



**“Goodluck India Limited
Q2 FY19 Earnings Conference Call”
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**MANAGEMENT: MR. MAHESH CHANDRA GARG – CHAIRMAN,
GOODLUCK INDIA LIMITED
MR. RAM AGGARWAL – CEO, GOODLUCK INDIA
LIMITED
MR. SANJAY BANSAL – CFO, GOODLUCK INDIA
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Moderator: Ladies and Gentlemen, good day and welcome to the Goodluck India Limited's Q2 FY19 Earnings Conference Call. 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. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you over to you, Sir.

Anuj Sonpal: Thanks, Vikram. Good Morning, everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. On behalf of Goodluck India Limited and Valorem Advisors, I would like to thank you all for participating in the company's earnings conference call for Q2 FY 2019.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's earnings concall maybe forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place undue reliance on these forward-looking statements and making any investment decision. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and a financial quarter under review.

I would now like to introduce you to the management participating with us in today's earnings concall. We have with us, Mr. Mahesh Chandra Garg -- Chairman; Mr. Ram Aggarwal -- CEO; and Mr. Sanjay Bansal -- CFO.

Without much ado, I request Mr. Chandra to give his opening remarks. Thank you and over to you, Sir.

Mahesh Chandra Garg: Good Afternoon, gentlemen. This is M. C. Garg from Goodluck India. So I would like to take this opportunity to thank you all participating in this con-call. The results of the second quarter are in your hand. I want to start with the plant in Gujarat which we are setting up, as it commissions well before the stipulated time and is doing well. We have been to achieve 65% capacity utilization by end of October and we hope to achieve 80% capacity utilization by December. And the performance of the plant is as per DPR. It is mainly concentrated on Export and value-added Auto Tubes that is what we are doing there.

Now, the results of the second quarter are in your hand which are definitely better far better than the previous quarter of the same quarter last year of the previous quarter. We have been able to achieve it the quarter-on-quarter growth of 30%, if you see. Now, with all the

good thing happening, our order book is very healthy in our auto vertical, in our forging vertical and structure. The main area of concern has come in structure. Their order book is healthy. However, off late receivable has a concern, liquidity issues with our buyers, due to the general liquidity crises.

Coming to Auto, export order is healthy, margins are good, auto margins are good but one more vertical which is mainly CR and General Pipe it remains a concern for us because the margins are under pressure. Margins are under pressure because domestic steel prices are very high with somehow market is not very responding for the duty. The main threat in time to come, our results would have been far better this quarter we have incurred a loss of forwards due to the short depreciation of rupee unexpected. Although Rs. 1.5 crores M2M loss has been accounted for in the second quarter results. It is a notional loss, it is not a loss in real terms, which will be recouped in the next 3 quarters. However, I must share with you the volatility of rupee, sometime depreciating, some time appreciating, is a challenge to the management to manage the FOREX. Secondly, rupee steel prices internationally have started coming down, however, the domestic steel producer are having absolute pricing power and they are very reluctant to draw the price. It might be a challenge to manage the affairs in a profitable manner or to improve profitability these 2 factors will be a challenge.

As of today, I can only predict how the third quarter will be doing well, our fourth quarter is likely to be challenged due to rupee volatility and steel prices. Thank you.

Sanjay Bansal:

Good Morning, everybody. At the outset, I Sanjay Bansal -- Chief Financial Officer, on behalf of Goodluck, welcome you all for joining us for the conference on the performance of the company in quarter two of the financial year 2019.

Regarding quarter two performance total income from operation was increased to Rs. 391.22 crores, as against Rs. 307.35 crores during quarter two of the previous year, registering a growth of 27%. However, EBITDA for the quarter stood at Rs. 31.68 crores as against Rs. 26.15 crores during quarter two of FY 2018, registered a growth in EBITDA margins, about 21%. The profit before tax including other comprehensive income was Rs. 8.58 crores in quarter two as compared to Rs. 5.04 crores in quarter two of the previous year. However, the performance of the company quarter two of current financial year is further improved as compared to quarter one of current financial year.

The sales had been increased by 5%, EBITDA margins have improved by 6.7% during quarter two of the current fiscal. PAT margins have also improved by Rs. 2.89 crores. The performance in first-half of current year substantially improved as compared to first-half of the previous year. Sale increased by 20%, EBITDA increased by 16%, PAT stood at Rs. 14.26 crores as compared to Rs. 9.13 crores. Earnings per share at Rs. 3.73 per share in quarter two

of 2019 as against Rs. 2.27 per share during quarter two of the previous year. However, the performance of the company has improved in current fiscal as compared to the previous year. This improved working trend would continue as after stabilization of GST and other things showing an improvement in overall business.

On the financial front, our interest cost was lower during the current quarter as compared to the previous quarter, this is due to the refund of IGST from GSTN. Thank you very much.

