

**“Gujarat State Fertilizers & Chemicals Ltd. Q1 FY22-
23 Earnings Conference Call”**

July 26, 2022



**MANAGEMENT: MR. V.D. NANAVATY – EXECUTIVE DIRECTOR & CFO,
GUJARAT STATE FERTILIZERS & CHEMICALS LIMITED
MR. VISHVESH VACHHRAJANI – COMPANY
SECRETARY AND SENIOR VP (LEGAL), GUJARAT
STATE FERTILIZERS & CHEMICALS LIMITED**

MODERATOR: MR. NITESH VAGHELA – ANURAG SERVICES LLP



Moderator: Ladies and gentlemen, good day and welcome to the GSFC Conference Call to discuss the Q1 FY22-23 financial performance.

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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitesh Vaghela from Anurag Services LLP. Thank you, and over to you, sir.

Nitesh Vaghela: Thank you. Good afternoon, and welcome to the First Quarter Earnings Conference Call of Gujarat State Fertilizers & Chemicals Ltd., 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). 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.

V.D. Nanavaty: Good afternoon, and welcome to all the participants for the GSFC Q1 post results Con Call. You must have all studied and seen the good results declared by the company and the volume performance has been uploaded on our website which you can see for the price number.

As you know, the quarter was good financially, though there were some hiccups in the production of fertilizers at Sikka due to rising price of all type of input cost for the Phos Acid, Ammonia, Sulphur and so the production were off and on at Sikka Unit during the quarter. However, Baroda unit consistently had regular and normal production. In fact, we had shutdown of few plants in the last Q1 which was not there. So, you will see the high production of Baroda products in fertilizer as well as in chemical segment.

Last year Methanol price were very regulative as compared to natural gas price. So, we had some production in the sale of Methanol, but thereafter, as you know, gas prices have gone up sufficiently high, but Methanol prices have not risen commensurately. So, Methanol plant was also stopped in the later part of '21 - '22.

Recently, we had, you might have noticed some short shutdown in urea plant because of some equipment failure, which we are correcting, and shortly it will be restarted.

As far as the revenue is concerned, due to high natural gas price, the urea subsidy went up substantially high based on the cost through terminal. So, urea prices also went up. Similarly,



government declared good subsidy for P&K fertilizers also. So, on the back of rising subsidy, the realization in fertilizers went up substantially high and government has tried to see that farmers are not impacted by the rising input cost and the fertilizer prices. So, MRP is hardly increased compared to last year and most of the input cost has been absorbed by the higher subsidies supported by Government of India.

Otherwise, all the raw materials were at considerably high level in Q1. Benzene, naphtha, natural gas, Sulphur, Ammonia, Rock phosphate all were up compared to Q1 of last year. But, of course, now prices have started to soften. So, as you can see in the chemical segment, the realizations are down compared to last year and some of the input cost are also coming down like Sulphur, in particular, has come down substantially and ammonia is also reduced a little bit in line with the coal prices.

Fertilizer performance, as you can see, it was very, very good or abnormally high right from element of one-time income in that, because when the subsidies are increased from one quarter to other with the cutoff year coming, so everything that is sold through POS gets higher subsidy and one-time impact is immediately seen in such a situation. So, that is seen here in the fertilizer results. IP margins were down, but it has started increasing from August and for Capro Benzene, we expect \$1,000 spent to be maintained on an average basis throughout the year.

As you know government has substantially provided for subsidy support of more than 2 trillion Indian rupees, and accordingly, government is realizing the subsidy. We have almost received full subsidy of urea up to the month of June and for Sikka DAP and also almost third week of June has been covered by the subsidy payment. So, as promised by the government and as supported by budgetary support, the subsidy cash flow has been maintained like recent past.

As we said during the financial year ending Con Call, we see at least 25% rise in the revenue during the year, mainly headed by the cost worthy segment and with the different projects that we discussed last time on hand, GSFC will keep growing. So, we request all of you to keep your interest in GSFC year-over-year and that with this I will conclude my short overview of the quarter. Thank you.

