

**Operator**

Ladies and gentlemen, good day and welcome to the Gujarat State Fertilizers & Chemicals Limited Q3 FY'14 Earnings Conference Call hosted by Espirito Santo Securities. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I now hand over the conference to Mr. Aditya Jhawar of Espirito Santo Securities. Thank you and over to you, sir.

**Aditya Jhawar, Analyst**

Yeah. Thanks. Good morning all and welcome to GSFC's third quarter FY'14 earnings call. We have with us Mr. Atanu Chakraborty, Managing Director; Mr. V D Nanavaty, Chief Financial Officer; and Mr. Vishvesh, Company Secretary of the company. We'll start the call with a brief opening remark followed by a Q&A session. Over to you, sir.

**Atanu Chakraborty, Managing Director**

Good morning, gentlemen. Aditya has already introduced me, as well as my colleagues. Well, as a background to the results for the third quarter, as we had all seen, we had excellent rains, which led to good cropping in Rabi, all India percentage of cropped area went up by 5%, in Gujarat significantly by 28%, which gave fillip to overall lifting in fertilizer. However, there were headwinds during the year. One of them was that we had very high opening stocks. And even -- while we talk today, the opening stocks of DAP and certain NPKs in the country are in the range of about 30 This is an over-hang of very high imports that took place this year -- last year. This year, though imports were low, down by about 41% in DAP and about 21% in NPKs, however, the import still out-stripped the domestic supplies as far as DAP was concerned. However, in NPK, the imports were a little bit lower.

Another aspect was that during the third quarter one saw declining prices of DAP world over. There was a sharp decline starting from second quarter itself, which manifested in the second quarter itself. And while the rest of the industry was holding high cost stocks, the imports that could be pushed in were at fairly low rate.

And as far as the domestic economy was concerned, as all of you know, quarter after quarter, the industrial -- indices of industrial production has shown a lower tendency, and that has affected the automobile sector very substantially, as also the other sectors.

Even China's economy, which has been a little bit flat, has affected the aggregate output prices across the country, the international prices have taken a hit on that count.

Coming back to our results. We could post a higher net sales of 1,458 crores, 2.5% above -- over the previous quarter. EBITDA margin were a little bit flat, down by 4 crores from 194 crore in last quarter to 190 crore this quarter. The PBT was slightly lower at 138 crores, down 7 crores from previous quarter. The PAT has remained same at 101 crore as against 101 crore in the last quarter.

Since [ph], the segmental results, especially the industrial product has had done better than the previous quarter, we could post a turnover of 510 crores as against 442 crores in the last quarter. However, it did get affected due to our shutdown in caprolactum, which had to be taken regular shutdown during this quarter, leading to an overall -- and also the raw material prices were high, therefore, the segment results are 4.64% in fertilizer and 12% in IP, marginally lower in IP over the last quarter and marginally lower in fertilizer as well, for the reasons and the headwinds that I've explained earlier.

The benzene caprolactum spread has also largely remained -- we expected it to improve, however, it was marginally down at \$1,037 per tonne. However, internally, we could boost our production, we could take care of a long-standing problem in melamine. And now melamine production was highest ever, so was nylon and in MEK. Methanol sales have begun from our new plant. And these have given traction to our overall production.

In this -- Board, gentlemen, the Board had taken a decision to setup a 40,000 metric tonne melamine plant at Baroda itself. It would be based on a technology which would take it out of the regular loop of producing melamine out of the overall urea production because urea production had some policy issue.

Caprolactum, the Board also took a decision to start working on technology for caprolactum plant at Dahej and finalize the

technology provided as soon as possible. These are some of the highlights of our performance in this quarter.

I'm now willing to take questions, comments, if anything.

## Questions And Answers

### Operator

Thank you very much, sir. Participants, we will now begin with the question-and-answer session. (Operator Instruction) We have the first question from the line of Prakash Goel from ICICI Securities. Please go ahead.

### Prakash Goel, Analyst

Good morning, sir. Thank you for the opportunity. My first question is with regard to fertilizer segment. I would like to know despite a very strong volume in the own manufactured product, why the profitability was so low? That is the industrial segment, is that Prakash?

### Prakash Goel, Analyst

No, fertilizer. Fertilizer.

### Atanu Chakraborty, Managing Director

Well, two things. As I mentioned, at benzene, caprolactam spread at --

### Prakash Goel, Analyst

Sir, my question was with regard to fertilizer profitability being low despite strong volume in the own-manufactured?

### Atanu Chakraborty, Managing Director

Fertilizer or industrial? I heard industrial.

### Prakash Goel, Analyst

I said, sorry for that. I wanted to know about fertilizer.

### Atanu Chakraborty, Managing Director

Okay. Now two, three things which we need to understand on fertilizers because, since segment profitability in the corresponding years, we also had slightly additional profitability on account of additional volumes on account of trading. However, with respect to last quarter, two things had happened; A, we are -- we were also stuck with last quarter's material, raw material which was, A, slightly highly priced; B, it was also -- we had the international prices coming down during this quarter and hit an all time low or somewhere around \$400. And since the material had to be pushed out, the profitability had to be compromised by pushing material at a lower price.

There was a very significant discount war in the market during this quarter which lowered especially the DAP profitability. And along with that, we have high power cost during this quarter. This resulted on lower availability of gas from both Panna-Mukta as well as KG-D6, which led us to getting lot of power from GIPCL, which is again gas-based plant and gets gas at a higher price and that increased our power costs.

So if we see in our books, the power cost as well as our inability to push fertilizer at the prices we wished to because of overall competition led to lower profitability in this segment.

## **Prakash Goel, Analyst**

Have you provided for all the levels, the high cost inventory pushed out and the discounting prevalence in the market?