And now, we are open for Q&A Session. Thank you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have our first question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Sir, can you give us some update on how the ramp-up on the Bhuj plant is progressing and what is the order book there?

Mahesh Chandra Garg: Order book is very healthy at least for 2 months now and ramping up is going on as planned and we likely to achieve 80% capacity utilization by December end.

Sachin Kasera: Can you just tell us what was the volumes we did in the quarter ended September and what are the volumes we are looking in the quarter ended December?

Mahesh Chandra Garg: We commissioned the plant on 11th of July and our contribution was only Rs. 50 crores and we expect to achieve a turnover of almost Rs. 70 crores to Rs. 75 crores in this quarter.

Sachin Kasera: Okay. And going forward into the last quarter, you see a further increase from the Rs. 100 crores to Rs. 110 crores?

Mahesh Chandra Garg: We hope to. Things are stabilizing. It is difficult to put the figure but things are improving with each passing day because providing enough skill there is a challenge to the management but we are doing well I think it should come up to the capacity of the 85% to 90% by March.

Sachin Kasera: Okay. Secondly, sir, what is the current order book that you have for the Bhuj?

Mahesh Chandra Garg: For Bhuj plant?

Sachin Kasera: Yes.

Mahesh Chandra Garg: As I told you for 2 months at least.

- Sachin Kasera:** 2 months, okay. And are there margins were getting the auto in Bhuj better than the margins here meeting or is it similar? Sir, I believe you are looking at some savings from the cost front, you are doing production from the Bhuj plant.
- Mahesh Chandra Garg:** I feel the cost saving will not be there, we are running at a distance which is very difficult terrain but productivity will be better, margins will be better because we are located at the port and we are totally based on import.
- Sachin Kasera:** Can we sir, on the working capital if you give some insights how was the working capital cycle behaved in the first-half of the current financial year and what is the outlook we are going forward and what are the measures we are taking to improve the working capital cycle?
- Mahesh Chandra Garg:** Can you repeat again, sir, I am not able to hear you, sir.
- Sachin Kasera:** Sir, I am saying, if you could give us some highlight on how the working capital cycle has behaved in the first-half of the financial year and what is the outlook for the second-half and what are the measures we are taking to improve the working capital cycle?
- Mahesh Chandra Garg:** Working capital cycle right now is for 3 months to 3.5 months and our endeavor to improve the sales but hopefully, it will continue during next quarter, third quarter and it is very difficult to say about the fourth quarter because this is the election year and we are not confident what will be the overall requirement in the market. Thank you.
- Sachin Kasera:** Sir, what are the measures the company is taking internally while I understand there are some challenges on the external front. If you could highlight some of the measures that the company is taking internally to overcome the working capital challenge.
- Mahesh Chandra Garg:** Working capital challenges have be taking while reacting fast to the developing situation in the financial market and this is going to be a challenging job as I explained in my introductory statement that structure division there is liquidity crises with buyers. And we are managing and forcing them to come out on LC or some other payment terms, so that we are not stuck up. But we have to keep our debtor, we are trying to bring debtor under 60 days which is running around at 65 days as on date.
- Sachin Kasera:** And what is our confidence level on this coming below 60 days, are we very confident on that or is that something that we are just trying?
- Mahesh Chandra Garg:** We will achieve it, not only confident but we are overconfident. We will achieve it.

- Sachin Kasera:** Sure. And sir, lastly on the forging business if you could tell us how the business is done in the first-half and what is the type of order book and the outlook for the forging business for the second-half of the financial year?
- Mahesh Chandra Garg:** Fortunately, for us, the order book on forging business is very healthy today, margins are good. But it is a very slow process. So it will take time to further ramp-up and we do not have an intention to ramp it up further. Some incremental addition of machinery we have done to streamline the process which has come in production only last month, the impact will be seen in this quarter.
- Sachin Kasera:** Sure, sir. And sir, we have been taking a lot of initiatives in the last 3 quarters - 4 quarters to improve the cost efficiencies of some of our older plant. So if you could highlight some of the progress made there in the first-half and what are the measures we are proposing to take in the second-half and in FY 2020 to further improve the cost efficiencies of the older plants.
- Mahesh Chandra Garg:** We must succeed in cost reduction in the older plant, to be honest with you. But we are definitely, reliving our marketing strategy and now the older plant is trying to serve our other plants, basically in the industry, structure and metalics.
- Sachin Kasera:** Okay. Sir, any target we have taken that we are looking at say want to internally we have put a target like we want to this is 5% or say Rs. 5 crores or Rs. 10 crores a year, any target the management has taken internally or it is just initial that we are trying to do quarter at best is possible.
- Ram Aggarwal:** Basically, what we have been trying for last 6 months or last 2 quarters or 3 quarters that we were trying to reduce our money pumping in the old unit and we were trying to diverse fund from the old unit to our businesses with a good EBITDA, with a good product line. So in that, we have not been successful much but definitely there is a ray of hope I suppose, we reduced almost 10% reliance on this whole old and in the coming 2 quarters we will be taking it to 70% almost. This will be adding to working capital to running plant which has good EBITDA.
- Sachin Kasera:** Sure. And sir, just one last question, as of now our return on equity is quite low, have we internally set up a target that we want to because see normally we need to at least take an ROE of 14% - 15% to cover our cost of capital. As the management, put any timeframe to achieve let us say 2 years or 3 years something like that or that is the target we will try and achieve as we improve the performance.
- Ram Aggarwal:** So there is definitely a target. However, our internal target that we should grow to ROCE of almost more than 15% next year but this the result will indicate how much time it will take. In my opinion next financial, we will be going to the required ROCE.

