-demand situation. We have been able to export even higher amount. So, as we speak, currently, it is in the range of around 10%.

Moderator: The next question is from the line of Mohit from Indium Investments.

Mohit: Congratulations on a good set of numbers. My question is on other expenses. It is now INR 283 crore this quarter versus INR 321 crore last quarter. Could you please explain the rationale for the reduction?

Manish Gangwal: So, there are many elements in that other expenses. The big components, I would say, our freight, OEM-linked royalties. So, it depends on the OEM sales, how much is the percentage of OEM sales to the total sales, that also determines and the AdBlue volumes have been lower. So that reduces the freight cost.

So overall, these are the two major factors. A&P, of course, remains in the similar level to slightly higher because we had a mega campaign, as Ravi was highlighting on our 'Pride' range, which is a motorcycle product. But there are these 2, 3 major items which impact, some of them are linked to volumes, some of them are linked to the mix where we sell.

Moderator: The next question is from the line of Probal Sen from ICICI.

Probal Sen: Excellent set of numbers. I just wanted to understand the margin profile and the outlook. Just your thoughts on, obviously, right now, it's a fairly challenging environment, one understands even with price increases, one cannot really hope for a margin expansion. But just in terms of the other aspect, Ravi sir mentioned about the OEM franchisee workshop driving volume growth, particularly in this quarter and probably over the last couple of quarters as well?

Is there a sort of move back to a more B2B kind of a share also sort of maybe driving a little bit more muted margin profile in the current environment? If one were to really look at the next 2 to 3 years, assuming B2B or OEM relationships continue to drive volume growth, should we then expect margins to maybe stay at the lower end of your target band, or does that not really have any relevance? Just your thoughts on the whole?

Ravi Chawla: So, it is a competitive field. We have a segment-wise strategy. So, as you rightly said, we have OEM franchisee workshop and bazaar. The strategy is obviously to go to a higher margin band. The current last 6 months have been very challenging. So, if you look at our Unlock 2.0, it's about acceleration, premiumization, transformation. We've been talking about that in some forums.

When you saw premiumization, it's premiumization in all our businesses, including OEM franchisee workshop, even if you look at our bazaar business and bazaar business is where we believe the brand being number two and we continue to invest in the brand, the distribution needs to be obviously at a higher level.

So, I think for us, and I spoke about some of the motorcycle products like 'Syntrac'. So, if it was an ideal world, then premiumization would have kicked in the margin. But as we know, the challenging environment is there. We are not trying to increase more in a particular segment. But if we get business, we will not say no. So, if we get business, we will go for volume and the margin we are making. And each segment will make their margin. So, I think that's been our philosophy.

So obviously, we want to grow in B2C. We want to grow in high products. But if we get more OEM franchisee workshop and it is going to be profitable, we will not say no to it. But there is no attempt to go after that and change the sort of way we want to approach this. As Manish was also saying, it's 55-45 B2C, B2B, we would be happy that all go up together. And wherever there's an opportunity in the segment, we would go ahead because the market is going to be dynamic.

Probal Sen: No sir, I appreciate the fact. I was only referring to the fact that if the ratio were to remain in the current range, is it fair to then assume that I'm not saying that

we are necessarily targeting that kind of. But if that is the kind of mix that happens, given how challenging the environment is anyway, looking at, or rather as analysts, we should be factoring in maybe the slightly lower to mid-range of the margin guidance rather than factoring in expansion?

Manish Gangwal: No. So I think as we have been highlighting in some of the earlier questions also that the percentages in these short-term inflationary environments are slightly optically looking lower, whereas as a per liter, our margins have been very stable to rather grown if you see over the last year, H1 or over the last year Q2 Y-o-Y basis as well, even sequentially, even from quarter 1, if you see our per liter margins have gone up.

So, what we are trying to say here is that our endeavor is threefold. Even if the mix remains, the bases are slightly different. If our B2C grows at a certain percentage, let's say, 2x the market and our B2B grows at 3x the market also, the margin profile is so different that, that 2x growth will be higher, much higher in terms of margin contribution than the balance. So even if we protect this range of 55%, 45% and grow our volumes faster in both categories, one at 2x and one at even 3x, our margin profile should go up.