A. M. Lodha:

Sir, I have two queries. One is for fertilizer division. Another is for chemical division. And coming to the number one fertilizer division, sir, the sales in the year-on-year Quarter 1 of the last year was 1,267 crores and the Quarter 1 of this year, sale is 2322 crores whereas the EBITDA has gone up from 8500 crores to 500 crores. Can you just put some light on this? What may be the reason of this extraordinary jump in the EBITDA? And can it be continue for the rest of the nine months?

V.D. Nanavaty:

Yes, these numbers are you know were eye-catching compared to the jump it is showing. Yes, as I said because of pricing subsidy, the turnover as well as cost stability has increased and then as I said, one time effect also for some facts because as you may be knowing subsidies



sell on the basis of point of sales terminal loans since that happens at the retail level when farmer actually buys the fertilizer. So, the subsidy claim which government of India is lodged when the farmer buys the fertilizer. So, whatever we have physically, it's along 10 years you maybe knowing that fertilizer companies will be selling to dealer. Dealer will be selling to retailer. Retailer will be selling to farmer. So, there is a timeline between when a company like a factory makes sales and when actually POS sale happen. So, in between if there is a change in subsidy, then the POS sale rate are taken as per the subsidy calculation and payment.

So, suppose something I've sold within the March '22, but actually farmer buys it in June '22 and in between the subsidy rate changes, like DAP last year rate was 33,000. This year it is 50,000. So, immediately anyone who sells DAP like this gets Rs. 17,000 per ton more. So, like this in all the P&K fertilizers the subsidies had been increased substantially. So, when this type of situation arises, there is a higher collection of subsidy. And as I explained, suppose something is sold by the factory in March say DAP, then DAP revenue is put as per 33,000 subsidy, but then we are entitled to say 50,000 subsidy, immediately 17,000 extra is booked as a revenue as well as it goes in the profit. So, that is how the 85 crores goes up to 500 crores.

A. M. Lodha: Can you put some light on the remaining nine months? Can we expect good performance? Which is a big quarter for us? Second quarter?

V.D. Nanavaty: Yes, second quarter is a rainy season, second and third, because in third quarter also for Rabi crop, the farmer buys the fertilizer up to say December or end of November kind of thing. So, second and third quarters are good.

A. M. Lodha: You mean to say that second quarter and third quarter will be better then and then so far shares are concerned in quantity one, it will be better compared to first quarter?

V.D. Nanavaty: Yes. If you remove the one-time effect, it will be like what you say. Barring one-time effect, it will be good quarter.

A. M. Lodha: Regarding chemical division, sir, then, again, sales during the quarter, a year ago was 650 crores and while in this quarter it is 738 crores. The sales have not decreased, whereas the profit from 96, a year ago in the quarter last year, it has come down to 31 crores only.

V.D. Nanavaty: Right. So, as I explained the input cost have gone up like crude prices, as you know, went up substantially above \$100 and up to \$115 or \$120. With this crude price now all the crude varieties price don't increase like we buy Benzene, which is made out of crude, but Benzene prices goes up, but Caprolactam price don't go up so high. So, there is a pressure on the margin. So, natural gas, ammonia, crude, Benzene, Sulphur, these inputs have gone up substantially. It's not supporting rise in our finished goods prices. So, this pressure on margin is there, but as I said some improvements we see going forward in this.



A. M. Lodha: Sir, this, my last question is regarding the investors. I am an investor. I am a shareholder of the company. As an investor, I expect that our company, nine to 10,000 crore company, it is neat and clean as the Navaratna of the State Government of Gujarat. And our Prime Minister Mr. Modi says, 'Sabka Saath, Sabka Vikas'. But GSFC's management does not believe in 'Sabka Saath, Sabka Vikas'. Your payout which was 21% last year, you have reduced it to 11%.

V.D. Nanavaty: As you can see, we believe in consistent dividend. So, if there is a one-time profit so we would distribute and if there is no profit we would say you won't get the payout. So, that policy we don't believe. We want to maintain consistency in dividend so that even in lean years we don't have to back toddle from shareholder for lower dividend. Then you will know I have briefed through new projects and I mean, good performance aided by good share price. So, that will be the real growth for the shareholder monetarily.

