



“Gujarat State Fertilizers & Chemicals Limited  
Q2 FY 23 Earnings Conference Call”

**November 10, 2022**



**MANAGEMENT:**

**MR. V.D. NANAVATY - EXECUTIVE DIRECTOR,  
FINANCE AND CFO**

**MR. VISHVESH VACHHRAJANI - COMPANY  
SECRETARY AND SENIOR VICE PRESIDENT, LEGAL**

**MODERATOR:**

**MR. NITESH VAGHELA - ANURAG SERVICES LLP**



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**Nitesh Vaghela:**

Thank you. Good afternoon, and welcome to the second quarter earnings conference call of Gujarat State Fertilizers & Chemicals Limited, hosted by Anurag Services LLP. From the management, we have Mr. V.D. Nanavaty, Executive Director, Finance and CFO; and Mr. Vishvesh Vachhrajani, Company Secretary and Senior Vice President, Legal and Investor Relations and senior dignitaries from the management.

I would like to thank the management for giving us the opportunity to host this call. We will begin the call with opening remarks from the management, post which we will have a question-and-answer session. Thank you, and over to you, sir.

**Vishvesh Nanavaty:**

Thank you. Good afternoon, ladies and gentlemen, and welcome to the GSFC quarter 2 post-results con call. As you are closely tracking the GSFC, I hope you have seen the results published yesterday. So there has been consistent growth in sales and profit in this financial year, quarter 1, quarter 2. And for the full year also, as we discussed, we hope that more than 20% revenue growth is expected in this financial year.

Similarly, the actual results also show the profit highlights. So we hope that at least in Fertilizer, the same trend will continue. However, we see some pressure in the Industrial Products segment going forward also. Capro-benzene spread has been less than our expectation of \$1,000. So we expect it to be around \$900 going forward.

Fertilizer segment has done very well on the support of very good subsidy from government of India. As you know, input prices have continuously been rising. However, to protect farmers from the vagaries of this price rise, and government is constantly upgrading or increasing their subsidy budget for this financial year. And right now, it is historically at a high of more than INR2.5 lakh crore from the originally projected of INR1 lakh crore. The government seems to be committed to protect the farmers and the fertilizers MRP will be kept around the same price that has been prevailing almost from the beginning of the year. With GSFC being well managed and very efficient company, we hope that in this fluctuating time, we will have a good day in the Fertilizer segment.

As some of the shareholders have requested, we have uploaded the data of last year, also quarter-wise volume of production, sales and rupee figure of sales. So the last year, full year data is available on our website as well as the data for the current quarter and comparable quarters that are part of the published results. So you can take advantage of it and do the analysis required.

Inventory and subsidies have gone up, mainly because for inventory, fincos inventory, we had procured 2 DAP vessels of around 1,10,000 metric tonnes. So those just arrived in September and for those purchases. So they are reflecting as inventory. We assure you that this will be sold out before the close of the season and by December end.

Subsidy has been higher because of the VVD, value of all the fertilizer products have gone up substantially, otherwise volume-wise, there is no such huge blockage of subsidy. Because of these 2 factors, higher inventory and higher subsidy pending, the working capital requirement has slightly gone up and in fact, some of the deposits that were showing in March end have come down to some extent, we hope by again



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by this March '23, which really was subsiding time, we'll be able to have the comfortable deposit position by year-end. Otherwise, the projects are going on as per earlier discussion. And company will be conscious of the growth trajectory going forward and we'll keep on flying back the whatever investment or the results we have in more and more projects to serve the Atmanirbhar Bharat and to take the company forward.

With this, I complete my summary of the working. And now we can take the questions from the participants one by one. Thank you.

