



# GUJARAT STATE FERTILIZERS & CHEMICALS LIMITED

Fertilizernagar - 391 750. Vadodara, Gujarat, INDIA.

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Dear Sirs,

**Sub. : Transcript of Investor ConCall**  
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We are enclosing a copy of the transcription of Conference Call dated 07<sup>th</sup> February, 2024 and 09<sup>th</sup> August, 2023. The aforesaid information is also disclosed on the website of the company at [www.gsfclimited.com](http://www.gsfclimited.com).

The submission of the said transcripts are delayed inadvertently. Kindly take note of the above.

Thanking you,

Yours faithfully,

**For Gujarat State Fertilizers & Chemicals Limited**

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**Vice President (Legal)**

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**Gujarat State Fertilizers &  
Chemicals Limited**

Enriching Lives Everyday

“Gujarat State Fertilizers & Chemicals Limited

Q3 FY'24 Earnings Conference Call”

February 07, 2024



**Gujarat State Fertilizers &  
Chemicals Limited**  
Enriching Lives Everyday



**MANAGEMENT: MR. V.D. NANAVATY – EXECUTIVE DIRECTOR,  
FINANCE AND CHIEF FINANCIAL OFFICER – GUJARAT  
STATE FERTILIZER & CHEMICALS LIMITED  
MR. S.V. VARMA – EXECUTIVE DIRECTOR, AGRI  
BUSINESS – GUJARAT STATE FERTILIZER &  
CHEMICALS LIMITED**

**MODERATOR: MR. ANURAG HALAKHANDI – ANURAG SERVICES LLP**

**Moderator:** Ladies and gentlemen, good day, and welcome to Gujarat State Fertilizers & Chemicals Limited Q3 FY'24 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

**Anurag Halakhandi:** Thank you. Good afternoon. On behalf of Anurag Services LLP, I welcome the management of Gujarat State Fertilizers & Chemicals Limited for earnings con call. From the management, we have Mr. V.D. Nanavaty, Executive Director of Finance and CFO; Mr. S.V. Varma, Executive Director Agri Business and other senior members from the management. We will begin the call with the opening remarks from the management, post which we will have a question-and-answer session. Thank you, and over to you, Nanavaty sir.

**V D Nanavaty:** Good afternoon to all of you, and welcome to the Q3 earnings call of Gujarat State Fertilizers & Chemicals. The results are out and we have uploaded the presentations and other information, which I hope you must have gone through.

As we discussed during Q2 earnings call, we already had indicated that Q3 margin pressures will be there because of reduction in subsidy while the input cost has not reduced, but in fact, it has increased. So in line with that, and as you might have seen in the results of most of the other fertilizer companies, the fertilizer margins were under pressure as well as the volumes were also a little less because of the scattered rainfall and delayed rainfall during the season.

GSFC is no exception, and our results also indicate that theme. It was thought that government will do something to mitigate the situation by increasing the subsidy. But right now, there is no visibility or clarity on that account.

So whatever rates are prevailing, we have to be with that and manage our businesses accordingly. Though 9 months, the volume increase in fertilizers was about 14%. But overall year, we will be clocking the 10% volume growth in fertilizer business. So we will be reaching around 20 lakh metric tons for the year. But looking to the new plant that has been set up, Ammonium Sulphate V, recently commissioned in January, we hope that we'll be able to sell more volumes next year. So we project a sales volume of 25 lakh tons for FY'25, which is a 25% rise over expected FY'24 volumes.

So as you might have noted, we continued on the growth path. With the Government of India budget for FY'25 remaining more or less in line with FY '24 budget, there are some reduction in the input cost. Phosphoric acid has come down by \$17 and ammonia prices which were more than \$500 are now less than \$400.

So some relief in Q4 fertilizer operations may be there. On subsidy, government has already provided for the supplementary budget of INR13,000 crores. The subsidy received is regular

and for urea, we have received subsidy up to first week of January and for phosphatic fertilizers received up to first week of December.

Most of you might have known about the recent notification on the reasonability of the P&K fertilizers. So government has clarified that 12% margin over cost of production will be taken as reasonable margin and beyond which it will be considered as unreasonable and maybe mocked up. But compared to earlier notification of 2019, this is a better one, which clarifies that GST will not be part of the revenue of the company. So that will be accrued while calculating the profitability.

Similarly, they have broadened the scope and whole segment called the fertilizers segment either as integrated manufacturer or as importer or as a manufacturer. All the products will be clubbed together for ascertaining the profitability that will be good because earlier there was a kind of pick and choose effort, which was hurting the industry.

On the industrial products side, though we're expecting some reduction in benzene prices due to the crude oil prices going down, but it has not stabilized that way and crude is again rising. So the capro-benzene spread has been around \$700, and we expect it to be like that for the full year.

As far as the last year PAT, Q3 PAT is concerned, you might have noted that last year, we adopted the new tax regime -- income tax regime, which helped to reduce the tax burden. So onetime effect of reduction in the tax rate was given in the Q3 PAT, so it is not exactly comparable to the current PAT.

So around INR310 crores PBT of Q3 last year. If we take the current tax rate, it will have around INR60 crores of tax impact and adjusted PAT can be said to be around INR250 crores against the current INR112 crores. So this is the broad scenario. We are expected to clock around INR9,000 crores turnover this year. And next year, revenue figures will be from that after our company's budget is finalized.

So thank you, and now we can move to question-and-answer session.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

**Nirav Jimudia:**

Sir, I have two questions. Sir, first is on the ammonium sulphate business. So let's say, if we see FY'23 numbers of our fertilizer business, we did something around INR1,500 crores of PBT, which is derived from the segmental results. And our quarterly run rate last year used to be around INR350 crores to INR400 crores, which, this quarter, has fallen to INR130 crores.

So is it because of the fact that ammonium sulphate prices have fallen as compared to last year because of which our profitability is impacted and with the ammonia cost of ours being linked to the gas prices here in India and gas prices being higher, the impact on profitability is mainly because of the fall in ammonium sulphate prices, sir?

**V D Nanavaty:** No, the prices are more or less same. Some discount is necessary to win the competition, but the main reason is the reduction in subsidy from the October '23 onwards by Government of India. The -- we get revenue from 2 sources, our MRP, which is paid by farmer and subsidy, which is paid by Government of India. They substantially reduced all P&K subsidies from October onwards based on the formula they work for subsidy purpose.

The subsidy deduction were anywhere from 30% to more than 50% in different products. So that is why the -- it is showing up like this. Otherwise, demand-wise and MRP-wise, there is no difference between last year and this year. MRP has been fairly stable for most of the time because government don't want farmers to suffer. So MRP of most of the fertilizers are kept at the same level, but subsidy has been reduced. So that is the whole problem.

**Nirav Jimudia:** Sir, is it possible to quantify the hit which you have taken in Q3 because of the revision in the subsidy rates from October onwards?

**V D Nanavaty:** No. It is not comparable because what if the government decides something then it's a fact. So subsidy from April is different. Subsidy from, say, October -- April to January '23 was different. October to December '22 was different. So different period, government decides different subsidies. So there is no real comparison as such.

**Nirav Jimudia:** Okay. And sir, with this new AS capacity started from January onwards, our capacity for ammonium sulphate is now 488,000 tons, am I correct?

**V D Nanavaty:** One minute. Yes, yes.

**Nirav Jimudia:** Okay. Sir, some of the ammonium sulphate is also produced as a byproduct of caprolactam. So how much it would be out of our total production of ammonium sulphate?

**V D Nanavaty:** It is difficult to say because production keeps varying. So we don't see it that way. We see ammonium sulphate as one product and focus on it. I mean, production and sales.

**Nirav Jimudia:** Got it, got it. Sir, second question is on the requirement of ammonia for both our fertilizer business and the chemical business. So if you can just help us explain like what is our total requirement of ammonia? And how much of the ammonia is met through our own production and how much we have to buy it from outside?

**V D Nanavaty:** See, our Baroda complex is an integrated complex, so where we have all grassroot plants. So we buy methyl gas and then make ammonia out of it. So almost all requirement of Baroda complex is met out of ammonia produced by us. So the ammonia production is between 4 lakh tons to 4.5 lakh tons a year. And at Sikka we import ammonia. And sometimes we send it from here also if it is surplus. So this is how it is mostly operated.

**Nirav Jimudia:** Okay. So some portion of ammonia would also be used for our industrial products also...

**V D Nanavaty:** Definitely.

**Nirav Jimudia:** Yes. So sir, if you can just help us explain in terms of our cost of natural gas because for the fertilizer, I think we will be getting some allocation from the APM quota. But for the chemical

business, I think we have to either have some contracts with GAIL or GSPL there for the purchase of the natural gas. So if you can just walk us through in terms of our total requirement of natural gas at the Baroda complex for ammonia production and split it between the chemicals and the fertilizer business?