A. M. Lodha: But sir, my EPS was Rs. 10 in March '21 and the EPS gone to Rs. 22 in the March '22 and at that time payout was 21%, which is reduced to 11%. Our company is the debt free company and we don't have that much of expansion that you have to borrow the money from the outsider. So, at least shareholders, number one.

Number two, sir, no presentation, no press release, nothing else. What type of a company or how that this 10,000-crore company was the Navaratna of the Gujarat government is being managed by the bureaucrats, sir? It should fell to unrated. That's my point of view. You just give a message to your Chairman, MD, whoever will be there, shareholders are requesting for the consistently press release and the presentation. Without press release and without presentation, we are in dark. We cannot ask any question, sir.

V.D. Nanavaty: Yes, we will convey your feelings to the Board about rise in dividend expectance. And now by nature, we are a very conservative company.

A. M. Lodha: Sir, my request is time has changed and we should also change with the changing of the time, sir. Not that, sir, when we are earning the 22 rupees, you are issuing only Rs. 2.50. We should have given the Rs. 5 plus you will be getting the dividend from GNFC, other company where the investment. You are the grandfather of the other Gujarat government promoted company, sir. Then you will be getting a handsome dividend this year also. So, that is our viewpoint. Kindly convey our grievances to the Board from the AGM shareholders, sir.

Ankur Kanwal: I would like to know the timeframe of execution of various expansion project which we are undertaking.

V.D. Nanavaty: So, right now as we discussed last time, Sulphuric Acid kit fifth plant is under implementation. So, that is likely to be completed in '24, early '24 and then we have Ammonium Sulphate fourth plant that is expected by December '23. Then we have I think fifth plant that is also expected by December '23. Then we are setting up solar power plant 15 Megawatts. That is also expected by middle of June '23 next year. And then we have various proposals on hand



which are under different stages of discussion and deliberation. So, right now timelines for that is difficult to give, but these are all what I said is under implementation. So, all the work is going on.

Ankur Kanwal: Sir, what kind of sales realizations can we have from Sulphuric Acid and Ammonium Sulphate after they are executed? And the production will be used in-house or will also sell outside?

V.D. Nanavaty: Sulphuric Acid will be for our in-house consumption that is to support Ammonium Sulphate. So, as we want say the Ammonium sulphate to Sulphuric Acid is a part of Ammonium Sulphate, so that will be in-house and Ammonium sulphate that will be sold. We already have two to three plants working. So, that will bring turnover of around Rs. 400 to 500 crore. HS Crystal will bring turnover of around Rs. 125 crore, enough solar is for saving the power cost. So, right now these are the numbers for turnover.

Saket Kapoor: Sir, firstly about the industrial product margins part. So, currently, sir, what is the outlook for the current month? And how are the price trends been? If you could give some more color on how IP margins will fair for the coming month?

V.D. Nanavaty: So, Capro Benzene sale on an average we expect to be \$1,000. Sometimes it may go up. Sometimes it may go down. But on an average, we expect it to be in that range. And Melamine as we saw the prices have reduced in the domestic market. We are trying to sell more Melamine in European market to export. So, that way we have time to increase the realization. Melamine nylon fix is being sold locally, I mean, in India only. So, price keeps fluctuating. So, these are the major industrial products, which form part of the majority of the margin.

But on an overall basis, considering the crude prices and the natural gas prices, which are unprecedented and they are therein by something else like usually European demand because of the Russian embargo on their gas and all the things. So, this input size keeps increasing, but then there is no corresponding rise in our industrial product prices. So, I think this year will be the year for fertilizer support to be profit in large rate. We can say overall like this.

Saket Kapoor: Sir, do we have any seasonality factors for the IP sales also? If you look at the volume data, are the volume data for the preceding quarter, Q4 of '21 - '22 comparable with what we did for Q1 wherein, sir, we find that volume for Melamine and nylon fix have gone down considerably from 8,400 tons to 6,700?