- Saket Kapoor:** Many thanks for uploading the volume and the production and sales data on a comparative basis also. And last year also, that's very helpful, and we hope for the continuity of the same. Sir, if we look into that DAP part of the story sir, out of this total inventory on a stand-alone basis of INR1,552 crores. How much would be attributable to the DAP part, sir?
- Vishvesh Nanavaty:** That is around INR450 crore.
- Saket Kapoor:** INR450 crore. And sir, first quarter, we have done sales of INR700 crore on DAP. And I think this time, there is negligible sale of only INR5 crore.
- Vishvesh Nanavaty:** Correct. Because the DAP economics were not favorable. So we had to curtail DAP production at Sikka Unit. And because government has not allowed the DAP MRP to be more than INR1,200 per bag. And the subsidy was also not remunerative considering the P205 and ammonia prices. So we had to stop the production of DAP at Sikka. And when the things improve at the latter part of the quarter, at least for the imported DAP, we order for these 2 vessels. However, from October onwards, the P205 prices have substantially come down from \$17.15 to \$11.75. So it's a huge number, so with this kind of lower prices, now the DAP production has become viable, and we already started the plant from November 1. And we hope at least 50% planned capacity utilization until March '23 for DAP and MTP at Sikka unit. So hope these things will turn around in the H2.
- Saket Kapoor:** And sir, what should be the likely margin in the trading business for DAP? The 2 vessels and INR450 crore investment in inventory, which they are carrying?
- Vishvesh Nanavaty:** It varies because the DAP price also varies substantially. So the margin varies between INR1,000 per tonne to, say, INR5,000 per tonne.
- Saket Kapoor:** Okay. But still on a blended basis, sir, when we have booked the vessel, we have also planned out the selling part of it? Or how does it work?
- Vishvesh Nanavaty:** Yes, yes, definitely because DAP season is there till 15th of December or so. So by that time, the 1,10,000 metric tonnes will be sold because if we don't sell it by that time, then it will be sold in say, in the next May or June only, we can't afford say 6 months' inventory pileup. So accordingly, it is planned that everything will be sold by this mid December.
- Saket Kapoor:** Right, sir. Sir, when we look at this quarter numbers, on a comparative basis, for Q1 versus Q2, in the Fertilizer segment, we have done less business because of the DAP part. But if we take the power and fuel cost, that has gone off significantly. So sir, going ahead, what is the outlook on the same sir?
- Vishvesh Nanavaty:** I mean, the mainly power and fuel cost rise is mainly because of natural gas used for power generation. So I mean, if native costs have consistently gone up, but obsoletely they started coming down. So there will be some worsening of the retail



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gas cost in this quarter and the Q4 also. So we see some downward trend in that cost. As far as urea is concerned, overall energy costs are a pass-through. So even if the natural gas cost is high, we are able to get it back in form of subsidy. So to that extent, whatever rise is there in the form of higher revenue in the turnover part.

**Saket Kapoor:**

Sir, going ahead also, we can maintain these margins for the Fertilizer segment, is the Fertilizer segment going to be a steady state number, both in terms of turnover and the bottom line for the second half also?

**Vishvesh Nanavaty:**

Yes, yes. So not be percentage exactly maintainable in that form, but it will have a good margin as well as a good turnover also because we expect INR10,000 crores to INR11,000 crore turnover on annual basis. where Fertilizer turnover will be having almost 50% rise compared to last year. So last year was around INR6,000, we expect INR9,000 crore Fertilizer turnover and overall around INR11,000 crores. And as I said, margin is also not percentage wise, but it will be a good number going forward also because let's say probably H2 is already declared with some reduction of 3% to 4%. So that will not have a major impact on the margin and MRP also is not scale. So with short-term realization more or less remaining the same. And as I said, input cost for P205 has gone down, ammonia has not increase and sulfur and rock, et cetera, is steady. So we don't see much rise in the input cost also in the Fertilizer segment.

**Saket Kapoor:**

Right, sir. So because when we look at the margin profile, just to drill more on the Fertilizer segment, the margin has significantly improved for the quarter and also for the first half on a top line of INR4,100 crores, we are doing the PBT number of INR933 crore. So you are trying to explain that these margins are not sustainable. The margins may be slightly lower for H2 going there.

**Vishvesh Nanavaty:**

Yes, slightly lower but not something the tables are not going to turn.

**Saket Kapoor:**

Like in Industrial Chemicals.

**Vishvesh Nanavaty:**

Yes. Yes, that way.