Moderator: Thank you. We have a next question from the line of Rajeev Ray from Bajaj Finance. Please go ahead.

Rajeev Ray: I have got 3 questions. First, as you mentioned about some forward loss, can you just give me the number and what is the segmental revenue for this H1? And what is the CAPEX plan for the remaining half of the year?

Mahesh Chandra Garg: Number one, I will start with the third question. We do not have any CAPEX plan for the remaining year. Only some increments in CAPEX will come in the normal process of operation. Then I will come to the first question. The figures for the forward loss is almost Rs. 1.5 crores in the second quarter.

Rajeev Ray: Okay. And what is the segmental revenue for the first-half in terms of auto tubes, precision, structural?

Mahesh Chandra Garg: That detail we will let you know, you kindly send us an e-mail, we will provide all the details in detail.

Rajeev Ray: Okay. And sir, what is the current portion of long-term debt as on 30th of September?

Sanjay Bansal: It is Rs. 132 crores as on September 30th.

Moderator: Thank you. We have our next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Sir, just on this debt question, what is the net reduction target for the financial year 2019 vis-à-vis FY 2018?

Sanjay Bansal: Please repeat the query.

Sachin Kasera: Sir, what is the target for reducing the debt in the financial year 2019 vis-à-vis financial year FY 2018?

Sanjay Bansal: You see, it is reducing by repayment of term loans, so I think total repayment was during the current financial year was 32 crores. About Rs. 20 crores we have already repaid till date and balance Rs. 12 crores will be repaid up to 31st March.

Sachin Kasera: This is on the term loan side, sir?

Sanjay Bansal: Yes, term loan side. You see, our business is growing there would not be any reduction in the working capital side.

- Sachin Kasera:** But will we able to achieve our higher turnover with the same level of working capital loans or the working capital loans will go up?
- Sanjay Bansal:** Not possible, we are increasing the turnover then we need more working capital to cope up this.
- Mahesh Chandra Garg:** Sir, whatever growth we want to achieve and achieved in value. Now to achieve the volume, we will have to increase the working capital. However, the long-term loan will keep on reducing as time passes. We have been able to achieve it without any additional working capital, whatever we achieved in the second quarter.
- Sachin Kasera:** Sir, is there any scope to also reduce the inventory other than debtors or is that not something which is as of now workable?
- Sanjay Bansal:** We are operating very optimal size of inventory right now and I do not think there would be any scope further reduction in inventory but definitely we are perusing hard reduce the debtors.
- Mahesh Chandra Garg:** I can explain you our business model, most of the verticals are customized that is why our inventory will look higher as per your industry standard. But we have to keep the inventory to service our customers who need customized material. And I think we are very optimum what we feel these are clear requirements.
- Sachin Kasera:** On the margins front, sir, what are the type of improvement you want to bring in EBITDA margin in the current financial year and the next year?
- Ram Aggarwal:** EBITDA margin in the current quarter it is 8%. So we think this year it will not improve much, it may go to 8.25% or 8.5%. But in the coming year with our value addition increasing, this EBITDA margin will increase.
- Sachin Kasera:** Can we hope to achieve a double-digit margin next year, sir, do you think that is possible because next year we will have the full benefit of the Bhuj plant?
- Mahesh Chandra Garg:** Sir, I would like to add here. EBITDA will improve, how much it comes to percentage, our volume growth is higher. So EBITDA in terms of percentage may not improve but total EBITDA will improve definitely.
- Sachin Kasera:** Okay. And sir, are you working anything in terms of reducing the overall cost of the money that we pay for the working capital and term loan or that is because the interface are going up will be very difficult.