## **Atanu Chakraborty, Managing Director**

All that has been more or less passed, very small amounts are left in Haryana, Punjab, which are also have gone out during January. Therefore, most of the high cost material is laid [ph] out. And another thing Prakash is that, the international prices of DAP are rising and against that rising prices that push to because, everybody are pushing off thinking that prices will fall further, more important material will come in, so cut down the prices. Now instead of that, we are now in a scenario where the prices are rising, people perhaps will hold out -- hold back to the stocks a little bit. So I see the end of -- no, it's not exactly the end of certainly that tapering of the heavy discount war that is taking place and better realization, especially in DAP segment this (inaudible).

## **Prakash Goel, Analyst**

Second question is with regard to the decent profitability in the industrial segment. So, how much methanol is volume you could do this quarter?

## **Atanu Chakraborty, Managing Director**

Only 36 crores, because we could only begin in December. Frankly, methanol prices earlier for some reasons, because Iran was actual the political reason and they were pushing volumes at very low prices because of sanctions. The moment then use of sanction went off, the international demand supply situation took over and we are seeing the methanol prices, where they are ought to be. And this quarter, I expect a total volume of 150 -- in the range of about 150 crores from methanol alone. And the plant is doing rather well, giving us the right energy consumption and as well as throughput.

## **Prakash Goel, Analyst**

Sir, just wanted to check like, what is the kind of realization that you are making in methanol?

## **Atanu Chakraborty, Managing Director**

Well, methanol. Our -- you are looking at the realization, we are able to get about INR38 to INR39 per kilogram.

## **Prakash Goel, Analyst**

And what is the gas used for it -- that would be my last question? What is the gas used for that, cost of gas that is being used with.

## **Atanu Chakraborty, Managing Director**

Sorry, I didn't get you, Prakash.

## **Prakash Goel, Analyst**

Sir, I would want to know, what is the kind of gas consumption -- you highlighted the energy efficiencies in nine month your expectation. What is the kind of gas consumption per ton of methanol is happening and what is the --?

## **Atanu Chakraborty, Managing Director Prakash Goel, Analyst**

No problem. Thanks a lot, sir, and all the best.

## **Operator**

Thank you. We have the next question from the line of Abhijit Akella from IIFL. Please go ahead.

**Abhijit Akella, Analyst**

Hello. Good morning, sir. Many thanks for taking the questions.

**Atanu Chakraborty, Managing Director**

Yeah, Abhijit.

**Abhijit Akella, Analyst**

Sir, first of all, is it possible to quantify any financial impact of that capro plant shutdown during the quarter?

**Atanu Chakraborty, Managing Director**

Just hold down, we'll see if we can give you the exact quantification.

**Vishvesh V. Vachhrajani, Company Secretary**

Almost 2,000 ton of plas sale.

**Atanu Chakraborty, Managing Director**

You can multiply 2,000 by about \$2,400 that will give you the number.

**Abhijit Akella, Analyst**

Okay. So capro production would have still be another 60,000 tons plus during the quarter. Sorry, 15,000, 16,000 during the quarter?

**Atanu Chakraborty, Managing Director**

Which will come back to normal and above normal, though we had a small problem in one of the plants, but that has not allowed us to impact the production. We have beam able to handle it on the line itself.

Okay, sure. And sir, on the capro-benzene spread, you mentioned that the spread during the quarter was, I think, 1,037, I believe last quarter it was around 1,064 if I remember correctly. Where do you see that correctly and expectations for 4Q and beyond?

**Atanu Chakraborty, Managing Director**

Frankly, I had expected a better spread during the previous quarter and -- but now I see the benzene prices have been going a bit downwards. However, the spread has been lower during the month of January, the spread has been as low as 983. I expect it to go up, but ultimately, the average I don't see it's any better than 1,025, 1,024, unless something remarkable happens, after China opens up post its holidays that is the right kind of results start coming up.

Chinese -- large Chinese capacity within China and its sort of somewhat iffy consumption has impacted across the industrial segments in that country and that had an international impact as well. Whereas because of arbitrage, possibilities between Asia and North America, the benzene prices had not come down to an extent they should have and there were a couple of plants on the shutdown as well.

Those plants have now come back into production. So there is a bit of a flux in the entire market between benzene on one side and the caprolactam on the other. But I do see dipping of benzene prices which I believe are fairly high at the level of \$1,325 to \$1,370 per tonne.

**Abhijit Akella, Analyst**

Okay. But at least the near-term outlook then one would --

## **Atanu Chakraborty, Managing Director**

Near-term outlook would be over -- at least next one month I don't expect it to go beyond 1,025 for me to at this stage because things are rather iffy to predict anything from March would be difficult.

## **Abhijit Akella, Analyst**

Sure, sir. Just on the power cost, we were planning to commission our expanded windmill capacity during this quarter.

## **Atanu Chakraborty, Managing Director**

Yeah, that has been a bit of a setback for us. However, things are back on wheel [ph]. We expected latest by October end to have my 29.4 megawatt capacity online, however, Suzlon had its financial problem, which delayed commissioning. Now five wind turbines have been commissioned out of 14, and I expect all wind turbine to be commissioned by the end of February.

Additionally, GSFC has also invested in Bhavnagar Energy Company Limited, which is producing power out of lignite. We are one of its promoters and we are negotiating with the company, as well as with the Gujarat Electricity Board, that is Gujarat Urja Vikas Nigam, which is to the recipient of this entire power. To set apart power from BCL for us, because that power is substantially cheaper than the grid power or power from GIPCL, which are our major suppliers to-date. This in medium-term will help us to reduce our power cost very substantially. In fact, that's one area we are targeting reductions in a very focused manner.

Sure, sir. But, so the power cost, I mean when do we expect to achieve some control over it.

## **Atanu Chakraborty, Managing Director**

Control will come say by February end, by additional line wind turbines come in at February end or March end, by the time all turbines would become commissioned, because substation has already been charged, power is going out from already from five turbines.

And may be by year end, if we are able to have additional power from BCL or additional gas availability from Panna-Mukta or KG-D6, whichever happens first. So, we are putting our eggs in many baskets at this stage. The power cost, high power cost is not a phenomenon, only limited to us, it's with everybody. But I guess the GSFC is the much better position because we have invested heavily in wind power, we have a portfolio 150 megawatt.

