

Conference Call Transcript with Mr. Atanu Chakraborty – Managing Director, Mr. B M Borani- Executive Director, Mr. Vachharajani –Company Secretary on 01st June 2012

Presentation Session

- Moderator** Ladies and gentlemen, good morning and welcome to the Gujarat State Fertilizers and Chemicals Limited Q4FY12 Results Conference Call hosted by Almondz Global Securities Limited. As a reminder for the duration of this conference all participant lines 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. Should you need assistance during the conference please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Harjit Singh Sethi from Almondz Global Securities Limited. Thank you and over to you sir.
- Harjit Singh Sethi** Thank you Inba. Good morning everyone. On behalf of Almondz Global Securities it is indeed a great pleasure to welcome you all to the Q4 FY12 earning conference call of Gujarat State Fertilizers Company Limited GSFC. We welcome Mr. Atanu Chakraborty – Managing Director, Mr. B M Borani – Executive Director and Mr. Vachharajani to the call. I would like to hand over the proceedings to Mr. Atanu Chakraborty to take us through this quarter's performance and provide insight into the business. Sir, over to you.
- Atanu Chakraborty** Well, since the quarter also finishes the year, I will briefly give you the revenues for this quarter which was 1530 crores, PBT at 339 and PAT at 230 crores. That also finishes the year with a PBT of 1113 crores, PAT of 758 crores and total revenues from the operations for the year 2011-12 at 5302. Incidentally the profits, both the PBT as well as PAT happen to be the highest level in the company's history. I will guess the rest of the issues would be addressed as part of question-answers.
- Moderator** We will start with the question and answer session. Ladies and gentlemen if you wish to ask a question you may press * and 1 on their touchtone telephone. Our first question is from Prakash Goel of ICICI Securities, please go ahead.
- Prakash Goel** Sir just want to understand around the Q4 volume in both segment because like you know what we found the sales in the Caprolactam and nylon product has jumped sharply and so is the case in fertilizer. So what has helped it? Is it the realization or the pricing because we were given to understand that pricing is not that encouraging particularly in the capital active segment in that particular quarter?
- Atanu Chakraborty** If you see on industry product size you were right because the pricing did show a declining trend and what we have done is against 401 crores it is 455 crores because it is not driven by Caprolactam alone, it is also nylon and various segments which tend to move, certain products tend to move always. Melamine has moved well and so did Caprolactam on the base. However if you see there has been a distinct rise on fertilizers from 898 crores in the preceding quarter to 1074 crores because we positioned our fertilizer better for Kharif. We also have a good supply of phosphoric acid. These are the two primary reasons which pushed the revenues on fertilizer side, which is what is finally reflected in the results.
- Prakash Goel** Sir coming to the margin like now, while the competition is facing severe issues like the high price inventory, how have you managed and are we likely to see some pain in the Q1?
- Atanu Chakraborty** Well what happened, you are referring to fertilizer I understand. Now you see what has happened generally in the industry, if you see in the Q1 of last year that is around Kharif, internationally phosphoric acid supply dropped. It was largely on account of problems in the Northern Mediterranean drift in northern African countries which supply phosphoric acid. And

there was sort of a general decline in availabilities which affected the entire industry specially the manufacturing. Subsequently the supplies got close to normal but never normal even right now. However this gave opportunity for certain importers to bridging the gap and some of the importers frankly did not understand the dynamics of the entire consumption of fertilizers and they ended up having fertilizers at imported at very high cost in the range of about \$632-675 per DAP and similarly high prices for NPK. Subsequently naturally it could not be sold at those kind of prices, even the season was off and lots of players were left with high inventories. GSFC has been in this business for years. We do understand the psyche of the farmers. We do understand the consumption cycle well and we are not taken in by that point very high prices and we stayed out of importing fertilizer at high prices, which did effect us. Our top line would have been much better had we been able to sell more of DAP or NPK. We could only sell what we could make because international prices were never attractive but of course to give us a great advantage even today the pain that you refer to Prakash, we do not have the pain. We are very happily placed even in Q1; our inventory is moving very smoothly both on account of low inventory as well as our brand name. This has really helped us as against many players in the market we have finished the year with high inventory. Our inventories are really very low.

Prakash Goel

Sir just to understand further, like now the rupee depreciation is forcing a lot of cost increase which is offsetting the benefit of the drop in the international prices, are we looking at, there were media articles of a sharp rise in the DAP prices likely, how are we positioning ourselves?