**V D Nanavaty:** Almost all ammonia is produced from gas, and so most of the natural gas is used for production of ammonia. Hardly something is used as a fuel. And so now there is nothing like APM gas or anything like that. There is a domestic gas and imported gas, that is RLNG. So the domestic gas production, which is given for urea is -- quantity is very less now.

All these wells are dried up. So domestic gas from other sources are used, which are commercially priced. So there is no fixed price like what earlier it was there, APM. So broadly, we require around 16 lakh tons to 18 lakh tons of gas daily a sub-tube of gas. And about 70%, 75% is used for fertilizers. Balance is used for chemicals.

**Nirav Jimudia:** Correct. And sir, is it possible to quantify...

**V D Nanavaty:** Only urea is pass-through for ammonium sulphate and APA. There is a NBS scheme. So what price gas you buy, government is not concerned.

**Nirav Jimudia:** Okay. Correct. And sir, is it possible to tell us what was the average gas cost for GSFC in Q3? And what was it in Q2 of FY'24?

**V D Nanavaty:** Yes. So I mean, Q2, Q3, hardly there is any much difference between the prices. So broadly INR45 to INR50 per SM3. That is the Q3 versus Q2 price difference. This year, gas prices are fairly stable.

**Moderator:** The next question is from the line of Shrenik Mehta from -- a self-investor. Due to no response, we move on to the next participant. The next question is from the line of Manohar, individual investor.

**Manohar:** Yes, sir. Sir, I'm having two questions. Regarding green ammonia, whether we are having any plan in near term, sir?

**V D Nanavaty:** Yes. We are trying to produce some green ammonia. So we have taken on the 10-megawatt green ammonia project. But right now, right technology and government clarifications are not available. So there is a slow progress in this.

**Manohar:** Okay. Okay, sir. Sir, then whether any bonus or buyback expected, sir, any expected timeline?

**V D Nanavaty:** The Board will take a call on this. So -- but as you know, the government GR is there. So it will be taken on some day anyway.

**Moderator:** Next follow-up is from the line of Shrenik Mehta, a self-investor. Shrenik, can you hear us now?

**Shrenik Mehta:** Yes, sir. Yes, sir. Myself Shrenik Mehta from Jamnagar. I'm a minority shareholder. Revenue for December quarter has reduced by 40% and profitability has gone down by almost 75%.

Can you please throw light why it has gone down so much low? And second question is, last government GR is regarding giving 30% by way of dividend of net profit. Last year, we were lucky to get INR10. How much we can expect dividend for the year ended 31st March 2024?

**V D Nanavaty:** As far as the dividend guidelines are concerned, they are still there. So 30% profit or 5% of net worth, whichever is higher that we have to declare. So even though the profit may go down this year, but our net worth because of the PAT accumulation, it will not go down. So I think INR10 or more dividend can be expected this year.

**Shrenik Mehta:** How much is net worth per share of our company?

**V D Nanavaty:** It was around INR7,800 crores last year.

**Shrenik Mehta:** How much?

**V D Nanavaty:** INR7,800 crores was net worth last year, when we studied it for the dividend purpose. It will change because we declared INR400 crores dividend, so our net worth will reduce to that extent. And it will increase to the extent of PAT that we are this year. So it will be decided by year-end, I mean, in the month of May '24, while rightsizing our account, final figure will be decided.

**Shrenik Mehta:** Roughly, can you say how much will be per share? Roughly?

**V D Nanavaty:** No. Dividend as I said, it will be more or less INR10 or something more.

**Shrenik Mehta:** Okay, fine. And why the revenue and profit is going down for this quarter?

**V D Nanavaty:** Yes. As you know, subsidy has been substantially reduced on fertilizers from October '23 onwards while the price of various raw material has not gone down. Government works out subsidy in their own way. So though there is a price rise of raw materials, they thought that subsidies could be reduced.

That impacted the profitability and the top line both. But overall, this is the thing that are in our hands, say, volume of fertilizers sale. So in 9 months period, there is an overall 14% rise in fertilizers sales volume. And overall, for full year, we expect that a minimum 10% rise in sales volume will be there. Whatever is in our hand, we are doing each bit, but how government will move on subsidy front that we cannot predict.

**Shrenik Mehta:** Yes. Sir, what about buyback, sir?

**V D Nanavaty:** That Board of Directors will take a call at suitable time.

**Moderator:** The next question is from the line of M. S. Swaminathan, self-employed CA.

**M S Swaminathan:** Sir, this is Swaminathan from Chennai. I just have a couple of short questions. The first one is, further to whatever you have explained now quite elusively, I see actually that as of 9 months ended current year, our EPS per share is around INR13.5. Last year, for the 9 months ended 31st December, it was around INR26. So we are currently at about half what was our run rate

in the previous year in terms of EPS. And I understand from you that yes, because the subsidy has gone down, there is an impact -- overall impact in terms of profitability.

But my concern is and I'm also -- I also happen to be an investor in GSFC. So my concern is what would be the year-end impact in terms of EPS? Where can we possibly see our EPS for FY'24 from INR13.5 now? Because last year, it was INR31.5 annualized. We have a shortfall of about INR18 nearly for the next coming 3 months at the end of March. Where you see this heading towards?

**V D Nanavaty:**

Last year was the highest profit year for GSFC in the history of GSFC. So we have been telling the shareholders in this con call that it will not be repeated every year. So then it will taper down and it will normalize over a period of time. So if you see all the fertilizer companies last year they made good profits, but till now they are also having difficult times, particularly in Q3. So there is no right now visibility about the fertilizer subsidy whether government will take into consideration this input cost side from January '24, do they give any subsidy revision or will they give it from April as per the usual practice?

All those questions are there. But if they don't increase the subsidy, then -- from January '24 itself, then there are chances this will not -- I mean this will be also a normal quarter, Q4. And accordingly, this will -- EPS will be there. So difficult to say, but the INR26 and of course, the INR31, INR32 for full year, both levels are difficult to achieve.

**M S Swaminathan:**

Fine, sir. Based on the fact that if you, for example, say that it could be a normal year, assuming there will be no subsidy given, can we possibly -- based on management estimates, I'm sure you will have your own estimates. Can we possibly expect it may at least touch INR20 probably? I am not saying certainly. Will there be chance if subsidy is -- additional subsidy is not granted?

**V D Nanavaty:**

Difficult to say. It may not reach INR20.

**M S Swaminathan:**

Okay. Fine. My next question actually is just as a parallel between the other competitors that we have, I just have them from working. My gist is I find generally with the GNFC, Chambal Fertilizers, BAT, Deepak Fertilizers, the book value and the price -- market price when we compare, it's generally higher than one. The market price is much higher than the book value. Except in the case of GSFC, where I find that the market price is discounted compared to the book value.

So book value, I think, as of September, not December, as of September was around close to INR310. Today's market price is around INR268. Any comments with respect to this? I mean, can we hope to see our market value also -- price will also shoot up over the book value like our competitors by 31st March? Any idea?

**V D Nanavaty:**

Let us hope that, but because the sector face whatever perceived risk of say government control and all these things in the PSU and particularly fertilizer sector, they tend to discount or they tend to feel that whether this will be maintainable or not going forward. So full push to the share price is not coming. But I would say that GSFC is a 60-year-old company and how long one can keep putting those doubts and this thing in the performance.



So this has been there consistently year-over-year. And we -- a number of times, we are seeing that there is hardly any government interference in our working. So those doubts are unfounded. But let us hope with this recent price -- I mean share price increase, the earlier gap has reduced to some extent and with the company doing what the other shareholders are asking about this implementation of government GR on buyback, split and bonus, those kind of steps being taken, I think this gap will be narrowed and may come in line with what other fertilizer companies are having, book value versus share price.

**M S Swaminathan:** And my last question is, did we participate in the GNFC buyback proposal? I'm not aware of it.

**V D Nanavaty:** Yes, yes. We participated because we are promoter and before any filing is done with stock exchanges, they -- I mean, the company has to declare whether promoters are participating or not. We participated to the extent of our shareholding. But as you know, there are some quotas for retail shareholders and all these things. Some 5% of the shares were offered for buyback.

**M S Swaminathan:** Okay. Sorry, is it 5% or 25%? Sorry, I didn't get you.

**V D Nanavaty:** 5% of our holdings.

**Moderator:** Next follow-up question is from the line of Nirav Jimudia from Anvil Research.

**Nirav Jimudia:** Sir, one question on the urea. I think what we have been undergoing is an energy consumption drive for our urea plant, which you have shared in the presentation. So if you can just walk us through in terms of what is our current energy consumption in Gcal per metric ton and how much it is now currently being compensated by the government? And with this energy saving exercise, how much cost savings could happen to us on an annual basis, which could improve our profitability?