**Saket Kapoor:**

And sir, now coming to the industrial chemicals part, sir, what's the outlook there, sir and what has happened in this segment that we posted loss of around INR80 crore. And is there any one-off item in this MDA inventory write-down, which you took?

**Vishvesh Nanavaty:**

No. So the selling price of the finished good price is not included in line with the input cost increases. So that is why it had to be in the red. So particularly in melamine, the antidumping duty has not been renewed by government of India and broadly they are taking the same stand for various products. So the Chinese import into India at a much lower prices coming in a large way in the case of melamine. So we have to more or less make the price. So to avoid this, we are increasing the export for melamine in European and U.S. where we get better realization so that way we are trying to improve the margins in industrial products.

And though we are doing the segment breakup as per the accounting standard and other regulations, and so the ammonium sulfate fertilizer is a product coming out of caprolactam plant only. So on a stand-alone basis, if I see caprolactam not showing profit and if we shut down the plant. There will be a huge loss in the Fertilizer segment also. So for an integrated plant like GSFC, these segments are kind of artificial bifurcation, so to say and industrial product plants support fertilizer and fertilizer plant support industrial products. So on the case of it, IP is showing up but the whole ammonium sulfate is coming out of caprolactam plant only. So that way, we see internal for decision-making, which is the holistic picture and continue or



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stop loss making products. So caprolactam or melamine was not stopped because of this holistic reasons.

**Saket Kapoor:**

Right. Correct. And sir, on the CapEx front sir and on the subsidy front, what's your take, there is an increase in subsidy to INR2,000 crores. So what are we in terms of how much have been the receivables for the month of October, if any? And what's the outlook, sir, how is this going to get trimmed down?

**Vishvesh Nanavaty:**

Government is as through budgetary support also, they are increasing the subsidy allocation and with a good fund coming to government to good DAP and tax collection. They are seriously wanting to pay in time. And in fact, subsidiary up to third week of September has already been paid. So it is just a month and or so to say 5 weeks' subsidy is pending.

But on the book, it is showing higher figure because we book subsidy on the cost point of sales, while government releases subsidy after post-sale is happening, and then we are able to lodge subsidy claims then only liability on government side arises. So there is a timing gap between these 2 events. And as per in the off season like January to March, this gap is 3 to 4 months away. So even if I sell something in January, my post-sale is going to happen in, say, May, June or April only. So till then, it will show up as an outstanding subsidy because my sales comprise MRP as well as subsidy. But there is no liability to government because the post-sale has not happened. So on the balance sheet is with outstanding, but from government side, this much of subsidy payable is not there. So this is showing main thing.

**Saket Kapoor:**

Okay. So what figure should we look at today out of this INR2,086 crore or the INR2,162 crores, if you take the standalone numbers? What portion should be attributable to the actual sales? And what have been the receivables for the month of October, sir in terms of subsidy received?

**Vishvesh Nanavaty:**

Subsidy, for being lodged with government and not paid by them is less than INR500 crore. While my book shows INR2,100 crores. So that is the kind of difference.

**Saket Kapoor:**

Right, sir. And sir, for the CapEx part, if you could give some more color, how much CapEx have we done for H1? What have envisaged for H2 and the year ahead? And also on the projects where we were contemplating some backward integration. And however, our investment in our JV performed, sir, for the foreign JVs, I think so we have also invested some money and applied in the rights issue. If you could throw some more light on that.

**Vishvesh Nanavaty:**

Yes. So the CapEx, as we discussed about sulfuric acid fifth plant, ammonium sulfate plant, HX crystal then chrome, which is organic fertilizer, then solar plant for reduction of power cost, green hydrogen for green ammonia, then melamine 4 plant, urea revamp for reduction of energy. All these CapEx are going on. They are at different stages of implementation. So right now, no major CapEx has been capitalized so far in the H1. So as and when it is done, it will be notified through stock exchange, and it will also come in the notes to the quarterly results. But they are at different stages, and most of them will be capitalized in '23 and '24. So that should help into our turnover or reduce our cost or like HX crystal it is a niche product used in the pharma industry. So right now, it is imported 100% from China. So we will have some Indian supplies from GSFC for different form of CapEx are underway, and we'll declare as and when it is done.