Atanu Chakraborty

Well we have a strategy through which on quarter to quarter we manage our Forex outgoes, which sort of you are able to firewall it to some extent. However the slide happens to be cutting across quarters and it is hitting the entire business cycle. Therefore the entire industry possibly cannot be immune from the impact of depreciation of rupee and the prices will ultimately have to reflect that. Therefore the prices of DAP and complex fertilizers would reflect the fall in rupee. Partially it has been offset by slight decline in phosphoric acid price. The decline has not been very substantial. You see against Q4 price of \$960 per ton, the Q1 price of phosphoric acid is 885, frankly if we adjust it against rupee depreciation that does not give us any comfort. Ammonia prices actually are on the rise, even the sulfur prices have risen. Therefore overall on account of increase in raw material prices whether on account of direct increase or on account of depreciation rupee there is going to be shown the margin which will reflect increase in prices. What level and what that would be each company will have to decide on based of each cost structure and demand dynamics.

Prakash Goel

So you are not contemplating any price increase at this stage?

Atanu Chakraborty

I will not comment on this. As of now we are looking at it and certainly the margins have squeezed than before we will be forced to increase the price.

Prakash Goel

What is the net cash balance, because we have the gross cash balance number from the balance sheet, what are the debt level that is what we would like to understand? So the Schedule-VI format has changed completely and very difficult to decide whether.

B M Borani

Actually Schedule-VI has changed definitely but the major thing is so far as balancing part is concerned, so far as this profit and loss account – debt level for GSFC particularly is just working capital borrowing is there, nothing more than that. And you can see the current liability; short term borrowing almost 617 crores is the only borrowing.

Prakash Goel

Okay fair enough. And working capital basically must be the outstanding from subsidy outstanding to be received from the government.

B M Borani

Working capital includes subsidy outstanding.

Prakash Goel

And that has jumped close to 600 or rather 550 crore year on year?

- B M Borani** Subsidy outstanding is around making with that figure.
- Prakash Goel** Okay. So basically entire rise in the debtors or primarily on account of the subsidy increase to be receivable from the government.
- B M Borani** Subsidy receivable is around at that level plus we could rather liquidate our entire stock of DAP in the last month of March.
- Prakash Goel** That has also led to some kind of receivable, right?
- B M Borani** Yes because there is a reason for this slightly bigger number for subsidy outstanding because the budget was presented on 16th so the supplementary demands which were clear could not ultimately things ended up reflecting in.
- Prakash Goel** So the picture we are looking at in terms of the short term borrowings as of 31st March, the picture at 30th April would be significantly better, is that the right understanding?
- B M Borani** I think so.
- Prakash Goel** Okay. There is just a last thing, it is like an observation, despite a sharp improvement in profitability that dividend payout has gone up very marginally, probably you could have looked at this as more generous way because as an investor we expect company doing so well to gain out of the entire prosperity.
- B M Borani** That is a board recommendation to AGM till the AGM finalizes then everything; we will leave that question hanging.
- Moderator** Thank you very much. Our next question is from Tarun Surana of Sunidhi Securities, please go ahead.
- Tarun Surana** Sir the question is regarding DAP price and volume outlook for first half. Recently GSFC also have contracted fuel, cargo and trading at very attractive rates. However, Foschem has finalized contracts with leading players at \$580. So can you give some sense in incremental trading volumes at GSFC would look to tie up at these levels of 580 or even more. The other is what happens to the volumes on ground risk. MRP goes to almost Rs. 24,000 per ton where looking at the rupee which is currently at 56 or so, so how much volume contraction can be expected at the prices of Rs. 24,000 per ton in your view?
- Atanu Chakraborty** I guess there are two parts of your question. First part is what level the trading would take place. Well, we contracted cargo of 1 lakh ton at \$550 per ton, that is a very attractive price at a point where the rupee was also behaving much better. Naturally the margins are good. However, whenever we contract the second cargo as I have mentioned in my previous answer, we do not just look at volumes at that stage, we look at how vis-à-vis the prevailing prices, and the prices would do. So net volume, as and when, cargo being sort of trade, we would look at the prices and a decent margin and only then we will tend to enter into trading so that we can meet the requirement on the ground. You have talked about the price of 22,000, frankly that is a bit outlined if you ask me. There has been an impact on prices on account of three factors. Two factors I have talked about. The fall in the input prices has not been steep. Actually ammonia has sprung back very substantially to a higher level. Then the depreciation in rupee. Thirdly, something which has been missed out very substantially, Government of India cut down its subsidiary very substantially by Rs. 4500. It does not reflect the ground situation. However we do understand the dynamics of nutrient based subsidies where government would like to cap its subsidies and allow the market dynamics a way out and that is what would happen. Government is able to cap the subsidy which has a larger impact on the fiscal deficit of the country and an overall macroeconomic stability. However as far as the price move it will