**V D Nanavaty:** No, government is doing this cost, I mean, energy reduction on the overall national interest. So it will reduce the carbon content in the atmosphere, and then it will make our urea plant more efficient in terms of cost of production. So these broader objectives are being followed by government. Because as you know, urea is a complete pass-through -- cost pass-through mechanism for subsidy.

So even when the companies are reducing the Gcal for Gcal consumption of energy, that saving is taken over by the government. It is not kept with the company. So as far as the -- if we are meeting these old norms, new norms, that will be to the benefit of government.

Only if we do something more than what the government requires, then the saving is kept with the company. If you meet the adjustment in the norms, then there is no saving left with you. The [HO] consumption, the energy will be paid in form of subsidy. They do not keep anything with you.

**Nirav Jimudia:** So what is the current consumption of Gcal, and how much it is now compensated by the government?

- V D Nanavaty:** Right now, it is around 6.5 Gcal per ton. And government is now insisting for 6.2 Gcal per ton.
- Nirav Jimudia:** Okay. So we are already above what is being actually to be...
- V D Nanavaty:** But they provide some relief because this energy consumption is a huge exercise. So we'll be spending around INR450 crores for meeting the government norms.
- Nirav Jimudia:** Correct. So sir, is it safe to understand that currently some of the fixed cost absorption, which we need to be availed because of our energy consumption being higher, that is a cost on us and that is actually driving or keeping our profitability down. And with this exercise, we'll be actually coming below 6.2. So that extra money which is not getting absorbed through the fixed cost would be an additional cost saving for us?
- V D Nanavaty:** There's not much loss because of some slight not meeting of the consumption norms because they allow companies to complete the capex plan to meet those norms. So because as I said, it is huge. Neither government gives any capex support nor do they want to allow a company to keep the saving with them. So it's a win-win for government in both ways. So they allow sometimes very much, much loss that we are incurring for not meeting the norms. And -- but post implementation in February '25, we will be lower than government mandated amount of 6.2. So there will be some savings post, say, April '25.
- Nirav Jimudia:** Correct. And sir, out of our total urea production, and I think we sell some technical-grade urea also, which is, I think, not coming under the purview of the subsidy regime. So if you can walk us through like out of our 400,000 tons, 450,000 tons of urea production, how much we would be producing technical-grade urea?
- V D Nanavaty:** No, technical grade urea is not produced from urea plant. Our urea plant for agriculture purpose only. Government don't allow to use it for technical grade units. We have our melamine plant where urea is produced for making these specific technical grade urea. So there, there's flexibility is there, so which we are using to produce TGU.
- Nirav Jimudia:** So sir, is it possible to quantify some numbers? And if you can just share the dynamics of the business like is that business profitable? Or are they meaningfully contributing in terms of the profitability or some understanding on the same?
- V D Nanavaty:** Yes. So you see technical grade urea is used largely in the chemical industries, particularly dyes and intermediate. So they are not getting because they cannot import urea because import of urea is through channelizing agency of Government of India. So neither they can import urea for their production neither they can use any agriculture urea because that is a subsidized urea.
- They are finding it very difficult to get urea for dyes and intermediate production. The government understood their issue and allowed from like GSFC they are already making TGU from many, many years. So they allowed it, GSFC we can sell some quantity as a TGU. And we are not -- the melamine plant is a chemical plant. So we are not under purview Department of Fertilizer for making TGU. So they allowed these chemical industries to buy TGU if it is authentically available within India. So that is how now they are able to procure from us.

There are able to source from GSFC and there may be some 1 or 2 small like this. It is sold like a chemical. It is a -- technical grade urea is just a name, but it is sold like a chemical through this chemical unit.

**Nirav Jimudia:** Okay. So sales of that technical grade area would be categorized under our industrial product business?

**V D Nanavaty:** Yes, yes, yes. Definitely.

**Nirav Jimudia:** So is it possible to share the turnover of the business, sir?

**V D Nanavaty:** Yes. So some indication. So we sell from 30,000, 35,000 tons of TGU every year. And just like a normal chemical, it is sold between -- at full cost between INR35,000 to INR40,000 per ton. Last year, it was very high because gas prices were very high. These are the broad quantities and broad price range.

**Nirav Jimudia:** And it is profitable at the PBIT level?

**V D Nanavaty:** Yes, yes, very much profitable.

**Nirav Jimudia:** Got it. Sir, second question is on our phos acid and sulphuric acid requirement because I think we have been undergoing capex also for both these capacities. So if you can just help us explain what is our current requirement of both phos acid and sulphuric acid? And post this expansion, how much we would be more integrated in terms of our fertilizer requirement?

**V D Nanavaty:** See, we are the largest manufacturer of phos acid -- I mean, fertilizer having sulphur content and we are the largest sulphur users of in the country, in fertilizer segment. So nobody has so much variety of fertilizer which are having sulphur content like GSFC has. We have sulphur in APS, we have sulphur in ammonium sulphate like that.

In Baroda, we -- as I said, as a grassroot plant, we buy sulphur and make sulphuric acid to be used as a fertilizer and yearly around 400,000 to 500,000 tons of sulphuric acid is produced by us. At Sikka it's a Coastal DAP plant. So we buy sulphuric acid from outside the market. But now as you mentioned, we have a project to produce our own sulphuric acid at Sikka also.

So we'll be having the sulphuric acid plant of 1,800 metric tons per day at Sikka. That sulphuric acid will be used as a NPK and this APS fertilizer. And -- so this is the broad sulphuric acid spectrum at our company.

**Nirav Jimudia:** So total 594,000 tons of sulphuric acid would be used for our Sikka plant and nothing would be sold outside, right?

**V D Nanavaty:** Yes, yes. It will be in-house consumption only.

**Nirav Jimudia:** And sir, for phos acid, if you can just walk us through.

**V D Nanavaty:** Like 600 metric tons per day, 2 lakh metric tons per year phos acid plant. So that will help in making DAP and NPK fertilizer in Sikka, for which we will be procuring rock phosphate from

India and abroad and using this sulphuric acid from that captive plant being set up along with DAP plant. And still, that will not meet our full requirements of phosphoric acid at Sikka, but it will partly help in the regular production there.

So with 2 lakh tons of phosphoric acid, we can produce more than 4 lakh ton of DAP. And more tons for NPK, if you use it for NPK. So that will assure the supply of phosphoric acid for Sikka unit, and it will be much cost effective as compared to imported phosphoric acid, what we get in India.

**Nirav Jimudia:** All right. So what is your total requirement currently for our Sikka plant for phos acid?

**V D Nanavaty:** No, we can go up to 10 lakh ton of DAP at Sikka if resources are -- I mean the raw materials are available, so we may need around 4.5 to 5 lakh tons of PA there. So this will be only 2 lakhs.

**Nirav Jimudia:** Correct. And sir, just the last clarification in terms of the ammonium sulphate business which we talked about. So what I understood is, let's say, if somebody is importing ammonium sulphate so that is not entitled for a subsidy. So let's -- so if, let's say, we are producing ammonium sulphate and let's say, N rate is being fixed by the government and gas prices goes up, so that burden falls on us and that can be recovered through the higher subsidies by the government. Is it correct understanding, sir?

**V D Nanavaty:** Yes, subsidy, I mean, for import, yes, it is not available, but what to explain just again say?

**Nirav Jimudia:** Yes, yes, I can again say it. So let's say, sir, ammonium sulphate subsidy rates are being fixed by the government based on the N because it contains N and sulphur both, nitrogen and sulphur. N is derived from our natural gas through ammonia, right? So let's say, if your natural gas prices goes up, N rates will also go up.

So there won't be a case where we won't be able to recoup the subsidy element on the ammonium sulphate business, and we have to incur the losses just because we have to purchase natural gas at a higher rate. So is it a safe assumption, sir?

**V D Nanavaty:** No, no, no. Government won't take into account natural gas price for N. They look at urea -- imported urea cost to the country. And from there, they derive N. And the N, that is nitrogen in ammonium sulphate and nitrogen in urea, both are different kind of nitrogen. So they decide N subsidy based on imported urea. So it has no relation to the gas. So if something natural gas price increases, but imported urea comes cheaper then we may have an impact on ammonium sulphate business.

**Moderator:** Next question is from the line of Saket Kapoor from Kapoor & Co.

**Saket Kapoor:** When we look at the other income component of INR81 crores, that takes into account the buyback income also that has been excluded?

**V D Nanavaty:** No. Buyback is going into the comprehensive income OCI because every quarter, we provide for a fair value of this quarter investment. So whatever price change has happened quarter-

over-quarter, everything is captured in OCI. When we do actual sales then only OCI gets impacted, not the upper portion.