V.D. Nanavaty: There is nothing like seasonality, but the whole economy, not only Indian economy, the whole world economies are affected by the high inflation and all the central banks are increasing the interest rate. So, growth and doing new business with borrowing is becoming unexpected. So, it is impacting the economies world over. So, India is also impacted. So, sometimes the volumes come down but there is no long-term impact like this. It will pick up. When Melamine Europe is facing the highest gas price frequently, so with those kind of gas price, Melamine is not viable. So, few plants are shutting down in Europe. So, there we will be sending our

Melamine because Chennai is dumping lot of Melamine in India. So, we will be selling out of India. But these kind of changing the year sometimes takes time to show the effect. So, it will pick up. There is no volume problem in IP.

Saket Kapoor: And sir, about the backward integration part, where are we in midst of the CAPEX which we were envisaging earlier for backward integration for rock phosphate to be the forward integration? And also, about the right issues or application we have done for a company, I think, so some 31 crores is on that point you could explain what are the benefits that we have derived as of now? I think we hold the considerable stake in the company. Is there any optic agreement? What are the benefits and how are we seeing going forward?

V.D. Nanavaty: So, that what you were talking is about the Potash. So, you may be knowing that India is 100% dependent on imports for Potash. There is no local source of Potash and Potash is a primary nutrient, NPK. So, this is the basic nutrient required for fertilizers. So, since we don't have any source in India as in the interest of the wall of the country, we invested in Canada, which is having the highest Potash resource in the world and they are a democratic country and they are much higher in the ease of doing business all over the world. They are in the first five countries in the ease of doing. So, like Russia no, even if you have mine, you cannot do anything if you have stake in Russia. But considering all this, we invested in Karnalyte Resources for Potash and we have uptake agreement for 3,50,000 tons of Potash from the first sale with some discount and these are the Potash mine. So, mines will last for many, many years, maybe say 70 years to 100 years. So, initially, some problems will come before start of the mine, but when it starts, then you have long-term benefits available. So, we expect that with good Potash prices prevailing, that's why we tell that mines will improve and we will have some partners joining in step for starting the project. So, we expect some result in say around six months maybe by March '23 some progress in this matter should occur.

Saket Kapoor: Sir, currently, these are non-operational?

V.D. Nanavaty: Yes.

Saket Kapoor: The asset is completely non-operational.

V.D. Nanavaty: Right. Right now, it is non-operational. Whatever environment clearance, production clearance approve on to this that means all the permits and everything is in place. So, with good Potash prices, we are awaiting for finance tie up.

Saket Kapoor: Sir, in 2013, as per your release, we have made the first tranche of investment. So, from 2013 to 2022, for over the 8-9 years it has not yielded anything for us and now it is the time when we will start with the right issue, they would be able to do the mining activity, then the uptick will come. Is this the story, sir?



V.D. Nanavaty: Yes. Some more fund will be required because if you see from 2013 to 2021, Potash prices were highly subdued. So, right now it is \$590 in India, but last year it was at \$280. So, before that it was \$221. So, with this kind of price, no mine can work. It is very low price.

Saket Kapoor: Even in the mix for the fertilizer part, we find that the DAP sales were the highest for this quarter, 700, I think. So, 300 crores for what purposes? So, it forms the raw material there, sir, for the DAP?

Sir, what I was saying that, for this, what is the reason for increase in the sales of DAP in this quarter? On quarter-on-quarter the basis the mix has gone up from Rs. 50 crores to Rs. 700 crores and does the rock phosphate comes under the raw material for this?

V.D. Nanavaty: No, as I have said the subsidy for DAP has increased so the impact of that is there and second we sold some DAP which was produced last year, in this year. So, DAP sales is more. Baroda Sikka we want to do a plant project taking up the DAP. That discussion is going on. That work is going on. So, when we will award the contract, we will announce it. So, that will make a huge difference in overall turnover and profitability.