We have also invested in this lignite company, so that should help us to take care by the year end. However, chances are lignite plant has not been commissioned as well as there are certain commercial issues regarding buying that power. They need to be resolved.

## **Abhijit Akella, Analyst**

Sure, sir. May be one last question from me and I'll come back in the queue for more, sir. Just on the FX loss and the hedging cost again for this quarter. So, this hedging cost component should be a recurring item every quarter, right? I guess we would be hedging on a regular basis?

## **Atanu Chakraborty, Managing Director**

That's right. As a strategy we cover all our crystallized exposures. We are able to reuse to hedge also and we were also into futures, so that we could sort of get the right kind of prices for our risk mitigation. However, RBI and SEBI have come up with certain restrictions on futures, which limits our flexibility. However, as a policy we do not leave our supply exposure unhedged against a cost of about 39 crore is our hedging cost, we have been able to protect the company from ahead of 120 crore on account of foreign price -- foreign currency variations.

## **Abhijit Akella, Analyst**

Sure, sir.

## **Atanu Chakraborty, Managing Director**

This conservative and then other consistent policy has helped organization to tide over a major volatility that the foreign currency market observed during this year.

### **Abhijit Akella, Analyst**

So, out of these 75 crore of total FX variation loss and hedging cost during the first nine months, 38 crore, 39 crores is the hedging cost by itself, the remaining would be the FX loss, is that correct?

You should see this cost against a major hit that has been prevented, so as I've mentioned them, hit would be to an extent of 120 crores.

### **Abhijit Akella, Analyst**

Absolutely, I understand, I appreciate that. Sir, all I was trying to arrive at is --

### **Atanu Chakraborty, Managing Director**

Accounting-wise, that is what and how it would be accounted, you are perfectly right.

### **Abhijit Akella, Analyst**

Okay. Perfect, thank you so much, sir. I'll get back in the queue.

### **Operator**

Thank you. We have the next question from the line of Balwindar Singh from Prabhudas Lilladher. Please go ahead.

### **Balwindar Singh, Analyst**

Yeah, good morning, sir. Thanks for taking my question. Just two questions on the -- what is your outlook on fertilizer imports for say, FY'15?

### **Atanu Chakraborty, Managing Director**

Well, two things. There are certain irrational imports about which it's very difficult to predict. Rationally speaking, let's say, because of nutrient based subsidy, now it's possible to, though not say exactly, but one can conjuncture (inaudible) or hazard, if I may say so, some amount of guess on the consumption of DAP that it has compressed about 25%. However, the real numbers on consumption are still not out. So therefore, if some of the number shows Kharif to Rabi at about demand reduction by 15% over the previous year. But if you see from 1/4/2010, the number would be close to an order of 25%.

Given our domestic capacity, there is very little scope of a very high import, but import's only on the margin. And now if the price trend in DAP continues to be what it is, then your imports would be little. However, they are impacted by the fact that one of the major suppliers of phos-acid, that is phosphor is out of action for two years. And the price negotiation with OCP have not been concluded as yet, and sometimes if your domestic producers are not able to produce in-time, because of non-availability of acid, then some amount of imports do commence. Last year April-to-December, we had seen an import of 32 lakh tons. I believe for the same period next year, the imports are likely to be much less than that, because lot of imports were spared by a declining price trend, now the prices are looking northwards.

### **Balwindar Singh, Analyst Atanu Chakraborty, Managing Director**

There are two things; your global price levels of DAP having shown upward, there is a likelihood of certain amount of increase in phosphoric acid price as well, they tend to move in and tandem, if not in this quarter, then they will happen in next quarter. However ammonia as a commodity would behave in a different fashion. It has till now shown a downward trend, I don't expect a very steep rise in ammonia prices. That too put together, that would make domestic producer much more competitive against the imports, unlike what they were in the last two quarters of this year.

## **Balwindar Singh, Analyst**

And what has happened to this Foskor?

## **Atanu Chakraborty, Managing Director**

Foskor had some internal issues of hand breakdown and others and somehow, they have not been able to come up sort of counter those issues. I'm not able to resolve the technical problems, which has generally kept of them out of market this year.

## **Balwindar Singh, Analyst**

Okay, so it will not be say in the market for next two years?

## **Atanu Chakraborty, Managing Director**

Not two years. We are only talking of quarters and don't expect them to be in the market for this quarter. They could be in first quarter 2015-'16 -- '14-'15.

## **Balwindar Singh, Analyst**

Okay and there was some news related to TIFERT if I'm correct sir, in November-end or December first week that TIFERT was closed again because of some unrest in Tunisia. So has TIFERT resumed production?

## **Atanu Chakraborty, Managing Director**

Okay, let me share the TIFERT matter with you. One of the best thing that has happened that Tunisia, with the consensus has arrived at a constitution which has not happened in any of the harvesting [ph] countries. Egypt had two constitutions in this period and none of them were consensus. They have also seen a coop [ph]. So there is a considerable amount of political stability in that country now. However, one will have to wait till result till that constitution really results into a stable government.

Secondly, the plant had certain teething problems. However, the complicated part of the plant that is sulfuric acid plant is running very fine. The weak phosphoric acid part is also working very fine, only. The belt filter has been facing some problems. Mercifully, the suppliers are in our country only, they are helping them out, both GSFC and our other partners, Coromandel in this projects are lending GCT who were running this plant, they're helping hand to overcome And though the plant presently is not able to work at 100% of its efficiency -- of its capacity, it has run up upto 70%. We have already received three shipments, we are waiting for the fourth one. And it's -- see, the plant is in first six months, we do expect problems do come up during this idle [ph] period. But certainly, now there is very little cost for despairs, we'll see things looking up at TIFERT now.

## **Balwindar Singh, Analyst**

And sir, what is your guidance or your target on fertilizer volumes for FY'15?

## **Atanu Chakraborty, Managing Director**

FY'15, well, you will have to wait, we like to hit anything upward of 17 lakh tonnes in next year, that is FY'14-'15. However, I can tell you during the next quarter I'm looking at about a number upward of 4.5 lakh tonnes.