**Saket Kapoor:** So sir, what extent this other income component of INR81 crores?

**V D Nanavaty:** We have put about some INR34 crores old interest penalty return back. So that is the main thing. And other is because of good cash balance we now on regular interest income, so that is the other major part.

**Saket Kapoor:** And coming to our Industrial Products segment. I think so there the negative margins are continuing now on a Q-on-Q basis. So taking into account the current market dynamics, what should one sense? And what steps are taken to reduce its impact? Or is it only the market-driven exercise and we need -- we are at the mercies of the market?

**V D Nanavaty:** Yes, it is market driven because industrial products are private, import price parity. And if we don't maintain IPP, then people will import, which are freely available, then we will have impact on our plant production. So definitely it is market driven. And -- but we are trying to change the customer base.

We sell to the small timers who don't have access to the import route easily. They are ready to pay some more price for caprolactam, melamine, et cetera. Then Nylon-6 we are trying to tie up with OEM, automotive manufacturers who are ready to pay more price given the right kind of product.

So we are in touch with them and through our ADC that is application development center, we are developing the exact grade that they want in their cars and other vehicles so that we have a continuous order book as well as better profit margins.

We also try to source imported kits, which are a little bit less costly, particularly from China and mix it with our Nylon-6 kit so that the ultimate product compounding Nylon-6 they have a net cost impact and we are able to sell more volume.

So we don't have to depend only on our captive manufacturing. So these are the ways where we are trying to get better realization and remain in the market so that imports -- cheap imports don't throw us out. And some of the raw materials also, which we are making in-house, so we are trying that if we can get the key products from imports then our costing will come down and we need not run those sections of the plant. All these efforts we are making to tide over this market-driven thing.

**Saket Kapoor:** Sir, for industrial products, do we have inventories also in our hand, and we have to take mark-to-mark revision?

**V D Nanavaty:** We don't have much inventory. But unlike fertilizer, this price changes every month. So you have gain and losses depending upon the inventory cost you are carrying.

- Saket Kapoor:** And sir, the exit prices for December for our major chemicals, what have been our trends for January and the current month? How are the price trending for the big industry products that we have in our basket?
- V D Nanavaty:** So caprolactam prices have increased, but again, benzene price also rises. So the trade does not improve substantially. And in melamine and all, the prices are quite stable. Nylon price, because of the Chinese New Year vacation, there are less imports. So we are able to increase the price in the nylon product. We have to see the market and behave, but we don't have any demand issue. So that is a good part, whatever we are producing is being sold out.
- Saket Kapoor:** So just to get the sense for the month of January, the average selling prices or the losses which we have incurred in the December quarter, have they narrowed down? Are we profitable, at least for the industrial segment for the first month? Or if you could give some color because...
- V D Nanavaty:** There is some improvement in realization and profitability, but it will not be -- we are not out of raid. There will be some losses on an overall basis in January.
- Saket Kapoor:** And lastly, sir, on the inventory part, this INR92 crores change in inventory that has increased is attributable to the fertilizer segment only then?
- V D Nanavaty:** Yes, because this is off season. So we don't do any advanced billing, we do whatever is required by the field. So there will be some inventory during this quarter. But immediately from April onwards, the demand will start and we'll be stocking those things with the dealers and retailers.
- Saket Kapoor:** And how should Q4 be shaped up, sir, for the fertilizer segment?
- V D Nanavaty:** Some improvement may be seen because for the sale price they have reduced by \$17. And ammonia prices are also reduced from more than \$500 to around \$400 or less than \$400. So some relief may be there in the costing and some improvement in margin, but not any significant improvement is seen unless subsidy dictates.
- Saket Kapoor:** But as of now, there's been no negative impact? Earlier the change in subsidy, everything has been impacted as on...
- V D Nanavaty:** Yes. So whatever October onwards, whatever was to be done, government has done. So there's no further negative impact, we are waiting for some positive if really it happens, otherwise it will come from April only.
- Saket Kapoor:** Because the country will now move into the election mode, maybe a week from now.
- V D Nanavaty:** Right, right.
- Saket Kapoor:** [inaudible] in that case do we expect any revision in the subsidy or they're tinkering with the same? Or what have been historically done, sir?
- V D Nanavaty:** Government is quick in reducing the subsidy but increasing it is difficult. So more or less, it will be from April onwards only.

- Saket Kapoor:** Okay. So then we'll have a negative impact on the same this quarter also?
- V D Nanavaty:** Yes -- no negative, but whatever has been done from October, that will continue to impact amidst reduction in rates.
- Saket Kapoor:** But prices of key raw materials are trending lower only that is what...
- V D Nanavaty:** It will be a little bit lower compared to October, December quarter.
- Saket Kapoor:** Right, sir. And last point on the power and fuel mix and the employee benefit expense, how are these two line items going to behave, firstly for the power and fuel sir that has gone up Q-on-Q also, and employee cost what should be the...
- V D Nanavaty:** Some increases, some minor differences there on -- I mean Q2, Q3. But fairly -- it is fairly stable. And as you know, rupee is -- our exchange rate is also fairly stable. So that impact is also not there.
- Saket Kapoor:** And on the employee and the other expense, sir, any particular color you would like to...
- V D Nanavaty:** Last time wage revision has been done from 01/01/23. So that provision has been incorporated in the employee numbers. So till March '24 that will keep showing rise and it will stabilize.
- Saket Kapoor:** So this run rate of INR175 crores will be there going ahead?
- V D Nanavaty:** Yes. Overall impact of -- it will not be so much. It will be a little less.
- Saket Kapoor:** Okay. And on the other expenses, what explains this reduction of INR50 crores -- not exactly 50, 31 and 70 yes, INR48 crores reduction Q-on-Q?
- V D Nanavaty:** That is because a lot of employees are retiring also. So we are rationalizing the manpower and reducing the duty points. And we don't fill up the post when the person retires. So all those savings are also coming. So we are aware of the rising employee cost but trying to composite that number of employees managing the company. So it will pay over a period of time.
- Saket Kapoor:** Just to get it clear sir, for other expense going down, it is because of the employees getting retired?
- V D Nanavaty:** Other expense is definitely not in employee cost. One is taking expenses lower because of lesser production and lesser dispatch. So that was the case. And then last year, we had made some provisions for some litigations so that those provisions are not repeated in this quarter. So that is the major difference of reduction in other costs.
- Moderator:** Next question is from the line of Shrenik Mehta, Self-Investor. Ladies and gentlemen, we will take that as a last question. I will now hand the conference over to the management for closing comments.
- V D Nanavaty:** Yes. Thank you for the patient hearing and your corporation during this difficult time. But as we have assured you in past also, the growth story of the GSFC is intact and barring the market

forces, whatever best we can do, we are doing it to increase the top line and bottom line, that will be a continuous focus for us.

And on a medium and long-term basis, we'll keep on adding new projects and new product lines so that we march ahead on the, again, top line, bottom line and no stagnation ever comes in our way. So thank you once again, and we'll meet after Q4 results somewhere in May. Thank you. Bye-bye.

**Moderator:**

Thank you very much. On behalf of Gujarat State Fertilizers & Chemicals Limited and Anurag Services LLP, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.





**Gujarat State Fertilizers &  
Chemicals Limited**  
Enriching Lives Everyday

“Gujarat State Fertilizers & Chemicals Limited  
Q1 FY '23-'24 Earnings Conference Call”  
August 09, 2023



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**MANAGEMENT: MR. V.D. NANAVATY – EXECUTIVE DIRECTOR,  
(FINANCE) AND CHIEF FINANCIAL OFFICER –  
GUJARAT STATE FERTILIZER & CHEMICALS LIMITED**

**Ms. NIDHI PILLAI – COMPANY SECRETARY AND VICE  
PRESIDENT LEGAL – GUJARAT STATE FERTILIZER &  
CHEMICALS LIMITED**

**MODERATOR: MR. NITESH VAGHELA – ANURAG SERVICES LLP**

**Nitesh Vaghela:**

Thank you, and good afternoon. Welcome to the Q1 '23 '24 Earnings Conference 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, Ms. Nidhi Pillai; Company Secretary and Vice President Legal and other senior members 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 you will have a question and answer session. Thank you and over to you, sir.

**V. D. Nanavaty:**

Yeah. Good afternoon, everybody. Thank you for joining this GSFC-Q1 post-result conference call. All are welcome to the event. Hope you have seen our results and the other presentations uploaded on our website and as well as the stock exchanges. This was a mixed quarter. We had the highest sales in last 10 years Q1, second highest sales, last year was the highest sales, though the margins were under pressure. There were two main factors leading to the margin being down. One was the subsidy adjustment.