**Saket Kapoor:**

So you are explaining that no substantial amount has been spent as on H1. And neither do we contemplate any big CapEx for H2 as of now, only when things will crystallize, we would be on the drawing board only.



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- Vishvesh Nanavaty:** Right. And if you look at our balance sheet, it will show up in the net asset because it includes the capital work in progress also. So whatever changes are there, they are because of whatever CWIP has been done or any capitalization that has been affected. So this show up in seasons also.
- Saket Kapoor:** And sir, lastly, sir, you have a long tenure at GSFC. So just to understand, sir, what is the succession planning at the end? And when is your retirement due, sir, you have been managing and answering us investor for a very long time, just to understand how is the succession planned there?
- Vishvesh Vachhrajani:** Mr. Nanavaty has still long way to go.
- Vishvesh Nanavaty:** All my successors are sitting in this room only. So don't worry. Yes. So GSFC has been working since last 60 years, and we have sufficient experienced people at different levels. So nothing to worry about the company's future.
- Saket Kapoor:** Sir. Okay. So we'll hope for how the value creation has been done to investors since everything that was discussed last quarter will get how the Board looked into our request for creating shareholder value. So that's another aspect, and we'll wait for how the Board looks and deliberate on the same. And a lot of things have been spoken at length last quarter also. So it won't be repeated. We will wait how the Board replies to our question.
- Vishvesh Nanavaty:** Listening to what we are saying.
- Saket Kapoor:** On the dividend distribution policy and also on the buyback policy on all other aspects, which will create shareholder values and create awareness for investors.
- Ankul Sanwal:** The fertilizer subsidiary is on the historical high end. This may not continue forever. And our industrial segment is not working up to the mark since last many quarters. So how we are planning to sustain profitability in the future?
- Vishvesh Nanavaty:** No. GSFC, these 2 segments, has each other, when one is down, the other is up that is how we have been consistently making profit. So maybe in the last 2 quarters, the industrial product is not doing up to the mark, but that is not going to be the picture forever. And in fact, we have earned a huge margin in IP also. So nothing to worry as a company as a whole. However, as I explained, we are trying to have more export of the melamine so that we have a better price realization. And the capro nylon also if the Indian price continues to be like this, we will focus more on the export also so that we have better realization and better profit. And as you know, no government can ignore farmers interest and make fertilizer costly. So consistently, government whatever party is in power they have been giving good subsidy on the fertilizers to protect farmers from price vagaries. So a company like GSFC, which is efficiently working, you will always have a chance to make good margins whenever the opportunity arises.
- And as I said, 1 of the project that we are undertaking for urea events for reducing the energy. So apart from the increasing the income side, you also focus on the cost side by reducing the power cost by setting up solar and wind power plants as well as reducing the energy in old technology plants so that either they get more subsidy for the same amount of energy or our energy bill goes down when gas and power are costly. So we see both the cost and income side consistently. And in the advantage of the situation and when things don't move in given situation like we go also for the export because the quality of all the products that we manufacture are of international standards. So we don't have any problem in setting overseas market



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also when need arises. But since it is not good to be sitting in India and not meeting local demand and exporting our products that is not our philosophy. So we were mostly selling our products in domestic market only. But now when because of dumping or other consent, we don't get the desire price then we don't mind going abroad also.

So depending on the situation, we will be taking the steps, apart from going for the new projects, so that gives new product or gives economy of scale or helps in making higher market share in the domestic market for all these various considerations, and we go for the new project to maintain the profitability and to improve top line, bottom line.

**Vishvesh Nanavaty:**

Yes. So thank you, all the participants. And as we discussed, we'll continue to take steps to take the company ahead in the growth path. And which is even there are consistent profit as some shareholders have feeling, they work and then think of higher dividend or other forms of compensating the shareholders. So the time will tell the story, but till then do continue to report confidence in GSFC. Thank you.