Saket Kapoor: Sir, two small points and then I come in the queue. First point is about the capital allocation policy for the company, but as you have told that about the different part, we are believing more on the absolute number rather than the profitability metrics. We have just one of the earlier learned participants mentioned and I second his view. But anyway, that is the Board call and investor's points should also be put on place. Coming to the raw material basket how is it shaping up? Kindly throw some more light on the same? And then coming to this volume data part, sir, this volume data which has been uploaded on the website was uploaded today. I think so two, three days, the post the number. So, we'd request that volume data to be a part of our numbers so that all investors get the benefit of reading it rather than looking at the website when the same are uploaded, and also a request not to remove the previous data so that we can compare the same on how the last quarter numbers have been. These are two requests and sir, lastly, on the investor presentation and press release, sir, kindly look into the aspects, sir. Companies like I've been naming them GNFC, Gujarat Alkali, everybody is coming up with the presentation. None of them are non-conservative or aggressive companies. All companies are conservative and part of the 80-fold so why are we walking separating? There has to be some reason that we are finding it difficult to adapt so if we can discuss with the investors and where you are finding it difficult to implement? We should get a proper answer then we would stop asking questions. My short point is conservative or aggressive should not be the barometer to decide whether the investor presentation or press release to be a part? And please make us understand how the raw material basket is shaping up and going forward is it the base of industrial products profitability or we expect lower margin than this?

V.D. Nanavaty: No, it will not decrease, it will increase. So, in raw material like the crude is getting softer and sulfur also gotten pretty soft from August. Otherwise for Q1-Q2 Phos Acid prices we will increase from Rs. 1530 to Rs. 1715 and this will be ongoing till September. Ammonia will get

a little less but it will not be much because you want so much gas and the raw material of ammonia is gas. So there is a lot of demand of gas so ammonia's cost also gets increased, particularly for imported ammonia. And the cost of rock phosphate cost is also not decreasing. As I said it keep fluctuating, plus minus and sulfur also decrease and except that prices have not decreased much of the raw material.

Falguni Dutta: I just had two questions. One is on this fertilizer profit that you said that they are higher because they contain that higher subsidy due to later on POS sales. So, sir, will you be able to quantify that amount? Any broadly, what would be the impact of that?

V.D. Nanavaty: I would say 150 crore.

Falguni Dutta: 150 crore?

V.D. Nanavaty: Correct.

Falguni Dutta: And sir, secondly on this, I just missed your answer. Phos-Acid price in Q1 you said was \$15.30.

V.D. Nanavaty: Yes. Not Q1. Q4. Sorry.

Falguni Dutta: Q4. And Q1, how much was it?

V.D. Nanavaty: 17.15.

Falguni Dutta: And Q2, has it been finalized?

V.D. Nanavaty: Yes. It is same for Q2 also.

Falguni Dutta: And Ammonia price if you can tell me, the current one, current rate?

V.D. Nanavaty: It's between \$900 to \$1,000 in import for Ammonia.

Falguni Dutta: Sorry?

V.D. Nanavaty: Imported ammonia price.

Falguni Dutta: Imported ammonia. And sir, how much of imported ammonia do we use?

V.D. Nanavaty: It is mainly used in Sikka unit. Here we get natural gas and from their gas we have ammonia plants. So, we make our own ammonia but our product costing is not revealed except on segment basis.

Falguni Dutta: No, like broadly of your total ammonia requirement, how much would be imported?

V.D. Nanavaty: No, Baroda is totally captive production and Sikka is totally imported. So, Sikka maybe 1 to 2 lakh metric ton we bring depending upon the cost economics of running Sikka plant.

Falguni Dutta: Can you just tell me about the current DAP realization and current subsidy?

V.D. Nanavaty: Current subsidy is Rs. 50,000 and realization is Rs. 26,000.

Falguni Dutta: Realization is 26,000 a ton?

V.D. Nanavaty: Correct and subsidy is 50,000.

Falguni Dutta: Broadly, how are you seeing the demand this season?

V.D. Nanavaty: Due to the rainfall all over, demand is going to be there. So, good demand will be there like any year.

Falguni Dutta: So, we see broadly the fertilizer volumes will be same or higher?

V.D. Nanavaty: I think with Sikka, the economics changing with input cost prices, I think volumes will be compared to almost like last year.

Guneet Singh: Sir, my question is regarding the margins. If we look at the margins for the last two quarters, they have been around 21 and 18%, but for the previous quarter before them, margins have been hovering between 10% to 15% and also if we look at the yearly margins, the margins have suddenly improved from around 9 to 10% before 2021 and after 2021 for the years FY22 and for the trailing 12 months, the margins are around 15 to 16%. So, I would like to know whether we can continue the margins that we are seeing right now around 18 to 20% for the coming quarters and the coming years? And what can be the steady-state margin that we can expect? And I also want the main reason for this increase in margins that we saw in FY22?