## **Balwindar Singh, Analyst**

Okay, next two [ph] quarter. Okay. And last question on this, what is your expectation of subsidy levels for FY'15, and though I know it is too early to comment on that, but any expectation of the industry as a whole?

## **Atanu Chakraborty, Managing Director**

Well, industry expect not too volatile changes, because, while the prices fell of raw material, they are again looking up. Rupee depreciated very heavily. So, if all these things are put together, subsidy level would not look very different theoretically from what they were in the last -- this thing. But today the CCA is meeting to decide NBS rates for FY'15. So it would be very unfair of me to comment on that. And frankly, as an industry, we are not as much concerned with the subsidy levels, we will adjust the subsidy levels, through, if government permits us and as the policy it is enshrined to handle it through our efficiency and the pricing mechanism. So for industry, if you ask me, the important thing is continued freedom on pricing, and of course, our capability to produce fertilizer efficiently.

**Balwinder Singh, Analyst**

Okay. Thanks a lot, sir. I'm done.

**Operator**

Thank you. We have the next question from the line of Abhijeet Dey from BNP Paribas Mutual Fund. Please go ahead.

**Abhijeet Dey, Analyst**

Good morning, sir.

**Atanu Chakraborty, Managing Director**

Good morning, Mr. Dey.

Yeah. Just two questions from my side. What is the total fertilizer volume you sold during the quarter?

**Atanu Chakraborty, Managing Director**

Well, our total volume sold during the quarter was 4,00,329 tonnes put together.

**Abhijeet Dey, Analyst**

4,00,329 tonnes. And what is the volume for ammonium sulphate for the quarter?

**Atanu Chakraborty, Managing Director**

Ammonium sulphate volume. How much?

**V D Nanavaty, General Manager - Finance and Company Secretary**

77,000.

**Atanu Chakraborty, Managing Director**

77,000, Abhijeet.

**Abhijeet Dey, Analyst**

Okay. And lastly, sir, what is the status of your dispute with the Department of Fertilizer on ammonium sulphate? Any update on that?

**Atanu Chakraborty, Managing Director**

As earlier we had pointed out, honorable High Court of Delhi had granted an injunction against the order for recovery. As I had



earlier mentioned, we had perfectly gone as per the letter and spirit of the Nutrient Based Policy, and shrined [ph] in documents of Government of India brought out, but then from time-to-time.

### **Abhijeet Dey, Analyst**

Right.

### **Atanu Chakraborty, Managing Director**

We expected Government of India to follow the rule of law, unfortunately, their interpretation were not in keeping with the maxim of rule of law and that's why honorable High Court had to take this deficient to stay their order asking for recoveries. The next hearing has been -- the hearing was due in January, Government of India was not ready with its replies. So the next hearing has been kept in May when we expect the full and final resolution. But I expect better councils to prevail in Government of India to see that the rule of law prevails. What we have been asking is, not any

### **Abhijeet Dey, Analyst**

Correct.

### **Atanu Chakraborty, Managing Director**

What we are asking for, the rule of law to prevail.

### **Abhijeet Dey, Analyst**

Okay. Great. And one last thing if I may. Is your fact, caprolactam plant again back on line or is it still shut?

### **Atanu Chakraborty, Managing Director**

If I understand correctly and I have not been able to talk to CMD of FACT. But if I understand, they are still shut.

### **Abhijeet Dey, Analyst**

Okay. Thank you, sir.

### **Operator**

Thank you. We have the next question from the line of Nitin Gosar from Religare Invesco. Please go ahead.

### **Nitin Gosar, Analyst**

Sir, two questions. One is on caprolactum volumes, if you can give numbers on first, second and third quarter, what were the volumes? And there have been some reports which talk about China which has relaxed its fertilizer exports by bringing down exports duty, do you see this having some kind of impact on either the raw material that is phos-acid or ammonia global level? Or else, India seeing them as a better opportunity to import from China?

### **Atanu Chakraborty, Managing Director**

Well, Chinese fertilizer has always been brought to India and they have been in the Indian -- the market that imports, a major player. In spite of the fact that the quality leaves lot to be decided. During this part, they always impose a export duty because they have to service their domestic market. But I understand, they have some quantities in their bonded warehouses. That quantity is not very large. I don't see much of an impact, but we'll have to watch very carefully if they have moved any fresh quantities, because of some problem internally in their country side, where maybe bad rain or few other things, perhaps agriculture may have been suffering.

So that is first part. But as of now, we don't see much of an impact going to take place during this quarter by Chinese imports

coming into India in a big way, some small way they will continue.

Regarding their impact on ammonia or phos-acid market, they are not in these two markets in a very significant fashion. Therefore, I don't foresee any impact of China, unless they enter into this market, which we would welcome.

**Nitin Gosar, Analyst**

Okay. And --

**Atanu Chakraborty, Managing Director**

In the first half, it was 39,143 tonnes; and in quarter three, it was 13,242 tonnes.

**Nitin Gosar, Analyst**

And first quarter, if you can?

**Atanu Chakraborty, Managing Director**

I can repeat again. First half, it was 39,143; in the third quarter, it was 13,242. Total quantity is 42,385.

**Nitin Gosar, Analyst**

If you can provide first quarter number, or may be second quarter number?

**Atanu Chakraborty, Managing Director**

Well, yes. Just hold on, let me see. You can ask the next question, let me try to provide.

**Nitin Gosar, Analyst**

Yeah. That's it from my end.

**Atanu Chakraborty, Managing Director**

Yeah.

**Operator**

Thank you. We'll take the next question, sir?

**Atanu Chakraborty, Managing Director**

In the meantime, we'll give you the number, definitely. Yeah, just hold on. We have that number. Quarter two number of caprolactam sale was 70,584.

**Nitin Gosar, Analyst Operator**

Thank you. We'll take the next question from the line of Satish Mishra from HDFC Securities. Please go ahead.

**Satish Mishra, Analyst**

Yeah. Good morning, sir.