As you know, government reduced subsidy from January 23 as well as April 23. So all the inventory lines without for sale, the subsidy, lower subsidy impact was felt and it was accounted in Q1. So it was a one-time impact and we hope now this will not be repeated. Similarly, for the industrial products, high cost inventory built up at the beginning of the quarter when it was sold at a lower price because of the international price parity. The margins were affected in IP also. This was also kind of a one-time event and we hope it will not be repeated.

As far as subsidy collection is concerned, government has been very prompt in releasing the subsidy. For P&K fertilizers, we have got subsidy up to 15th of July, and for urea it is up to June end. And it is reflected in our healthy cash flow. As you all know, we are a debt-free company, and we have a good amount of liquid cash in our hand. Physical performance was okay, except the shutdown of urea and some other plants during Q1. So as far as physical performance, as well as the market demand of the products are concerned, there is no issue in this quarter.

As I explained, it was only subsidy effect and inventory write-downs kind of thing that affected the financial performance. Along with the reduction in the end product prices, the cost of input also went down. So ammonia, fossil fuel, natural gas, sulfur, benzene, all major raw material prices were down during the quarter and now they have kind of bottomed out or stabilized. Benzene, sulfur, all are, as you know, the derivatives of crude. So crude oil improved from between \$80 to \$85.

So that size is reflected in these crude derivatives. Industrial products, we see some increase in the margin and the realization, but I think better picture will come in the H2 only. As I said in the morning, we are expecting 15% to 20% rise in volume in fertilizer sales this year. So, Q1 being not a rainy season, so like every year the sales volume were a little subdued, but it will pick up and overall yearly growth of 15% to 20% is expected. Sikka unit, particularly we are increasing the production in this four months.

It has reached almost the last year's level and with good price support and subsidy levels at cost economics level, we will have a good margin in Sikka and we want to continue production of DAPN and PKS there throughout the year. Project details are there in our website. All those projects are going on as per the schedule. We will be commissioning ammonia for project by December 23, and other projects will be coming up as per the timeline mentioned.

On an overall basis, we feel that Q1 is not really the reflection of the coming period and GSFC will be performing much better in terms of top line and bottom line throughout the year. And we also hope that looking to the economic scenario, government will calibrate the subsidy from October considering all the relevant factors and so much reduction in subsidy may or may not take place. So with this remark, thank you for the patient hearing. Now we can take up the question and answer session, please.

**Aashish Agarwal:** So basically, I wanted to check last time in the con call, we were informed that, something is going on the restructuring side, which guidelines that come from the Gujarat government. So I understand that it is price sensitive and you might not be able to tell much. But at least, can you know something happening on that has some meetings happened so far or not?

**V. D. Nanavaty:** So as you may be knowing, the government guideline, we will be examining those restructuring proposals. There is no consumption to that. So on dividend, as you know, we have already declared the other bonus issue, buyback and splitting of shares, -- those will be examined and in due course, suitable announcements will be made. So yes, as I said, for those who are bound by the circular, they have to do the exercise. So GSFC has no assumption.

**Aashish Agarwal:** But the only thing is, sir, can we have some time line because it is already four months, five months, that circular is out, and if we are still examining, can there be a time line like a quarter, two quarter, something can happen like that?

**V. D. Nanavaty:** No. Unfortunately, I'm not able to give any time line because these are all sensitive issues and involving huge amount of money. So...

**Aashish Agarwal:** One can expect some action, right? Because there is no assumption as you rightly said?!

**V. D. Nanavaty:** Right it will come -- whether we are doing or not doing, that will come and at suitable time period. So...

**Aashish Agarwal:** Okay, and second question, got it, sir. I understand that, you will not be able to say much on this issue, but I just wanted a fair thing that at least something we'll get to know in some time, which you are saying, yes, -- that's enough. The second question is, basically, there was something around shutdown, so what was the shutdown number of days in this quarter?

**V. D. Nanavaty:** Shutdown was for the ammonia plant, urea plant and Caprolactum plant, different period as per the requirement. So it ranges from, say, 15 days to 30 days depending on how big the plant is, and we don't take shutdown every year, so when we take it, duration which is taken every four years, so depending upon the term of the plant, the annual shutdown is taken. This is not something accidental shutdown or like that. It is a planned shutdown.

- Aashish Agarwal:** Normally, you take every two years. Is this shutdown?
- V. D. Nanavaty:** Generally, yes.
- Aashish Agarwal:** Okay. Only thing is, how much was the loss on account of this? You had the shutdown not been there, what would be the situation of EPS or tax for us? Because ideally, I understand that, last year was too good to be true, and the current period looks a little bit, say, lower, but what would be the ideal number for this quarter? Has the shutdown not been there?
- V. D. Nanavaty:** Not -- I mean, rightful angle to look at because if you don't take shutdown, then plant will be will not work in a safe condition, then anything can happen.
- Aashish Agarwal:** No, I understand, but coming quarter, what can one assume?
- V. D. Nanavaty:** Yes. If you want to see the impact of shutdown, we have put the volume number on our website. So whatever reduction in quantity that you see in sales quantity, and that is on account of shutdown. As I said, we don't have any demand issue and all. So what we are producing, we are able to sell. So when there is a reduction in volume, main reason is this plant shutdown.
- Aashish Agarwal:** What was the operational expense on account of the shutdown basically repairs and maintenance that you would have done improved?
- V. D. Nanavaty:** So it comes to around, say, INR25 crores, INR30 crores. It depends, if you want to change major equipment and it can be more also.
- Aashish Agarwal:** And sir, last time, when we had this con call, you said that, gas prices have come down, so what is it for last quarter? And what is it today in terms of the input cost that we are getting on account of gas?
- V. D. Nanavaty:** It is more or less the same, not much difference. It is reduced compared to, say, Q1 last year, it is more than 25% reduction. But as of now, it is stable kind of thing.
- Aashish Agarwal:** Last question from my end, we have heard that Melamine prices have improved in the month of July and so has other chemical prices. So have that and how much time does it take for GSFC to take pricing?
- V. D. Nanavaty:** This industrial products are rise on an import price parity basis, ITP. So when in line with international sizes, we have to change our price otherwise people will import if our domestic prices is more because people will import and use it. So we can't work like that. So it is in parity. So as you rightly said, it is improving somewhat from July. But as I said, full impact will be seen in H2. It is improving in this quarter. But not so much.
- Aashish Agarwal:** Okay, That's it all for my side. I will join back in the queue, if there is another questions.
- Saket Kapoor:** Thank you, sir. Sir, I missed some bit of your opening remarks. So if I'm repetitive kindly pardon me. So you did mention to the fact that, Q1 numbers and the Q1 operations should not be extrapolated as the annual -- and we are going -- progressing ahead, the numbers are going to

improve both on the operational as well as the financial front. So this should sum and substance firstly, on the reported number for this quarter?

**V. D. Nanavaty:** Yes. Can you repeat the last sentence, please.

**Saket Kapoor:** Sir, this should be the sum and substance on the performance that this performance should not be annualized. There are factors that has led to that to be lower numbers. And our numbers are here to improve from here only both on the operational terms and thereby also on the financial terms.

**V. D. Nanavaty:** Correct.

**Saket Kapoor:** So sir, as you told last time that, you would be giving the EBITDA margin number for the fertilizer segment post Q1 number, so what should we now expect from the fertilizer segment going ahead from Q2 onwards, sir, and also on the utilization levels post the plant shutdown, what are we anticipating going ahead?

**V. D. Nanavaty:** Yes, I promise but still I am not able to make up any number because government subsidy behaves in a very erratic way. Because whatever I produce even now, say in August, if I sell it in October, it will fetch reduced subsidy. So when we'll be able to know, farmer will take the fertilizer from retail point, it is very, very difficult to predict, but still I will come back to you later on with some number can be formed up for per ton EBIT level for fertilizer.

**Saket Kapoor:** Okay, and on the volume front sir, what are you be looking for if you take the last year number? What should be the growth? We should look also depending upon the types of fertilizer we sell. What should be the volume growth, we can anticipate?

**V. D. Nanavaty:** Yes, so we anticipate some 15% to 20% growth in fertilizer volume against last year's actual.

**Saket Kapoor:** And which basket are you referring to sir? Because we have a traded component also here.

**V. D. Nanavaty:** Yes, it will be total, but as I said, we are increasing production at Sikka unit. That is the main reason for growth in volume. Last year, we had a very low production there, but with the new cost economics, stable subsidy and lower input prices, we are able to run Sikka unit in a fairly more than 50% level. So that will contribute to the growth and of course, we will have a Urea as well as a DAP in this growth story.

**Saket Kapoor:** And Sikka numbers, can you give the volume data, what was the production and sales production number from the unit last year and what are we emphasizing for the current financial year?