have a peripheral impact on the prices. They are likely to slightly go up but they will not lead to what people have been talking as demand destructions because around last time Kharif, the volume did not move because volumes have just not there. When people got the volumes Kharif season was over because DAP and NPK are essentially base reducer. Right now as I see from the reports that I get from channel partners, the movement of both DAP and NPK that we sell are pretty good and frankly I do not see any compression in demand.

Tarun Surana Sir at an industry level not even at a 10-15% kind of correction that you see or you see the flattish demand?

Atanu Chakraborty Last year if I remember correctly the volume has actually gone down very substantially on account of non-availability so vis-à-vis FY11 Kharif, certainly I do not foresee any volume contraction at all. Of course that is subject to intervention. The monsoon has its own overriding things on everything. If I drop all the exact climatic regions the monsoon does not behave we have a problem, however there are no such indications.

Tarun Surana The second question was on Greenfield urea plant. There were reports in media suggesting that DOF is not really willing to allow Greenfield units to come at this stage and would allow Brownfield units to come. Is that what you are hearing? Is Dahej expansion likely to get delayed on account of Greenfield versus Brownfield differential as well apart from the policy delay which anyways is there?

Atanu Chakraborty You see yes, we are impacted by policy delay, our project has got delayed. But the country needs domestic urea very badly. There is about 7 million ton of gap that we have today and trajectory fashion in which international exporters behave certainly it poses a huge subsidy burden. Therefore there is hardly a case of comparison between imports versus production. You got to produce for country's food security as well as containing the fiscal deficit it is imperative that we have adequate volumes produced domestically whether by gas which is cheap or slightly at higher price. However that is a policy issue which ultimately Government of India has to take a call, one can only suggest. If it gets delayed we will look at alternative ways of doing a field explore on the revenues.

Tarun Surana In Baroda, it would not be possible, right I mean Brownfield expansion into urea?

Atanu Chakraborty No, Baroda, Urea expansion is not possible.

Tarun Surana So it will have to be either Dahej or any of your other units have infrastructure, you know you have four units, is it possible somewhere?

Atanu Chakraborty In all units however we have dedicated Sikka unit to phosphoric and complex fertilizers so that is where because it has maritime facilities and other things. Not that we are ruling out urea there but as of now.

Tarun Surana But in case if the need be, if government says that Greenfield is not possible you have some existing location, if you think facility is to handle

Atanu Chakraborty No that is what the differentiation between Greenfield and Brownfield. Brownfield projects are essentially those projects which either is going in for substantial expansion or projects which were using some of the technology which was not getting them to come up they were allowed to expand. Rest everything in Greenfield wherever even a new trainees put up it will become a Greenfield, or would qualify under the heading of substantial expansion where the subsidy outgo will not be materially different.