## **Atanu Chakraborty, Managing Director**

Good morning, Satish.

## **Satish Mishra, Analyst**

My question is related to the gas price, now as it is notified and you all know that it will double from next year. So in the context like, we are a company who makes profit before tax of around 500 crores, 600 crores. And if you see our material cost, my belief is gas cost is around 500 odd crores. And as earlier also you have said, half of that roughly goes to urea, which will not be impacted by this price hike.

So roughly 250 crores of gas price will be almost doubled. And we are a company which makes a PBT of 500 crores, 600 crores. So, how you see the situation next year onwards, like this 250 crores increase in gas price?

## **Atanu Chakraborty, Managing Director**

See, there are -- let me explain to you how it is going to pan out. Part of it I have explained is the part that we use for producing power. We have already -- that part, which was producing power, we have shutoff and we are taking power from outside, which is equally expensive. So we are again trying to cut down power. We have started -- trying to work out strategy. So about 15% of our total gas consumption was for power production, which largely has -- we've cut down, because cheap power was not available this year itself. Rest of it goes as a raw stock largely. Now there as yourself mentioned, urea goes into escalation, de-escalation, so the hit is on Government of India.

Secondly and very interestingly, APS and KS, again take up a very significant portion. And if you see our prices they are below almost 15% to 17% below the market prices. Unfortunately, I'll have to pass that on prices to the farmers. And since, the price level, we were always trying to use our competitive advantage to give lower price advantage to the farmers will find it difficult to continue to do so and we'll have to pass on certain increases as little as we would wish to it onto the farmers. Rest goes into things like melamine and all, where in any case today we are -- almost 25% of our power is RLNG -- sorry gas consumption is RLNG. We are in any case that cost increase does not impact us much.

Therefore, against over entire spectrum, the impact on the profitability is going to be in substantial.

## **Satish Mishra, Analyst**

Okay. Fine, sir. And sir, second question is related to receivables. You mentioned about the impact of high cost raw material and all, but my idea is that, it's in the context of high inventory into the channel. Are we facing any receivable issue as well?

I'd like to share in fact, I thought I'll mention in the comments, I thought some question will come up and will let me sort of take credit for some good work on that. We started the year with very high borrowing levels of upward of 1,200 crore, net borrowings were in the range of 950 crores.

Today we're down to a level of 175 crores. This one it's some excellent work done by my organization in getting subsidies from the government by pushing claims, putting up claims in time, explaining it to the government officials and reducing the subsidy outstanding which is now at a level of 1,033 crores. Out of that, frankly 400 crores is a disputed subsidy, where matters are pending the court, so if we take that out, the level of subsidy is only 600 crores, which is a very, very normal level.

The trade receivables have been brought down to a level of roughly 700 crores, which is what normally flows in the market. My areas of concern as I was mentioning is Haryana, Punjab, and Madhya Pradesh, where my material which is now lying in about to be sold now, is less than about 40,000 tons, which also is -- some of it has moved during January and the rest just moving now.

Therefore our receivables as I mentioned, reflected in my net borrowing have been brought very substantially under control and we expect that Government of India's policy to lend against subsidy will further improve the receivables and our financing cost would remain tightly under control.

## **Satish Mishra, Analyst**

Okay. Fine sir. That's it from my side.

## **Operator**

Thank you. We have the next question from the line of Rohan Gupta from Emkay Global. Please go ahead.

**Rohan Gupta, Analyst**

Thank you, ma'am. Hi sir, good morning. Sir, on the fertilizer sales volume, you had mentioned about the total volume of almost four lakhs tons. Can you sir, please state it between urea and complex.

**Vishvesh V. Vachhrajani, Company Secretary**

Yes, urea numbers should be, just hold on.

**V D Nanavaty, General Manager - Finance and Company Secretary**

Yeah, so urea is around one lakh ton.

**Vishvesh V. Vachhrajani, Company Secretary**

Rest is complex.

**V D Nanavaty, General Manager - Finance and Company Secretary Rohan Gupta, Analyst**

Fine, sir. Sir, second question on this higher power and fuel costs. As you've said that lower availability from the PMT has affected this. So sir, how is the availability now when we talk on the call and when you are expecting it to improve or to go back to the previous level?

**Atanu Chakraborty, Managing Director**

Well, for us to now expect very near-termed availability on both D6 and PMT to come up and in any case that prices are not going to be great prices, they are going to be in the range of \$10 which means, power at busbar itself is going to be in the range of INR5.50 and delivered to me is going to be about INR6 though, it's a reasonably good cost.

We are looking at a cheaper power and that's where, I explained that how, we are going to complete our windmill [ph] energy and also we are going -- trying to get additional power from Bhavnagar Energy Corporation which is going to produce lignite-based power in the range of INR3.5 to INR3.8 per megawatt -- per unit. That will really help us to cut down and control the power cost, however, if we get additional cost, gas, I'll be able to cut down a INR1 or INR1.50 from my present levels per unit.

**Rohan Gupta, Analyst**

Okay, so till the time, we don't start at lignite-based power Bhavnagar and our windmill don't start, we should probably expect that our power and fuel cost will broadly --

**Atanu Chakraborty, Managing Director**

No, windmills would start -- as I mentioned, five have already started during January. Nine more would be commissioned during this quarter. So we can expect some depth in our power cost during this quarter itself, at least on the rate basis. Quantity would depend upon the amount we draw depending upon the production.

**Rohan Gupta, Analyst**

Right. Sir, the second question on this unallocable expenditure for the quarter, which is close to 50 crore. Sir, can you mention a little bit more in detail --

**Atanu Chakraborty, Managing Director**

Mr. Nanavaty will explain that.

### **Vishvesh V. Vachhrajani, Company Secretary**

Would you like to take that?

### **V D Nanavaty, General Manager - Finance and Company Secretary Rohan Gupta, Analyst**

No, no, sir, basically, unallocable income is negative. So that is also -- I mean, unallocable --

### **V D Nanavaty, General Manager - Finance and Company Secretary**

That is the income, it is not a negative income. It is a real income. So that is how, it is in the bracket. So 50 crore is unallocable income during the quarter and mainly, we have received some overall interest on the income tax refund and some write-back of old provisions are there, which constitutes this 50 crore.