V.D. Nanavaty: Margin because there are broad two segments, fertilizers and industrial products, so as a steady state, we can say that fertilizer will be at around 5% and the chemical between 10 to 15%. That is the normal margins. Of course, fertilizer is showing abnormal margins this time, but this is not a steady-state margin we can say. So, this is mainly because of higher subsidy declared by government and the GSFC being efficient unit, while subsidies are fixed now considering all the players in the field. So, those who are efficient, they get disproportionate benefit. So, that is what is seen in this quarter fertilizer margin. So, this is probably the thing and mainly the chemicals are internationally quality price linked product. So, we don't have our own pricing policy because imports are free and the custom duties are down in line with WTO requirements. So, if you price your products higher, then people will import and you will have a huge inventory. So, you have to be real of global player although you are selling it in India. So, that is how the prices of chemicals are decided and with China having large volume of every chemical that we produce, be it is Caprolactam or Melamine or Nylon. So, they



dominate the pricing in the international market. So, with large economies of scale and other benefits they have in their country, they will fit in the price. So, there is hardly any windfall gain in the chemicals. Barring maybe some occurrence like COVID that happened last year, it went up the price substantially. Otherwise, it is a quite kind of commodity cycle. So, there is a steady state. Sometimes you go up. Sometimes you go down. But chemicals bring 10 to 15% margin and fertilizers as you know are highly controlled by government. So, how do they look at protecting the farmers' interest, that decides the MRP and subsidy. So, on an average 5% is a normal margin there.

Guneet Singh: So, for the coming quarters, right now we are looking at 20% or 18% margins. So, for the coming quarter or for the coming years, a steady state of around 12 to 15% is a good number or do you think that is that?

V.D. Nanavaty: That is a good number.

Vipul Shah: So, what is our annual requirement of Phos-acid and Phos-acid is mainly we are using for production of which product, sir?

V.D. Nanavaty: Phos-acid we import are used at Sikka unit where DAP and NPK products are made. So, if we run the plant at normal capacity, we produce 7 to 8 lakh tons of DAP and NPK fertilizers and that requires 3 to 4 lakh ton of Phos-acid per year.

Vipul Shah: Previously, I think we had a joint venture with Coromandel for procurement of Phosphoric Acid?

V.D. Nanavaty: Yes, that is at the Tunisia TIFERT. It provides some support for the supply, but their production is...

Vipul Shah: So, from that venture, how much quantity we get?

V.D. Nanavaty: The plant is for 4 lakh, I mean, 3,60,000 metric ton. So, we are supposed to get 50%, say maybe 1,80,000 metric ton. But that plant is having some socially unrest in the country. So, it is running at some 30, 40% only right now. So, we are trying to revive it and bring it to 70, 80%, but it will take some time. So, we get some support, maybe 40,000, 50,000 tons actually we get from there. There is no price advantage there. It is only supply assurance.

Vipul Shah: So, we get only market price.

V.D. Nanavaty: Yes. We pay market price only for that Phos-acid.

Vipul Shah: When I search our website, we don't have any transcripts of previous calls or any, this volume data which you have put for this quarter. So, for previous quarter, I don't find any data. So, why don't we keep the transcript of all calls which were previously done on our website and

this volume data plus we should also have a presentation with the result every quarter just like all good companies are doing. So, these are few suggestions if you can act upon it.

V.D. Nanavaty: Yes, definitely.

Anurag Patil: Sir, how is the demand scenario for the Caprolactam currently?

V.D. Nanavaty: No, it is good. There is no problem in demand. Sometimes, as I said, it fluctuates between quarter-to-quarter due to one reason or the other. Otherwise, all our plants are having capacities which are much smaller compared to Indian requirements. So, apart from what we produce, lot of imports take place in India. So, with good quality materials provided by us, so all our customers prefer to buy from us at the first instance and balance quantity that we import. So, there is no question of any demand destruction or demand falling suddenly and with a lot of inventory, those situations hardly arises.