**V. D. Nanavaty:** So, last year I will just give one minute.

**Saket Kapoor:** Then your comment on the raw materials, sir also. Sir, this time, we have an improved investor presentation. So thank you, sir. And I hope that, this suggests the descriptive information provided in the presentation. We will continue with the same. So your thought on how the RM market is likely to behave. And then there is a terminology P205. What does that stand for? If you could explain.

**V. D. Nanavaty:** This production, all the products together were 2,73,000 tons. So up to July, we have crossed 2 lakh tons. So in this August, we have crossed last year's June production and we hope to reach our install capacity of 7,22,000 tons, that is 100% production of install capacity and that is our target this year.

**Saket Kapoor:** And here sir, what are the product profiles there for us? What are we producing from the...

**V. D. Nanavaty:** It is DAP, then ammonium phosphate sulphate APS, then NPK 10 and NPK 12, four products.

**Saket Kapoor:** So with this increased production, there is no issue in the marketing side on selling on the sale?

**V. D. Nanavaty:** We have a good brand recall amongst the farmers, so selling is not a problem. And we, depending on the requirement, we cater to the whole country, so our market is quite wide, so even if there are issues in some states, we can go to the other states and our ED marketing will show more light on marketing aspects.

**Sanjeev Verma:** Good afternoon, Mr. Sanket. This is Sanjeev Varma here. See, marketing is not a problem for us in case of fertilizers because if you know consumption of India is quite high and we are very small in this, if you see the overall consumption. But Sikka like you said, our product mix will be based on the market requirement with DAP the highest and then APS and then NPKs and we are targeting our home market of Gujarat to the tune of 50% to 60% of our total sales and that will be the prime free market, Maharashtra, MP, Karnataka, Rajasthan. So there will be no issues because our products are of good quality and as required by the farmers.

**Saket Kapoor:** And sir now coming to the key input cost movement sir, firstly I think so P205 is for the rock phosphate sir that is mentioned there or what does imported P205 stands for?

**Management:** No, that is a phosphoric acid which is made from rock phosphate, of course, but at Sikka we import phosphoric acid and their prices have come down and all price analysis is given in our presentation on our website. So, earlier what was the price last year Q1 and now what is the price. So, you can look at the major raw material prices there.

**Saket Kapoor:** Correct sir and sir how are the power and fuel prices and the raw material mix going to trends going ahead sir, especially on the power and fuel front I think so, if you could throw some light?

**Management:** Yeah, power and fuel cost will also be low because most of our power is coming from gas-based power generation and we also have our own cogeneration plants. So, since gas price is lower compared to last year, or the whole of the last year, or Q1 of the last year, whatever period we see, so the power cost is going to be lower. When we are putting up new solar power plant, I mean solar panels, of course, it will take some time for commissioning. So with this such green power, the overall power cost will further go down.

**Saket Kapoor:** Correct sir, was there any impact of the cyclone also on the company or on any of the plants?

**Management:** Cyclone has no annual impact on us, some windmills those power transformers were affected, but except that nothing more than happened. So, we don't have any insurance claim or anything on cyclone.

- Saket Kapoor:** I will wait for the EBIT numbers once you can come up with the same?
- Management:** Yeah, I will meet you with those numbers.
- Saket Kapoor:** If you can spell them out also, that would be good over the point?
- Management:** No, I will have to be quite careful in giving you numbers.
- Saket Kapoor:** Okay, sir. And last point is, sir, if we take the impact of the extraordinary line items that have affected this quarterly profits. What should be that figure, sir? Had this being a normal quarter in that preferably, so what should have been our normalized margins?
- Management:** No, as far as the subsidy impact is concerned, for P&K fertilizer, there is a INR97 crores impact, one time impact. So, whatever sales we booked in last year, but when it was sold through POS machine this year, they reduced the subsidy from April onwards. So, that impact was in Q1 was INR97 crores.
- Otherwise, inventory impact and all this, these are all continuous process, but that impact was also around INR25 crores. That is, we write down the inventory to net realization value. So, whatever is produced at high cost and likely to be sold at lower price has to be brought down to the actual realization as per the accounting standards. So, that impact was around INR25 crores. So in all, around INR120 crores INR125 crores could be said to be one time effect, not really pertaining to this quarter.
- Saket Kapoor:** 125 is not for the entire, for the June quarter, that is you are telling?
- Management:** Yeah, so it is out of my whatever physical activities I did. This is just a financial thing that has come up. Otherwise, it's not relating to my operation during the quarter.
- Saket Kapoor:** No, no, sir. What I was asking is this INR125 crores entire impact has been felt for the June quarter itself or has it percolated for the June quarter?
- Management:** No, it is built in June quarter.
- Saket Kapoor:** June quarter, ended, not in the subsequent quarter?
- Management:** Yeah, it will not repeat in subsequent quarter.
- Saket Kapoor:** And the subsidy revision downward was last in the month of April only?
- Management:** Yeah, it was done in April. It was done in January 23 also. And then again it was done in April 2023 and again it is likely to be done in from October 23.
- Saket Kapoor:** Okay and at time again for that quarter we may face this inventory losses?
- Management:** But we will take care in September quarter itself so that this spillover is avoided as far as possible.

- Saket Kapoor:** So this INR125 crores impact is what will get negated going ahead that will be going back to the bottom line?
- Management:** Right, right, right.
- Saket Kapoor:** Sir, on the rock phosphate prices, how are our contracts being there for price trend there and I think so we have made some investment in one of the JVs also in international geography, so how are the uptake there, what is our plan for this year?
- Management:** The JV is for phosphoric acid in Tunisia, that is, Stratford. So, it supplies phosphoric acid, but there are no pricing advantages. The international price applicable to India during the quarter is applied for whatever supply they make from Tunisia. There is no price advantage there, only supply surety is there that plant is also not operating at optimum capacity around 30%, 40% only, they have some technical and social issues, but hopefully from next year 24-25, it should improve the performance with all whatever step they are taking for plant improvement. We should be able to see the results next year with improved supplies from them.
- Saket Kapoor:** If we source from there, then what would be the total requirement?
- V. D. Nanavaty:** So, we have an agreement of 1,80,000 P25. 1,80,000 tons is assigned to Coromandel. So total capacity is 360,000 tons. So we and Coromandel share 50%-50% of the output and with 180,000, if it is coming we can make around 4 lakh ton of DAP in 6 hours with that P25 and balance 3 lakhs, 4 lakhs production we source with P25 from open market.
- Saket Kapoor:** Okay, and the pricing advantage on this 1,80,000 quantity, is it at arm's length market price or?
- V. D. Nanavaty:** It is at arm's length, so there is no price advantage.
- Saket Kapoor:** Only quantity advantage.
- V. D. Nanavaty:** When the others don't give you, this is a sure source of supplies.
- Saket Kapoor:** Correct sir. And on the rock phosphate, the last point on the -- how are the rock phosphate prices currently trending, for last quarter what it was and what is the contracted price, right now for further?
- V. D. Nanavaty:** We source most of our rock phosphate from Rajasthan State Mines and Minerals Company. So there it is a steady price. So maybe once in a year or so they change the price according to their costing. So right now, it is around INR15,000 per ton and we source one or two consignment that is totaling 60,000 tons to 70,000 tons from import sources. So that price is also, prices are quite low now in line with the phosphoric acid price. So, imported rock is also in that range only INR16,000, INR17,000.
- Saket Kapoor:** So for phosphoric acid, what is our contracted price for the next quarter sir? Is the trend lower only?



**V. D. Nanavaty:** Base quarter's price is expected to be around \$850, July to September. October onwards still prices are not decided. So this quarter, like last year, I mean October to December it was \$1,700, now it has halved to \$850, it is half now.

**Saket Kapoor:** And what was factored in for the April-May-June quarter, sir?

**V. D. Nanavaty:** April-May-June was \$970, it has reduced by \$120 in July to September.

**Saket Kapoor:** Correct. And you gave the outlook for industrial product to be flattish to slightly on the upper side, this is what we can look forward to.

**V. D. Nanavaty:** Yeah. It will not go lower at least we can say, but it will improve only going forward.

**Saket Kapoor:** Thank you, sir, for all the elaborate answers. All the best to you, sir, and to the team, sir. Namaskar.

**V. D. Nanavaty:** Thank you. Namaskar.

**Madhur Rathi:** Good afternoon. Thank you for taking my question. Sir, can you please explain regarding the buyback?

**Madhur Rathi:** Sir, can you please explain regarding the buyback that we had considered with the Gujarat government, so where is the process on that?

**V. D. Nanavaty:** Yeah, so as I said, the buyback bonus and splitting of shares, all those proposals will be examined by the GSFC Board and whatever outcome or decision is that will be announced whenever it is decided some concrete course of action. But as I said, as per the government guidelines, we will be examining those restructuring proposals and there are no exemptions to any state PSU in this matter.