### **Rohan Gupta, Analyst**

Okay. Sir, you were just giving us some balance sheet number and you said that, receivables have come down to 700 crore. This is excluding that subsidy receivables?

### **V D Nanavaty, General Manager - Finance and Company Secretary**

Yeah, this is receivables from the field.

### **Rohan Gupta, Analyst**

So total -- and subsidy receivables are close to 1,000 crores, so we're talking about roughly 1,700 crore total receivables?

### **V D Nanavaty, General Manager - Finance and Company Secretary**

Yeah.

### **Rohan Gupta, Analyst**

And if I just go back to our balance sheet on September end, it was, -- receivables was close to I will say that 2,100 crore, so it's down by 400 crore?

### **V D Nanavaty, General Manager - Finance and Company Secretary**

Yeah.

### **Rohan Gupta, Analyst**

Okay. Sir, what about the cash and bank balance -- cash basically positioned right now. Can you give us that number?

### **V D Nanavaty, General Manager - Finance and Company Secretary Rohan Gupta, Analyst**

So that is in fact similar number what was in the September balance sheet?

### **V D Nanavaty, General Manager - Finance and Company Secretary**

Yeah, around that.

**Rohan Gupta, Analyst**

Inventory number which has gone up or payables we have reduced, I mean where we -- or have we funded the working capital?

**V D Nanavaty, General Manager - Finance and Company Secretary**

No, we have paid back our short-term loans that you see in the March end, substantial reduction of 800 crore is there. And we have put balance thing in the fixed deposit.

**Rohan Gupta, Analyst**

So our total borrowings right now are what, 175 crore, net borrowings?

**V D Nanavaty, General Manager - Finance and Company Secretary**

Yeah.

**Rohan Gupta, Analyst**

Net borrowings we have 175 crore, am I right, sir?

**V D Nanavaty, General Manager - Finance and Company Secretary**

That is true.

**Rohan Gupta, Analyst**

175 crores are the interest cost, which we have paid is substantially high. I mean, so has it been paid at the end of the quarter or during the quarter?

**V D Nanavaty, General Manager - Finance and Company Secretary**

Because we started the year with a high borrowing.  
No, I'm talking about in Q or the current quarter you have paid interest cost of 14 crore.

**V D Nanavaty, General Manager - Finance and Company Secretary**

Yeah.

**Rohan Gupta, Analyst**

On a net borrowings of just 175 crore.

**V D Nanavaty, General Manager - Finance and Company Secretary**

That is the closing balance of borrowing. Net borrowing during the quarter was around 600 crores.

**Rohan Gupta, Analyst**

Okay. So we should see that probably this in interest cost almost evaporating in this quarter?

## **V D Nanavaty, General Manager - Finance and Company Secretary**

Yeah, in the quarter four, that is true.

### **Rohan Gupta, Analyst**

Q4. Okay. And sir, the next question is on this, I will say that the fertilizers trade import of DAP, which you have mentioned. And sir, you have mentioned that I mean despite a huge import or trading, which has happened in the last year and has created all the problems in the industry, but despite all that fact remaining there, industry is still going for the trade. And the trades are -- DAP import is constantly happening. So do you see that in future this risk of imports in DAP trading is always there and that's where companies have to be conscious who are -- companies like you have to be cautious and who have the own manufacturing faculty for DAP or they had to convert their plant from DAP to any other complex fertilizers?

### **Atanu Chakraborty, Managing Director**

Very interesting question. One must understand the mentality which was behind those imports. As I mentioned and as everyone has affirmed [ph] that also seen, there was a reckless imports during last year, which dropped the supply chains. Now, most of these people were sitting on very high volumes. And as it appeared that Indian demand will also compress, during this half, the international prices started falling.

Now, all of these were holding high cost imports wanted to then reduce their weighted average cost of inventory by importing continuously lower cost product that was available. And interestingly, the signals in the market were to the contrary and every time the prices fell, because of global impacts also.

And because of these factors, despite the fact that there is a compression of 41% import, as I mention in my opening remarks, 32 lakh tonnes that's about 3 million tonnes of imports still took place. Some of it had to take place because of irregular phosphoric acid supply.

Well, in any open market scenario, these are bound to happen. However, the FAI has already made a representation to the government for a proper duty structure. India is perhaps the only country where the raw material intermediate and the finished good are all charged at the same rate which is frankly something which is anachronistic.

Secondly, the companies, domestic manufacturing companies, which will continue to be the bedrock of the supply chain of complex fertilizers have to continuously expand their supply chains and integrate them better by not only getting more phos-acid or perhaps getting more rock phosphate also.

Thirdly, the era of using high analysis fertilizer like DAP, et cetera, perhaps will be limited in time to come and more NPK would be used. And GSFC in keeping with it, this year itself, we have in this quarter, if you see, we have increased -- we reduced our DAP production at Sikka also and started producing APS simultaneously.

And our APS production has risen by 30%, because there was a very substantial demand for APS, which in the market parlance is known as 2020-030 [ph], and which had sort of balanced out DAP outgo from Sikka unit, and in our overall sort of basket that we put before the market, there is a balance between DAP and other grains of fertilizer.

So, these are the various strategies that domestic manufacturer would follow to see that, A, former is protected from the waggery of imports and its sharp volatility, at the same time try to keep our market share up and keep ourselves the reason they believe profitable.

### **Rohan Gupta, Analyst**

So, you can, sir -- in future probably the -- a lot of shift will happen in the industry from DAP to other complex fertilizers?

### **Atanu Chakraborty, Managing Director**

Some shift would happen. Some shifts would happen from DAP to other fertilizer where the component of P is slightly less, and so that is price, it is balanced. You see, you must see this in context of the fact that urea is priced at one fourth. So, the farmer find this kind of a disbalance, very difficult to digest and ended up taking more urea or move towards a lower P. Of course, some amount of low P is in any case needed, however, till urea price are raised, this kind of a trend would remain. And GSFC is measuring up to those trends were producing more of NPK, more of APS.