Anurag Patil: And, sir, what was the Caprolactam Benzene's spread in Q1? And what is it currently?

V.D. Nanavaty: It was around some \$950 and as I said, it is improving from say August. It will go above \$1,000, I think, in August.

Anurag Patil: What was the Q1 average? Q1 FY23?

V.D. Nanavaty: I told no Q1 is 950, around \$950 and it is likely to increase from July was not so high, but August it is high. It will improve.

Jatin Damania: Sir, you just, initially, you stated that you have taken a shutdown in the urea plant due to the equipment failure. So, sir, when can we expect this plant to be operational?

V.D. Nanavaty: Yes, it was from some 12, 15 days. So, maybe in this week or maybe in early August it will be operational. Not a major thing.

Jatin Damania: And sir, you said there was few other plants were also shut in the last quarter. So, can you state which were the plants which were shut other than the Methanol?

V.D. Nanavaty: No, that I had said about last year's Q1. So, there are some fertilizer and chemical plants were having normal shutdown. So, because of that production last year was less. If you see the volume data uploaded by us some like urea and all products are now higher in this quarter as compared to last year. So, last year they were having shutdown, normal shutdown.

Jatin Damania: In terms of Methanol now since because of the increase in the gas prices, the unit is not **(Inaudible) 49:14**, but at what level we will revisit to think that we can start the plant again, at what breakeven points?



- V.D. Nanavaty:** No, right now gas prices are prohibiting. So, unthinkable to start Methanol because spot gas prices are above Rs. 120 per f.m.q or Rs. 130 per f.m.q for Rs. 40 per Kg or 35,000, 40,000 per ton. There is a huge difference of may be Rs. 1 lakh negative gap between revenue and cost we can say, a negative spread of Rs. 1 lakh per ton.
- Jatin Damania:** In terms of the expansion that you mentioned about Sulphuric Acid plant, Ammonia and Sulphur setup and then solar power plant of 15 Megawatts, what is the CAPEX that we are incurring for that?
- V.D. Nanavaty:** Solar is about 85 crore and Sulphuric Acid plant is about 250 crore and Ammonium Sulphate is 110 crores and HS crystal is 100 crores.
- Jatin Damania:** So, we are almost spending over 500 odd crores around for the expansion.
- V.D. Nanavaty:** you
- Jatin Damania:** And the incremental revenue that we will be generating will be in the range of 400 to 500 crore, that's only through Ammonium Sulphate, right?
- V.D. Nanavaty:** Mainly through Ammonium Sulphate, yes.
- Jatin Damania:** So, on the asset turnover, it will be one-on-one, but, sir, what additional incremental benefit that we can get from Sulphuric Acid? Can you basically highlight what will be the improvement in the operational efficiency in margin once the Sulphuric Acid get commissioned?
- V.D. Nanavaty:** So, we are the largest buyer of Sulphur in the country in the fertilizers industry. So, we have the most fertilizer based on Sulphur. No company is having Sulphur-based so much variety of fertilizers. Hence, we get the Sulphur at the cheapest cost in the country. We make Sulphuric Acid out of that cheap Sulphur and that Sulphuric Acid goes in the Ammonium Sulphate. So, it improves our profitability much more compared to others and Ammonium Sulphate is made by FACT and GSFC only in India. So, there are not much suppliers and there is no fertilizer subsidy on the imported Ammonium Sulphate. So, they are the two suppliers who service now all India basis. So, with this kind of a good costing, Ammonium Sulphate gives us a good margin.
- Jatin Damania:** Sir, one last question, as you said that we would see a better volumes in terms of second quarter and third quarter. So, that will be driven by the chemical segment or we have some room to increase the production in fertilizer also?
- V.D. Nanavaty:** This is a good quarter, good volume mainly will be in the fertilizer, but the overall for the year we don't see much volume growth because of the Sikka production fluctuation. So, quarter is good from rainy season itself.