**Madhur Rathi:** Okay, so is there some kind of like timeline when you think that this will happen?

**V. D. Nanavaty:** No, there is no fixed timeline. Everything will be done during this year. I mean, whatever alternative is possible will be examined and something decided during this year. That I can say.

**Madhur Rathi:** Most likely, in FY '24, we will see some kind of outcome from this, right?

**V. D. Nanavaty:** Yeah, at least we can expect, I think, I hope so. It is a barbarous getting, so I am not able to comment much.

**Madhur Rathi:** Okay, sir, thank you. That was very helpful.

**Ankur Sanwal:** Thank you for the opportunity. Does the company expect a positive revision in subsidies in October for fertilizers?

**V. D. Nanavaty:** No, no. It will be lowered because input prices have come down so subsidy will go down.

**Ankur Sanwal:** Sir, can you also give a detailed analysis of what industrial production is performing and what will be the future trend?

**V. D. Nanavaty:** As I said, our products are caprolactam, melamine, nylon. They are monopoly or semi-monopoly products of GSFC and our plants are quite old. So the plant capacities are built up as per the past demand considerations and compared to that today's demand is much more. We don't have any much issue on selling of our chemicals or industrial products and we have steady market, large customers tie-up so we don't do any kind of retail trading or small lot trading. It is a most of the B2B segment that we cater.

And as I said, the prices are with international prices parity basis, so every month when prices change, we calibrate our price in line with international prices. So that local buyers don't have incentive to import instead of buying from us. And as you know, all the chemical, all chemical industry is going through the low ebb right now and all chemical companies have shown subdued performance. So our chemical segment was also no exception. So the margin was under pressure and some inventory built up had happened, but now from July onwards we see some improvement in realization.

And going forward we expect the prices to improve and along with that margin also get improved. So that is the picture that we see in FY '24.

**Ankur Sanwal:** Thank you sir. Traditionally sir our margins from industrial products are pretty less. Are we working on modernizing the plants or de-bottlenecking them?

**V. D. Nanavaty:** Which product you said?

**Ankur Sanwal:** The industrial products. You told Caprolactam, melamine.

**V. D. Nanavaty:** Those are all cyclical in nature. So, melamine gave us a huge profit two years before. The prices were all time high. So, plants are up to date and all they are working beyond 100%. All plants are working on more than 100% capacity.

**Ankur Sanwal:** Thank you.

**Aashish Agarwal:** Any thought around nano-urea or nano-fertilizers for that matter?

**V. D. Nanavaty:** Yeah, our EV Marketing will reply on this.

**Management:** In case of your question for nano-urea, it's still in the lab scale at our end for manufacturing, but we are looking out for the tie-ups also. And other nano fertilizers like, DAP or NPK, it's still in the lab scale status only. So once lab scale is over, we'll be having a test marketing and then it will be commercialized. We are working on that.

**Aashish Agarwal:** When can we expect something positive on that side? Just the tentative timeline.

**V. D. Nanavaty:** I think urea and DAP can be in this financial year. Most probably because they need a six-months period for test also and we have to go for the reports for two years, seasonal, these things. So it will take a little time for commercialization, but we will be able to know the test result by six months' time.

**Aashish Agarwal:** Okay. Thank you.

- Aashish Agarwal:** Only one last question to be answered, which is on subsidy receivable amount. What is it right now in the books and what is cash in hand currently in the books?
- V. D. Nanavaty:** Subsidy in the books, I mean to be received from government is very small amount, may be INR200 crores, INR300 crores. In books it remains small because government considers subsidy payable only after post sale when farmer buys the fertilizer. So when we book the subsidy when we do the first point sale, but government obligation arises much later. So real subsidy receivable is very small. As I said, for PNK Fertilizers, they have paid subsidy up to 15th of July. And for Urea, they have paid up to 30, June. So, very small amount is outstanding on subsidy account. As you may be noticing, we are meant to use the funding flow in form of good GST collection, good corporate tax and individual income tax collections. So they are equally fast in paying their subsidies in other days. So like in past years, we don't have much subsidy outstanding.
- Aashish Agarwal** And what would be the cash in hand in terms of both FD or ICD or any bank balance put together?
- V. D. Nanavaty:** Yeah, so we have around INR2,000 crores cash in hand or FDs. And of course, we'll have a big obligation of dividend payment of around INR400 crores in September. So that we use up some cash, but ultimately when large projects are implemented, the real utilization will come into play.
- Aashish Agarwal** So still you are saying that INR400 crores netting of that also we have some INR1,600 crores, INR1,700 crores of cash right?
- V. D. Nanavaty:** Yes.
- Aashish Agarwal** Okay, and where have we invested this?
- V. D. Nanavaty:** In fixed deposits and some government schemes.
- Aashish Agarwal** What would be the yield sir currently? Rough yield?
- V. D. Nanavaty:** It depends upon the cash requirement but it is between 6% to 7%.
- Aashish Agarwal** Great. Thank you, sir.
- Sunil Gupta:** Yeah. Good afternoon, gentlemen. Only one question I have. Turnover that has gone down from INR3,000-odd crores in the last Q1 of '22-'23, to INR2,062 crores in June '23, which is around 25%, so is it a only because of subsidy reduction or is there lack of demand or something?
- V. D. Nanavaty:** No, there is no lack of demand. So mainly subsidy reduction and some price reduction in industrial products. On overall basis, we expect that we will maintain this turnover, last year turnover in this year also.
- Sunil Gupta:** That means last year your turnover was INR11,368 crores, so you will come to that level for the full year '23-'24?
- V. D. Nanavaty:** That is what we expect.

- Sunil Gupta:** Okay, and the profitability will it also come to that level or there will be some reduction?
- V. D. Nanavaty:** Last year was the historic profit for GSFC, that is not achievable. But we will have a good profit for the year.
- Sunil Gupta:** Okay, because last time your profit was something around INR1,255 crores.
- V. D. Nanavaty:** Yes, net profit was around that, correct.
- Sunil Gupta:** Okay, so it will be less, but whatever has been lost in the June quarter obviously cannot be recouped. That's what I assume.
- V. D. Nanavaty:** You know, you may be knowing that we talked about these government guidelines, various issues. So first guideline was on dividends. So GSFC holds shares in various state PSUs and other companies, who all are mandated with declaring higher dividends. GSFC will be beneficiary of that large dividend declared by various companies which reflected in this Q2 when because most of the companies are AGM in by September and we can account those dividend in this Q2 result. So that dividend income will be substantial in.
- Sunil Gupta:** Yeah, it will be around INR80 crores to INR90 crores. But last year also, if I compare Q1 of last year and Q1 of this year, your other income will be included, will include a dividend also. So that other income is going up from INR30 crores to INR48 crores, INR49 crores.
- V. D. Nanavaty:** Yeah, so other income will have dual component. One, the cash we talked, so it will earn good interest and other will have good dividend.
- Sunil Gupta:** Incremental, because the INR30 crores of income last year was with very poor dividend from other companies, that will balloon to around INR80 crores, INR90 crores in the current year.
- V. D. Nanavaty:** No, it will be much more. It will be INR140 crores.
- Rohan Gupta:** INR140 crores. Okay, sir, thank you very much and as a shareholder, I wish all of us a very best.
- V. D. Nanavaty:** Thank you.
- Dinesh:** Okay, sir, I have only three questions. First, just a follow-up question of the previous one. What is the change in volume you have seen, sir? Is it positive or negative? And also, the change in the price which we have seen. How is it corresponding to the revenue this quarter?
- V. D. Nanavaty:** There was some reduction in volume in Q1 versus Q1, but as I said, volume mainly pertains to fertilizer segment. We expect on overall yearly business a growth of 15% to 20% compared to last year. FY '24, we expect a growth in volume, fertilizer volume. And price, yes, some price correction were there, but as I said, we expect some improvement in prices of industrial products in Q2 and a little more from H2 onwards.
- Dinesh:** Sir, certain competitors are also filing with the government requesting them to revise the subsidies, not to revise the subsidies retrospectively. Do GSFC have any stand on that or we are just following the government?