## **Rohan Gupta, Analyst**

Sir, --

## **Operator**

Sorry to interrupt, Mr. Gupta. Sir, for further question, I'll request you to come back in the queue.

## **Rohan Gupta, Analyst**

Yeah, ma'am. I'm done.

## **Operator**

Thank you.

Thank you so much.

## **Operator**

We'll take the next question from line of Viraj Kacharia from Securities Investment Management. Please go ahead.

## **Viraj Kacharia, Analyst**

Thank you for taking my questions, sir. I just wanted to get a broader understanding on your market expansion progress and the fertilizer space. I mean, primarily we are currently based in Gujarat and other primarily markets of Maharashtra, MP and Rajasthan. So, going forward, how we catering to the new market expansion and especially given that, you will be processing on the increased gas prices into the high MRP. So that competitive advantage may not be there in domestic market ever?

## **Atanu Chakraborty, Managing Director**

As I understand, I think, your question is, are we likely to expand to new geographical areas?

## **Viraj Kacharia, Analyst**

Yes. And how are you protecting the domestic market as well, because, the competitive advantage may no longer will be there?

## **Atanu Chakraborty, Managing Director**

No. We have a very strong competitive advantage in my core market in Gujarat itself where, apart from other channels, we have about 200 plus channels owned -- retail areas owned by us. Through this, we not only reach out our product to the farmers, but we also reach out lot of farm information.

We also provide information related to micro-irrigation, water-soluble fertilizers, other micro nutrients. And these are centers, which over 50 years of time, have become a place where farmers congregate. Our brand strength in my core area that is Gujarat, Rajasthan and Maharashtra is very strong, brand recall is almost top of the line recall and which gives our brand a tremendous strength in this market and, in Gujarat, our market share in DAP is upward of 70%.

However, considering our large capacity and the fact that like to cater to the rest of the country, we have -- we do sell in markets as far as Haryana, Punjab, Madhya Pradesh, Chhattisgarh, we are actually moving to Chhattisgarh this year. We are selling as far West Bengal, Bihar, we are catering and almost 11% market share of UP is controlled by us, Madhya Pradesh -- Maharashtra is, of course, a market close to us. And we are, sort of -- we keep selling very substantial amounts of both NPK and DAP there. And this year we have decided to sell both in Karnataka and Andhra Pradesh as well because of strong demand there.

Therefore, as you see, our footprint is across the country, but as you early rightly mentioned, we do control our core market. And in core market we like to bring to the table for the farmer just not fertilizer at a X price or Y price, but a whole gamut of



information regarding farming, not only fertilizer. In fact, today through our -- one of our companies called Gujarat Green Revolution Company, we have 9 lakh acres of -- hectares of micro-irrigation area supplied by them, largely done through our farmers' information centers. So therefore, our core area we have served farmers in all respects and our turf is, I must say, very well protected.

Okay. And second question is on the, I mean, you did mention on the trend shift between -- from DAP towards NPK, but from a broader trend shift from urea towards DAP and NPK, I mean, if you see the first nine months data and other consumption, the trend shift hasn't been -- I mean, the imbalance hasn't corrected that much as you would think it would. So --

### **Atanu Chakraborty, Managing Director**

You are very right. The imbalance has not been corrected. Urea still shows a 6% increase in sale, DAP shows 18% decline and NPK shows 3% decline, if we see for the first nine months. So the sense that you've brought out is absolutely correct and that is worrying, because Indian soil does not have the balance of NPK as it should have, already deficient in PNK, but the price balance between urea, DAP and K, as you can see, is hugely tilted in favor of urea.

And ultimately, price signal, when it's so huge, does push the consumption in a fashions which are ultimately going to affect the productivity, the nutrients in the soil and then the productivity.

And as you know, productivity in India is much below the world levels that we aspired to achieve. And if we have to achieve better levels and to provide not only food security, but also to continue to provide new kind of crops and metal income for the farmers, then we have to correct the nutrient imbalance, and that is where the urea policy has to be corrected. However, I'll wait for the elections for that policy to be corrected, it's too early and I guess a new government perhaps will only sort of address that issue.

### **Viraj Kacharia, Analyst**

Sir, just one last follow-up if I may. You said that you expanded into Karnataka and Andhra Pradesh, so what should be your experience so far and is it a big significant volume or just incremental?

### **Atanu Chakraborty, Managing Director**

It's a incremental change. They're not huge volumes, but as I was asked that we are only limited to this -- only to Maharashtra and Gujarat and Rajasthan. I just wanted to say that our foot print is in Karnataka as well as in Andhra Pradesh. In fact, our ammonium sulphate is extremely popular among the tomato crop grower of Andhra Pradesh and our sales in Karnataka.

So of course we are, I must say, we are not very big players in those market, because both logistics and other additive drivers that we remain, we cut down our distances as much as possible. Of course, one has to move these products. We are located on one corner of the country, so we'll have to move the distances, do increase sometimes and that's why these markets -- those likely distance, our service buyers, but not in a very substantial fashion.

### **Viraj Kacharia, Analyst**

Okay. Thank you very much.

### **Operator**

Thank you. We'll take next question from the line of Vijaya Raghavan from Batlivala & Karani Securities. Please go ahead.  
Hi, sir. Good morning. Hello?

### **Atanu Chakraborty, Managing Director**

Yeah, please go ahead.

### **Vijaya Raghavan, Analyst**

Yes. Sir I just had a doubt about this policy issue, which you've been facing recently as well the Fertilizer Ministry has been indicating that you've been using the subsidized urea for making of melamine. So, any development on that front, did you receive any

communication from them, are they seeking for any for that?

**Atanu Chakraborty, Managing Director**

Could you repeat your question please?

**Vijaya Raghavan, Analyst**

Sir, I was asking about use of molten urea for manufacture of melamine?