- Jatin Damania:** For the full year FY23, our volume will be flat as compared to FY22, but because of the hard subsidy and hard realization, our revenue will grow at 25%.
- V.D. Nanavaty:** Correct.
- Pratham Shah:** Sir, I had a question that last quarter you had given a guidance of revenue topline growth of around 20 to 25% and margins to be 5 to 10% in the fertilizer segment. Is that yet on track?
- V.D. Nanavaty:** Yes, but growth as you saw in the first quarter, turnover is much more than 25%. But on yearly basis, we believe that 25% on overall receipt is in turnover will be definitely there and with margin percentage what you repeated. Yes, we believe that has to be maintained.
- Pratham Shah:** So, you think you will maintain it, not increasing the guidance or anything?
- V.D. Nanavaty:** No, right now because it is too early and the government has declared the subsidy up to September end. So, maybe one or two month they will take up the review of whether to continue this kind of subsidy from 1st October or to reduce. So, that will affect my revenue and margin.
- Pratham Shah:** So, for next quarter, the subsidy will yet be there no?
- V.D. Nanavaty:** Yes, this will be there. That is a notification, subsidy notification mentions the period up to 30th September '22. So, till then there is no change.
- Pratham Shah:** Also, how do you plan to counter the increase in gas prices? Or you have to take the market price?
- V.D. Nanavaty:** No, we have a long-term tie up for gas. Go we are not so much affected, but spot prices are very high. So, those who don't have long-term tie ups, they are badly impacted. But fortunately, as I said about Sulphur, so for natural gas, we are the first user of natural gas in the country in the fertilizer sector. So, we understand natural gas from 1966. So, nobody has so much knowledge in this field which GSFC has. So, we have that advantage and taking that long experience, we have some good tie up for gas supplies and that helps in keeping the gas cost low compared to others.
- Pratham Shah:** So, basically you'll have fixed prices, no, for that price and for some amount, of course?
- V.D. Nanavaty:** No, prices are not fixed, but we have good formula for pricing which are not available now. So, the early mover advantage along with good volume of natural gas that we buy, that helps us in better negotiation and better contracts.
- Pratham Shah:** Also, the urea compliance by the government for the urea plant for one plant last time you have checked, there is some debottlenecking compliance from the government. Is that done?



V.D. Nanavaty: Yes. So, we are requesting government to help us because that urea plant revamping to meet new energy norms, that CAPEX is more than 400 crores. So, we are requesting that some support should be there because the government is taking the advantage of more energy in terms of low subsidy and then asking to incur CAPEX for which we will not have any advantage. So, we are requesting that government should not take over both the things. At least one part should be kept with us. And that they provide us some CAPEX support and then they take over the energy saving or we spend on CAPEX but allow us to keep energy saving with us. Either of this one should be done. If the government will do something, they are thinking over on this.

Pratham Shah: So, you think this request will be taken?

V.D. Nanavaty: Yes. I think government is sensitive because we are saying that in '21 - '22, governments spend highest price of imported urea to the tune of \$1,000, while our urea hardly costs \$400. So, if you have foreign suppliers enjoying all the benefits of now rising urea prices, but local manufacturers are given all these challenges of reducing energy and spending 400 crore CAPEX and so this is not fair. So, to encourage local urea manufacturer, some support should be there instead of giving all the huge subsidy to the urea exporter to India, some cushion for Indian manufacturers should be there with government, I believe that yes, something should be done. So, let us hope some support comes.

V.D. Nanavaty: Thanks everybody for analyzing our results in detail and suggesting some good step for investors' communication and enlightenment. We will request Company Secretary to preserve the archives in the Investors section so that data about past years are readily available and feedback also we will convey your feelings about adding them to the Board next time. So, that is well taken.

Otherwise, as we discussed, the GSFC story remains intact and the company will keep on growing and probably more under the Atmanirbhar initiative of Government of India, we will be doing all the support that we can do, of course, subject to viability of new projects that you can take for sure. No compulsions from any sector about undertaking any unviable project. So, that is for sure. So, we have good pipeline of projects that will unfold as and when the time matures and as I said earlier, we have a good tract of land at Dahej. So, the next phase of development will come in Dahej as well as in Sikka and it will be almost like a Baroda Investors Application over a period of time. So, company will keep growing. Thank you for all the efforts and looking forward to see you after the Q2 Results. Thank you.