- Tarun Surana** And sir on Caprolactam recently prices have corrected significantly, is there the Chinese supplies already in the marketplace and have disrupted it or is it just a general slowdown in the economy which is impacting the prices of Caprolactam to the levels of \$2400 or so.
- Atanu Chakraborty** Well Chinese supplies never come to India in that sense in a big way or anything; in fact they are net importers more often than not. It has been a general decline, economic decline which has impacted Caprolactam. If you see Caprolactam behavior it more or less matches with the economic cycle movements of cycle and we do see a decline in Europe, we do see China not behaving as aggressively economically as it used to. That has reflected in the prices.
- Moderator** Thank you very much. Our next question is from Jasdip Valia of Kotak, please go ahead.
- Jasdip Walia** Sir, could you give me an idea of CAPEX requirements for a Greenfield and a Brownfield plant for DAP and your complex fertilizers in terms of how much money is required for setting up one million ton of Brownfield of infield capacity?
- Atanu Chakraborty** See what happens is DAP additional capacity would also depend upon what capacities you would like to put. Normally the increments are about 0.4 million. So 43 million of NPK whether it is DAP or it is NPK with a marginal requirement investment would come to around Brownfield expansion, i.e. you have everything else in place about 260 crores.
- Jasdip Walia** 260 crores for how much capacity sir?
- Atanu Chakraborty** 260 crores for 0.4 million tons. Put it between 250 to 275 crores. However what happens is that you need to add a lot of capacities in terms of off sites utilities and more importantly the railway siding and bagging. Now if you have that already available then at this cost you can do otherwise you will have to put that all afresh at very substantially depending upon that point of time, space available, kind of storages you want and available of utilities. Like we are now going for expansion where we have all these things available, our cost would be in the range of about 250-275 crores. Of course we are also slightly modifying our railway siding and other which will add some cost.
- Jasdip Walia:** I understand. What about Greenfield sir?
- Atanu Chakraborty** With Greenfield you can imagine you have to set up all these things afresh which is quite substantial. So you have to have much larger volumes when you want to do it and not only this in the kind of structures that NPK use they do not do from the grassroots that is they import phosphoric acid and import ammonia. For importing and bringing them you have a pipeline cost, you have a maritime facility cost which we have, GSFC has its own jetty which has substantial capacity still and we are dredging it. We have our own pipeline, we have our own railway sidings, we have off sides, and we have utilities. Therefore for us ramping up facility requires very little cost and we can keep ramping up our capacity. And even in future and we are already planning, we have also planned to do some backward integration by setting up sulfuric acid and phosphoric acid plant.
- Jasdip Walia** I understand sir. What would be your conversion cost per ton in case of DAP and NPK, complex fertilizers? Conversion cost, excluding raw materials.
- B M Borani** I think roughly you can take \$60.
- Jasdip Walia** \$60 per ton of DAP and complex fertilizers. And what would be your EBITDA per ton sir for DAP and complex fertilizers?

- B M Borani** See in case of this facility, particularly as our MD mentioned, project based on this import, you can have hardly, there is no major investment part and therefore EBITDA may be around 16-17%.
- Jasdip Walia** And can you give me this number in terms of rupees or USD per ton?
- B M Borani** Yeah we can say that you can send a mail to me, we will phase that with you whatever figure you want.
- Jasdip Walia** I understood. Any indicative approximate number would also do sir.
- B M Borani** We can stay with you whatever requirement; I mean detail you want on that.
- Atanu Chakraborty** That number we could send it to you so that because there would be some amount of preciseness in that number, which sort of tend to vary with depend on raw material prices. So we can send you the range on your email id.
- Jasdip Walia** I understood. My last question is sir how do margins compare between DAP and complex fertilizers in terms of rupees per ton?
- Atanu Chakraborty** For us they are not comparable because they are two separate facilities using two different routes. The complex fertilizer we manufacture at our Baroda unit has a completely different dynamics and the DAP is produced at Sikka unit using imported P_2O_5 and imported ammonia. I think they are not comparable. I guess when we start and we have a project already underway of 0.4 million ton expansion of NPK I guess at that point the margin between DAP and NPK would be on both evenly.
- Moderator** Thank you very much. Our next question from Abhijit Akella of IIFL. Please, go ahead.
- Abhijit Akella** First of all on DAP and ammonium phosphate sulphate sir could you give us some production outlook that you expect for next year in terms of how is the availability for raw material for those?
- Atanu Chakraborty** Well, we still have raw materials constraints on DAP in the first half because our TIFERT project did not come-up on stream largely as expected it is coming on stream by July, August it is already mechanical completion is over and testing has started so second half from Tunisia we will have strategic supplies in the first quarter itself the supplies from FOSKOR South Africa which is again one of our supplies which will not have supplies on account of shutdowns and certain technical problems there, on account of price related issues we have problems and Morocco could not supply till the middle of May we could finalize the prices and by the time shipments arrive we will be late in June therefore the first half on account of first quarter has been bad. I hope we will have continuous supplies during the second half which will keep us on the target of DAP which we want to produce roughly around 9,00,000 ton level and our capacities we have another 9,00,000 tons of urea another complex fertilizer that we will produce so roughly about 18,00,000 ton is what we are expecting. That apart I guess some amount will be traded but roughly 18-19 lakh tons of fertilizer that we wish to put in the market.
- Abhijit Akella** Also on the methanol plant what is the status there sir, is it..?
- Atanu Chakraborty** The plant is almost complete there were certain items missing from some supplies of sync gas compressors from BHEL we are trying to procure that we can start in the month of July rest everything is completed it is already undergoing testing.
- Abhijit Akella** And how much production and/or sales revenue would you be targeting in FY13 from that?