And with the incremental volumes, the operating leverage, which we keep talking about, obviously always kicks in, and that should add up to the percentage in margins at the EBITDA level. So, I think we are very confident that our eventual trajectory of targeted 14%, 16% will happen.

Plus, as Ravi highlighted in earlier question that focus on synthetic products, high-end products continues to be very strongly driven within the Company. And as and when the percentage of that contribution goes up, our margin profile will keep further improving. So, with that, I think over a medium term, we are confident of going higher in the trajectory.

Probal Sen: And if I may ask just one last question. From a market perspective, have you seen any difference in the way that the OMCs have been basically operating in the lubricant market? I ask this only in the context of their priorities being to sort of supply essential fuels in the market, prioritizing LPG production at the cost of even petrochemicals and so on. Has that also had an impact in your view of whatever you are seeing in terms of their momentum or aggressiveness in the lubricant market in the last 6 months?

Ravi Chawla: Well, you see the OMCs, obviously, they form 30%, 35% of the market. In fact, they are expanding their base oil capacity to obviously have less imports and also use the base oil to manufacture here. And they will also augmenting the capacities for looking at making more product in-house. I think that's one way. So, I think the market is quite attractive and everybody is obviously having a certain market share based on their workings.

In terms of a pattern, I don't know because the question is obviously going to be they have a lot of other businesses besides lubricants. So, the focus is going to be multifold. And I think for us, it is to focus on what we believe we are good at and that we have continued to do for the last 15 years, as you know, and we'll continue further. So, there is no change in that particular way we are looking at things. Of course, we want to see the base oil supplies might actually

improve for us because if they are offering us. On the lubricant side, I think it's more or less similar to what we've been seeing in the past decade and more, even more.

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

Ravi Chawla: Thank you so much. Well, before we come to the comments, I would like to share this news with all of you. Some of you may know that Gulf as a brand was born in 1901, and that was in U.S.A. as one of the seven oil sisters. So, we are completing 125 years on November 10 this year. So, we have announced or obviously kicked off our celebrations yesterday on the 125th year. But we are a young brand. With the Hinduja Group, it's been there more than 4 decades.

And we've had a kicking off the celebrations just yesterday where we had our Chairman, we had our brand ambassadors, MS Dhoni and Smriti Mandhana, and we had a kickoff of the celebration. So happy to share with you. And the theme of this celebrations was to talk about our new brand positioning, which is 'Kuch Behad Kar' for India, which is in line with our global positioning of together, we're unstoppable. And it's also to define performance beyond limits. And the theme yesterday was 'Born to be Behad'.

So, we believe that we have always set a limit and set a limit beyond what is happening and the limits we have crossed like our long drain oils, like our 2x to 3x growth in the market. So just to share with you, happy to celebrate, not many brands reach that far, but very proud of that, and thank you for all your support.

In terms of outlook, it's always been our strategic and operational executional priority to grow 2x to 3x the market. And we see that as continued momentum, which is also you have seen in quarter 2. In fact, quarter 1, quarter 2 have been well ahead of that.

We continue to have agility in our execution. We are looking at, obviously, timely interventions in terms of making sure that we get the per litre margin, as Manish has been talking about, and obviously have a sustainable EBITDA margin band. One of the changes we are making from our master brand is to look at category brands, which will help us to increase further market share across categories.

We are quite strong with OEM franchisee workshops, B2B. We'll continue doing that. We'll continue to try to gain customers and definitely focusing on that. And the coming quarter is a festive quarter. And of course, except the agri, which I mentioned, we see all other things to give us the growth that the market has been giving 3% to 4% and where Gulf has been able to grow ahead of the market.

In Tirex, as I mentioned to you, I hope we will get our plant expansion done in this coming quarter and hopefully start the changeover to having higher production, which will give us an opportunity to leverage it. Also, our Software-as-a-Service Company is also gaining traction in terms of the whole EV

environment where India is seeing a decent traction in cars. Just to give you an example, the number of cars, EV cars sold in the first half are nearly equal to what was sold in the full year last year with more models coming in. So, a good sort of core and I would say, transformation in terms of looking at this mobility segment. And again, synthetics premiumization, we will continue to focus on that.

So, we look forward to catching up with you. And again, as I started with greeting you for the festive, I leave you with the same thought that Happy Diwali to all of you and your families and look forward to catching up with you again. Thank you so much.

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

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