- V. D. Nanavaty:** No, these policies come after a lot of deliberations and then it is difficult to have say anything in there. But government's ultimate objective is the direct subsidy transfer in farmers' accounts. So they are also working on pilot on this line. And if they find it feasible, then we will be released from all the subsidy issues. We will be charging full amount from farmer and government will be paying subsidy to farmer's account directly. So we will not have to worry about subsidy claims and delay payment and this and that.
- Dinesh:** So how do you, what is your outlook on the agricultural this year, the season this year, agriculture season this year?
- V. D. Nanavaty:** Season is still good because now there's a widespread rainfall as well as reservoir levels are good. And so that will occur well for rubby season also and based on that only, we see rise in the volume, otherwise with bad season, we would not have been able to project growth.
- Dinesh:** Sir, on the inventory, which we are holding, what is the rotation of that inventory? Every three months are we rotating once or how is the inventory ratio going on, sir?
- V. D. Nanavaty:** Fertilizer is seasonal because say January to March, whatever we produce, don't get sold till maybe May, June, July. So fertilizer it is a little longer depend on the season, but when we produce from winter season, it gets immediately sold. But we don't have such a long inventory thing. It is less than one month in industrial products and fertilizer on an average it can be two months. So, we don't have much outstanding as well as we don't have much inventory blockage.
- Dinesh:** Sir, I initially mentioned to you, one of the participants had asked a question regarding that Gujarat is at 50% of our business and rest of the states are 50%. Are we planning to change this ratio or the proportion which we are concentrated on Gujarat in India?
- Sanjeev Verma:** This is Sanjeev Verma here. See, Gujarat being our home market, we are concentrated to have it to minimum 50% of our share here. The reason is because this is the most economical zone for GSFC to deal in fertilizers and that is why, we are concentrating here. We have our own network here of 272 depots run by our 100% subsidy GATL and the rest of the country, we deal with the dealers only. So we will be concentrating on Gujarat a bit more but yes, our production will be increasing, so we will be reaching the other states also effectively.
- Dinesh:** Sir, which is the two top export markets in the world?
- Sanjeev Verma:** Export for the fertilizers?
- Dinesh:** Yes, fertilizers?
- Sanjeev Verma:** Fertilizers in India since this is covered under subsidy, we, there is hardly any export except we need a permission and India is importing 50% of fertilizers approximately of the total requirement. So exports become a question mark still.
- Dinesh:** Okay. So what is your view? India is totally lifting the bans on import and reducing it and that's totally reflected in the subsidy prices as well going forward. So do we envisage these exports to be in higher number? What is the traction of these imports coming into India?

- Sanjeev Verma:** I'm not able to understand the question here?
- Dinesh:** I'm asking, sir, followed by reduction of subsidy, as government has lifted the ban on imports of fertilizer also, now slowly the government is appreciating imports of fertilizer, how are you seeing this traction? Do you think it is completely open for countries or there is certain restriction like that among 10% only has been, we have seen remaining 90% has to come. How is the traction going forward? Is it totally coming, full-fledged coming in India or is it just the trailer of the picture which is going to come?
- Sanjeev Verma:** So the restriction on the fertilizer in case of imports, the need-based imports are done effectively by the industry as a whole. And yes, government is coming in between, controlling the prices, because what I said earlier, India depends highly on import, nearly 50% of the requirement. And if there are no controls on the prices, it will be a big blow to the country as a whole. As such, Indian requirement is met. And we are one of the biggest consumers and another is Brazil, so it becomes our season. So importers are keen to supply to India, yes and India is keen to buy but at a price which is reasonable to this.
- Dhavan Shah:** Correct, and what is the price parity? Is there, there might be some price parity. What is the price parity of imports and domestic...
- V. D. Nanavaty:** Price parity, if you see the prices of trade across various countries of fertilizers, India is the cheapest country, we are taking on the cheapest prices. If you go to Bangladesh also, they are still \$100 more. I'm giving an average figure to you. If you go to Brazil, it is \$200 more per ton on average basis. So India is sourcing very nicely the fertilizers.
- Dhavan Shah:** As we have also planned our capex of INR4.000 crores which will be laid out in two years. Do we envisage because we have focused more on sulfuric acid, potash and just how much is a backward integrated chain? Are we fully backward integrated or how is it? How much percentage are we backward integrated? How much self-sustained as a company GSFC is?
- V. D. Nanavaty:** In Baroda we are fully backward integrated. In Sikar we are in the process of getting backward integrated to some extent not fully. It will be a phase manner but yes in Baroda we are 100% backward integrated.
- Dhavan Shah:** What is the volume of Baroda? What is the volume of Baroda in proportion to..
- V. D. Nanavaty:** Both the units are nearly, both produce nearly 10 lakh tons each. So it's a 50%-50%.
- Dhavan Shah:** Okay. 50%, 5%, sir, okay, so just a follow up on a final question I think sir is depending on fertilizer. So what do you envisage going forward '24, '25 to be not just price, but the volume as well, what do you envisage in the volume growth for...
- V. D. Nanavaty:** Likewise we'll be amortizing some 15%, 20% growth in the volume, So we are not talking about that total value. We are talking about the growth in the turnover and or so...
- Dhavan Shah:** And are we fully equipped sir to meet that growth? Or are we seeing an expansion going forward in case...

**V. D. Nanavaty:** At present expansion cannot come in 1 year time, we'll be utilizing the capacity to the fuller section, and if or we'll add some 10% volume, when we come out with a small plant. But yes, we are expecting 15% 20%, a bigger expansion are not planned, it's a small expansion and debottlenecking going on.

**Dhavan Shah:** Okay, so then after what is the purpose, okay, will those cash reserves be made in the company after dividends will be used for this expansion or we planning to raise any funds going forward also?

**V. D. Nanavaty:** That... Paul will take the call, but...

**Dhavan Shah:** The requirement is there. Do you see the requirement apart from cash reserves?

**V. D. Nanavaty:** No. Only thing I can say is that there will be consistency in dividend in line with the earnings. So if there are earnings, I think management will not hold the dividend belonging to shareholders. So in line with the earnings, the dividend consistency may be infected...

**Dhavan Shah:** And with this conference call, I have heard one thing different from other previous conference calls. You are a little confident about nano-urea first time. So what do you feel? There are certain conclusions come on nano-urea and other nano-tap because this type of positivity I have seen first time in GSFC because you were saying at the end we will be completing our test and probably commercializing in two years' time. So I am seeing a positivity. How do you see it as a business going forward?

**V. D. Nanavaty:** See in case of urea, urea is the most preferred fertilizer by the farmers of India because of the prices and subsidies. The prices are very low, so this is the most preferred fertilizer. Second comes the Phosphatica DAP, is what you are talking. So Indian farmers are highly dependent on this thing but slowly different companies including GSFC is trying to have a balanced nutrition amongst the various states which is a 4:2:1 ratio and therefore GSFC is mostly promoting sulfur based fertilizer like ammonium phosphate, sulfate, ammonium sulphate, NPK 10-12.

**Dhavan Shah:** Just three things just I wanted to know in this is one, whether there is -- whether the news are hyped or not, whether it will be costing 1/10 of what actual fertilizer is costing today. Is it true, sir, what is your view on the prices? Will it reduce the burden of farmers and the government too...

**V. D. Nanavaty:** Prices of Urea?

**Dhavan Shah:** Yes, nano-urea if it comes.

**V. D. Nanavaty:** See, nano urea is already there. Nano urea is already there in the market in a big way and the prices are in, both of them are nano-urea, one bottle of 500 ml is cheaper than one bag of fertilizer. But still it is in initial stages because consuming this or applying that to the field is a different way and slowly farmers are getting used to that thing. So once that comes in full play, even if we are able to replace 25% of this granule urea or prill urea with the nano-urea, it will be a good achievement for the country as whole.

**Dhavan Shah:** Sir, just one thing, just your judgment and answer I want on this. And for looking, it's very subjective. Going forward, will GSFC see a huge traction in the government's eye also? Not just as a fertilizer company, but as a chemical business, because we also plan to enter into chemicals rather than just being fertilizer.

As rightly pointed out last year, last investor call, we're slowly moving to chemicals. So will the government appreciate this step and also whether the business model is fit to get into chemical business, just to be not just to be a fertilizer company, but to enter into the chemicals business as well. What is your view, sir?

**V. D. Nanavaty:** Yeah, so as everybody is aware, fertilizer is highly controlled segment from different angles. So to run a company in a business-like manner, you need to get out or have a reduction in those kind of dependents.

**Dhavan Shah:** So we are having a vision to shift from just fertilizers to being a chemicals business. Is it on our track sir? Are we on that track?

**V. D. Nanavaty:** Yeah, yeah. So last time it may have been mentioned that in Dahej whatever we are doing is only for chemicals that we will be starting and we don't have any plan for expanding in fertilizer space at Dahej. So right now we are receiving a further investment of INR4,000 crores in the head for chemical business.

**Dhavan Shah:** Whether this is appreciated by the government sir because we are partly owned by government?

**V. D. Nanavaty:** No, no, this is all board driven company and government don't give us any instruction. So all the directors together whatever they feel best for the company we are try to do. Government don't advise us on any of these things.

**V. D. Nanavaty:** Yeah, thank you all for the participation and asking relevant questions. So, as I mentioned, the growth story continues and this was some kind of evaluation on the financial numbers and we'll iron it out during the year and we'll be aiming for marking higher and higher in top line and bottom line. There is no stopping anywhere and request you to maintain your trust in GSFC. Thank you.