- Atanu Chakraborty** Roughly let's put everything else together because it will have certain teething problems we at least take about 250 crores, of course it would be dependent on prices.
- Abhijit Akella** 230 you said? 250 okay the CAPEX what is the guidance now Sir for FY13?
- Atanu Chakraborty** Well One is our CAPEX on methanol which will completed which is 300 crores of CAPEX would get completed of course most of the CAPEX has been made there then we are setting up our 50,000 ton on Nylon-6 facility in Baroda that is about 135 crores. We are setting up a 250 crores as I mentioned before 0.4 million ton NPK expansion when we have a major debottlenecking project in Caprolactam which will give us 2500 ton additional of Cyclohexanone which is a chemical used substantially in pesticides which is about 50-85 crores, if you want few other debottlenecking projects and then FDY project that is fully drawn yarn project at our Surat unit which makes yarn these are the CAPEX which would be flowing through the year.
- Abhijit Akella** So any number you have in mind Sir about how much we could spend during the year?
- Atanu Chakraborty** Total CAPEX we are looking this year is in the range of about 750 to 800 crores which also is a part of our land acquisition for our Dahej project.
- Abhijit Akella** Finally just on the margin outlook Sir, could you comment a little bit on both segments what are the Capro spreads you are seeing right now, how do you expect it to shape and also on the fertilizer side there will probably be some compression in margin because of all these pressures that we are seeing so, by what extent could those things happen?
- Atanu Chakraborty** See let's face is economic outlook as newspapers in the morning itself giving in has been not something which is very rosy. Caprolactam has been impacted by it we are perhaps the bottom of it today \$2400 and we expect it to bottom out somewhere later. So India as a whole does not get affected by the European Crisis but sentiments have effected we should be moving out of that rough very soon. So even at that level where Caprolactam has not been behaving well we got good prices on Nylon. The delta was pretty good and we earned well on Nylon as well as on Melamine. As far as fertilizers go we do pass on the price increase on account of raw material and other things to the consumer, however, we are always sensitive to the needs of the farmers and always tend to balance it. However, I don't foresee margins tremendously squeezed on fertilizer because we operate on a reasonable margins even in the previous quarters and previous year therefore overall yes, there is likely to be slight decline in the first quarter maybe earlier part of the next half but with economy picking up and other segments kicking off I don't see a major compression.
- Abhijit Akella** So when you refer to the decline you expect in the first half is that in chemicals or fertilizer?
- Atanu Chakraborty** It is in Caprolactam. As mentioned price is \$2400 as compared to \$3100 in the corresponding period last year.
- Abhijit Akella** On the fertilizer side Sir in the 4th quarter we made roughly around Rs. 3900 per ton EBIT margin so how much of a decline could there be from those levels?
- Atanu Chakraborty** Very little. Fertilizers on a very steady margins you see because whatever we also imported fertilizers we work it out in a fashion where the things are quite even so, I don't see any substantial compression or any spike either way in the fertilizer.
- Moderator** Thank you very much. Our next question from Falguni Dutta of Jet Age Securities. Please, go ahead.
- Falguni Dutta** Sir I missed out on the capital expenditure expectation for FY13.