- Ram Aggarwal:** Your question is not clear, can you repeat it?
- Sachin Kasera:** I am saying, sir, are we also trying some measures to reduce the interest rate that we are paying on both working capital and term loan or is that a very challenging given the current environment of tight liquidity?
- Sanjay Bansal:** It is a very challenging target, looking to the current environment and availability of money supply in the market. But we always peruse our bankers, lenders to get the best rate of interest.
- Mahesh Chandra Garg:** It is our continuing exercise which keeps on going every day with our lenders.
- Sachin Kasera:** Sir, on the GST refunds, in between we have a lot of funds getting you have some improvement in the June quarter, is the situation further improved or deteriorated in the second quarter?
- Mahesh Chandra Garg:** It is improving with each quarter and I must congratulate the Government for deriving a system which is working perfectly. Now, we get a refund of our current IGST within 3 days to 4 days, of course, still, there are some issues, some challenges are there which Government is looking into. We do not have any specific complaint with this, we are pursuing on that and our outstanding on account of IGST has drastically come down in the last 2 quarters.
- Moderator:** Thank you. We have our next question from the line of Mayur Jain, Individual Investor. Please go ahead.
- Mayur Jain:** Sir, my question is you have already told that we get Rs. 50 crores turn over from our Bhuj plant in the September quarter. So how much EBIT margin we get from this plant in this...
- Sanjay Bansal:** You see, this plant has commenced the commercial operations in July only. So EBITDA margins in terms of percentage is a little lower as compared to our expectation, once the plant reaches with optimal capacity 80% to 85% then we will get good EBITDA margin.
- Mayur Jain:** Is there any projection for EBIT margin?
- Sanjay Bansal:** We assume it would be in the line of 9.5% to 10% for the current financial year.
- Mayur Jain:** Okay. And is there any chance for improvement because the current scenario is challenging. So maybe in the next year, there is a possibility?
- Sanjay Bansal:** Yes, we are hopeful that it will further increase in next year.



- Moderator:** Thank you. We have next question from the line of Aniruddha Nahar from Primerica Mutual Fund. Please go ahead.
- Aniruddha Nahar:** I was looking at your balance sheet and your gross block has moved from about Rs. 250 crores to about say Rs. 26 crores from March to September. Now a part of it is your CWIP which has got converted to your assets. There is also a part of other non-current assets which is about Rs. 28.5 crores which have become about Rs. 5 crores and which remaining about Rs. 23 crores have gone into gross block. What were these other non-current assets?
- Sanjay Bansal:** Let me check and we will revert you.
- Aniruddha Nahar:** No, problem, sir. Just one more thing this Rs. 50 odd crores of gross block what kind of turnover can it generate?
- Sanjay Bansal:** See, we capitalize our new plant at Bhuj during the quarter, so it generated about Rs. 50 crore turnovers during the second quarter.
- Aniruddha Nahar:** No, that is true, sir, I mean at peak capacity what kind of turnover can it generate, is what I am trying to understand.
- Mahesh Chandra Garg:** Okay, total turnover. It can generate an annual turnover of Rs. 250 crores.
- Moderator:** Thank you. We have the next question from the line of Navneet B., individual investor.
- Navneet B.:** In terms of outlook, do you see H2 top-line to be better than H1 top-line, Q3 - Q4 or just wanted your views on the outlook for your top-line.
- Mahesh Chandra Garg:** Traditionally H2 top-line should be better than H1 traditionally unless some disruption takes place.
- Navneet B.:** Okay. And you mentioned, sir your auto division and your forging divisions, they have good orders, liquidity is not a problem. Structure division you said there is some problem in terms of liquidity in the market right now. So do you see that as a problem in terms of new order booking as well?
- Mahesh Chandra Garg:** No, orders are enough, enough with us for a year, it is a question of implementation without money, how can we implement. The vendor has to be liquid to pay us the money. The order is not a problem.
- Navneet B.:** Debtors might see an increase in your structure division because of your liquidity problem?



- Mahesh Chandra Garg:** Yes, it is a reasonably challenging for us to manage.
- Navneet B.:** Okay. And sir, what about your the last division, the ERW Tubes division, how is your order booking over there?
- Mahesh Chandra Garg:** There order booking comes weekly or 2 weeks basis, there is no major order booking there. We do not have a very big order book there. We don't have any very big order book there. It is almost a month order. They are smaller orders.
- Navneet B.:** Okay. So that is how it is normally or is it a new phenomenon right now?
- Mahesh Chandra Garg:** Off late it is new phenomenon otherwise it use to be healthy 1.5 month or 2 months, now it has come down to 1 month almost.
- Navneet B.:** Okay, got it. So the expectation is overall top-line in H2 should ideally be better than what it was in H1.
- Mahesh Chandra Garg:** Should be.
- Moderator:** Thank you, sir. Ladies and Gentlemen that was the last question. I now hand the conference over to Mr. Sanjay Bansal from Goodluck India Limited for closing comments. Sir, over to you.
- Sanjay Bansal:** Thank you very much for your support and we expect that this support will continue with the company. Thank you very much.
- Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of Goodluck India Limited, that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.