**Atanu Chakraborty, Managing Director**

There are two aspect to it, so I must clarify this. This matter has been going on with Government of India for past three years or so.

**Vijaya Raghavan, Analyst**

Okay.

**Atanu Chakraborty, Managing Director**

And world over urea is used, molten urea is used our production of melamine, that's how melamine is produced.

**Vijaya Raghavan, Analyst**

Okay.

**Atanu Chakraborty, Managing Director**

And we also do the same and whatever molten -- and we do it on account of a sort of Government of India's request when the plant was set up, A; B, the industry license, because that was the industry license in era were given by Government with a very strict stipulation that we would not import urea for this, but use of own molten urea for this purpose. With this background, I must state that we do not claim any subsidy that is being used for the molten urea, also the gas that is allocated for molten urea is a high cost gas. For the rest of the urea we use APM, which is escalated Therefore, Government of India, in fact, does not pay us anything for this. So they have nothing to recover from us. Yes, they can ask us at some future date to do so, but on that also estoppel applies, because it's a Government of India insistence as contained in their own industrial license that we use this thing.

**Vijaya Raghavan, Analyst**

Okay.

**Atanu Chakraborty, Managing Director**

But, considering the fact that we do not want to get entangled in the policy issues which in times tend to change for no rhyme or reason. The new melamine capacity that we are bringing in and I've mentioned in my opening remark, that capacity would be independent of the urea plant itself and we are using a new technology for that. Well, I'll share that technology process as and when we finalize, which is going to be very soon.

**Vijaya Raghavan, Analyst**

Okay. Sir, then again, that is pertaining to the subsidy issue. Some of your peers have, in the month of January, has received letter from the Department of Fertilizer, seeking for recovery by way of mopping up of subsidy for use of gas to produce indigenous ammonia like RCF. So did you also receive any communication? And if you can -- if so, if you can quantify what is the amount that have --

## **Atanu Chakraborty, Managing Director**

There is nothing to mopping up, they have said that in future they would like to benchmark. They have mentioned in ad hoc, that is an ad hoc, mopping up that they would like to do. They have set up a benchmark, they have neither recovered; they've only indicated, I think, the things have been wrongly understood. They have only indicated that they are setting up a benchmark which should be used for calculating the price of ammonia.

## **Vijaya Raghavan, Analyst**

Okay.

## **Atanu Chakraborty, Managing Director**

It goes into production of APS. However, APS is under NBS which is independent of the cost of raw material. Therefore, and from -- as earlier, another gentleman has said that price of gas is, any case, going up. But before the benchmark price which they wish to set up at all run between the prices of gas and -- would be -- difference would be very little, A. B, if you set up a benchmark ammonia price and you'll have to pay subsidy according to that price, they don't subsidy according to that imported ammonia, at all.

## **Vijaya Raghavan, Analyst**

Okay.

Therefore, as per the NBS policy, there is no -- on cause, doesn't come in as you know it very well, it is based upon the fixed price of subsidy that's been set up. However, we are in consultation with Government of India on this and will try to resolve the matter amicably through for the discussions which are underway.

## **Vijaya Raghavan, Analyst**

Okay. Sir, during the month of December, you had a small accident in ammonia sulphate unit. So has it been resolved, if the production is normal now? Hello?

## **V D Nanavaty, General Manager - Finance and Company Secretary**

If you can repeat the question, I --

## **Vijaya Raghavan, Analyst**

Sir, I was just asking about in the month of December, you seem to had a small accident in ammonia sulphate unit. So did it anyway affect your ammonium sulphate production and going forward, do you think will it in anyway, have any impact in the fourth quarter?

## **V D Nanavaty, General Manager - Finance and Company Secretary**

No, it will not have any impact. It was just a small incident and now, things are being put to the order.

## **Vijaya Raghavan, Analyst**

Okay.

## **V D Nanavaty, General Manager - Finance and Company Secretary**

So, quarter three had some impact but not much. That is a plant we sparingly use, it's a very old plant. The oldest plant that was done in 1967.

## **Vijaya Raghavan, Analyst**

Okay.

## **V D Nanavaty, General Manager - Finance and Company Secretary**

So sparingly in a month.

## **Vijaya Raghavan, Analyst**

Okay. Thanks, sir. That's it from my side. Thanks for taking my questions.

Thank you. We will take the next question from the line of Amit Murarka from Deutsche Bank. Please go ahead.

## **Amit Murarka, Analyst**

Yeah, hi. Just seen some flashes that the government had or group of ministers has approved a fixed cost compensation increase of 350 per ton. So will that be sufficient, given that it's been more than six years or seven years that it has been increased? Just some views on that?

## **V D Nanavaty, General Manager - Finance and Company Secretary**

It's a kind of adhoc increase. They have not really gone into costing. Overall, they have seen the cost rise from 2002, 2003. So it's almost 10 years now, and with the purpose of now keeping the fiscal deficit in control, they are not -- they know, the costs have gone up, but not going full-fledged into the costing and giving the rise. So after a lot of hue and cry this -- some token rise is being made. But whatever comes will be a benefit to us.

## **Amit Murarka, Analyst**

Right. That's true. But still will not be sufficient, right, given that it is being increased after such a long time?

## **V D Nanavaty, General Manager - Finance and Company Secretary**

Yeah, definitely. It is not sufficient. Definitely.

## **Amit Murarka, Analyst**

Okay. That's all, sir.

## **Operator**

Thank you. Participants, that was the last question. I now hand over the floor back to Mr. Aditya Jhawar for closing comments. Thank you and over to you, sir.

## **Aditya Jhawar, Analyst**

Thanks a lot to the management for taking time out for us and thanks a lot to the participants for dialing in.

## **Atanu Chakraborty, Managing Director**

Thank you, Aditya.

## **V D Nanavaty, General Manager - Finance and Company Secretary**

Thank you.  
Thank you.

## **Operator**

Thank you. Ladies and gentlemen, on behalf of Espirito Santo Securities, that concludes this conference call. Thank you for joining us. You may now disconnect.