- Atanu Chakraborty** Well, as I mentioned there is a 250 crore expansion of 0.4 million ton NPK capacity we are completing the methanol which is a 300 crore facility.
- Falguni Dutta** Yes Sir in methanol how much is pending to be spent?
- Atanu Chakraborty** About 20-25 crores, we will be spending about 80 crores on debottlenecking actually it is the expansion of Cyclohexanone of about 2500 ton about ...
- Falguni Dutta** About de-bottlenecking of.....
- Atanu Chakraborty** Cyclohexanone that is, Caprolactam site that is about 2500 tons of 80 crores that is a fully drawn yarn facility of about 40-50 crores which is coming up at Surat, then we are beginning to work on the Dahej project where have already done the pre -feasibility and other things and land related costs would kick-in, because the land will bought at one go some of the costs will be in the range of 300 to 400 crores and there is other project is some sort of preliminary expenditures could come in put together in the range of and then there is Nylon project of 105 crores, 15000 tons where substantial expenditure would be made this year. All together is in the range of 750-800 crores largely from internal accruals.
- Falguni Dutta** What is the DAP production that we expect for FY13?
- Atanu Chakraborty** 900,000 tons.
- Falguni Dutta** And urea?
- Atanu Chakraborty** 300,000 tons, these are again rough figures.
- Falguni Dutta** Can you just give me volume for DAP, Urea, APS, AS for FY12?
- Atanu Chakraborty** Sales volumes, let's do that since the time for the conference will be short we will mail it to you.
- Falguni Dutta** On the staff cost, this quarter also the staff cost was high so did we make some provision on the wage revision that that we took or are these costs....
- Atanu Chakraborty** Falguni it behaves like this provisions last year weren't there so we had to put all the streams this year itself. As you see the total increase is shown in around the range of 130 crores, this increase is roughly 130 crores over the previous year the recurring part of it is only 36 crores. The balance has been accounted on account of increase on account of terminal liabilities which has been accounted for the entire settlement period that is four years. So for next 4 years we will see an increase in the range of 36 to 38 crores additional. So, what is shown as large staff cost this year will now come down in the next year.
- Falguni Dutta** So you mean to say incremental additional every year of we compare it with FY11 would be 36 Crore?
- Atanu Chakraborty** Actually the annual report on '10-11 in that staff cost is 264 and some inflationary number to it and then add 36 crores so it will be close to 310-325 crores rather than 390 crores. However, we have settlements due in a smaller unit, Sikka, Fiber units and other places which can add a number. Major number as I mentioned is the number close to 85-90 crores for which a terminal liability has been accounted in the previous year that is FY12.
- Falguni Dutta** And sir this Sikka, this unit will in percentage terms change the numbers how much?
- Atanu Chakraborty** It is much smaller.

Falguni Dutta Okay and Sir what would be the MRP of DAP currently?

Atanu Chakraborty Rs 17,925, it is Rs 18,000.

Falguni Dutta Okay and Sir what is the Capro-Benzene spread as of now?

Atanu Chakraborty Well it is \$1321 to be precise.

Falguni Dutta And are there any capacity expansion plans globally which will come, on stream in FY13 in Caprolactam?

Atanu Chakraborty One has started already and I guess the prices and demand, etc., have taken on account of that.

Falguni Dutta You mean to say they have already come in or will be coming in?

Atanu Chakraborty It is done.

Falguni Dutta What is the outstanding fertilizer subsidy as on date?

Atanu Chakraborty Around 600 crores.

Moderator Thank you very much. Our next question from Himanshu Nayyar of Quant Capital. Please, go ahead.

Himanshu Nayyar Sir just one clarification on the CAPEX what was the actual CAPEX that we have done for FY12?

B M Borani We have already spent around 290 crores on windmill apart from that we are dispersed around may be in the range of 100 crores on methanol and our on going cycle on Cyclohexanone project. So this the major CAPEX so from that maybe some 80-90 crores we spend on existing project also.

Himanshu Nayyar Okay and sir apart from this how much have we spent on TIFERT and what is the CAPEX and how much of that would be remaining investment in TIFERT?

B M Borani So far as TIFERT is concerned we have already contributed 100% equity on 120 crores so nothing is left out on that.

Himanshu Nayyar Are we right now looking at any overseas opportunities to acquire any rock or potash sources?

Atanu Chakraborty Strategy is like this that we would like to protect the raw material sources for all our fertilizers that is both N, P and K. As you know rock phosphate is not available indigenously similarly potash is also traded so we always continue to look at opportunities, TIFERT potash is a result of one such effort, such negotiations our forays continue to be there as and when good opportunities comes and we are able to close the deal.

Himanshu Nayyar Any update on the media reports stating that DOF is working on a formula for you guys to need to share profits that you are making on using that subsidized KG-D6 gas?

Atanu Chakraborty I must clarify one thing here, there is nothing like subsidized KG-D6 gas. Fertilizer sector is just recipient of that KG-D6 gas, there are other sectors RIL itself receives substantial amount of that gas. Steel sector takes it, chemical and petrochemical sector takes it and are few other areas take it. Nobody talks about recovering these profits for simple reason that this price discovery is as per NELP, therefore it is a misnomer to call it subsidized cheap or anything because price recovery is as per market mechanism. It is up to 2014 and as and when the prices

will go up after the contractual period is over we will have to pay high price. Therefore the very concept that this is cheap gas or subsidized gas on which somebody is making some profits under the table is actually misplaced. NBS policy itself does not provide for cost specific subsidies, it fixes a subsidy and there after you sell at a price whatever price you sell it, you are going to make profits or you make a loss similarly. We are not using any APM gas this question possibly have come up because we use APM gas for complex fertilizer we use APM gas for urea which is completely regulated both price and subsidies. Therefore firstly this question of recoveries or calculating our subsidies on cost plus basis does not arise, however if the policy change is make cost plus base for everybody we address that questions as and when the policy change is made, we will await government of India's direction on that.

Himanshu Nayyar

Finally what is the sustainable level that you are looking at as far as Caprolactam-Benzene spread is concerned, over a say 1-2 year period from now?

Atanu Chakraborty

One to two year period would be confusing It does move between a certain range. It is low right now but we will see it bottoming out and probably because inventory levels where finished products are there are also almost finishing off raising demand from Nylon producers as well as Fiber producers as well as rubber producers and so inventory levels are down which is happening already the prices would start looking up and then the spread would get to the level which is a normal level.

Himanshu Nayyar

Sir what is our current volume rate for Caprolactam I mean quarterly or monthly or some number if I roughly....

Atanu Chakraborty

That would be roughly 80,000 tons spread very evenly across all quarters.

Moderator

Thank you very much. Our next question from Rahul Soni of Baljit Securities. Please, go ahead.

Rahul Soni

Sir I wanted some update on your phosphoric acid plant with a TIFERT?

Atanu Chakraborty

Well as I mentioned before it is already under commissioning it is mechanically 100% complete the RO water part of the plant has already started sulphur has been already charged and the phosphoric acid plant it will start working as soon as sulphur is out of that so, about July end production should start and shipping should start somewhere in August.

Rahul Soni

So from August what kind of capacity utilization you are expecting?

Atanu Chakraborty

Well, it is a very good plant. It should hit at least 80% very quickly by the end of first half and move closer to 90%. To reach 100% it will take a year or so.

Moderator

Thank you very much. Our next question is a follow-up question from Abhijit Akella of IIFL. Please, go ahead.

Abhijit Akella

Just one clarification on the employee cost again so going forward do we expect the quarterly run-rate to go down or how should we think about that?

Atanu Chakraborty

It would go down but what will happen from numbers it will get added on account of as I mentioned we have 4 different settlements with employees of different units. There are as happened. There are different set of unions have different set of settlements. Four small settlements will take place; however, the level on employee cost would be lower. And what is the annual budget this year I think Mr. Borani, CFO, can tell.

B M Borani

See I would like to tell one thing of that last year the employee cost covers 94 crores which is on account of past service liability which is one-time. So that will not be repeated next year or the year to come, except this the small wage region impact of small unit.

- Abhijit Akella** What is the number that you have?
- Atanu Chakraborty** We will send you the budgeted number so you can get an idea of the kind of employee cost that we are going to recur.
- Abhijit Akella** Just to clarify, 394 crores was the total staff cost for FY12 out of that 94 was one-time so going forward 300 should be a reasonable run-rate you think?
- Atanu Chakraborty** We will look at because there will be settlement so, 325 would be a closer number.
- Moderator** Thank you very much. Our next question is from Amit Shah of Almondz Global Securities. Please, go ahead.
- Amit Shah** We were planning to enter new product segment like the water soluble fertilizer's and bio-fertilizer so any progress on that particular front Sir?
- Atanu Chakraborty** I should have mentioned that CAPEX since it is small so somehow it eluded my attention. The new segments that we are entering one is the major one methanol which I have already mentioned, water soluble we already make in small quantum but through our research facilities going to expand it to a level of 20,000 tons that apart we are adding again very substantially again to a new type of liquid bio-fertilizers to a level of about 10,000 tons and then we are adding certain other smaller products of this segment these things roughly would cost about 100 crores for the facility being set up apart from 300 crores plus facility operation these are all new products.
- Amit Shah** And Sir when do we expect this particular facility to come up in FY13 itself?
- Atanu Chakraborty** Possibly by the year end this facility should come up. Methanol will come up before but water soluble fertilizers will come by the end of this year or may be Q1 of next financial year FY13-FY14 would be a more reasonable guess.
- Amit Shah** And once these facilities are commissioned what sort of revenue can we expect from these facilities sir?
- Atanu Chakraborty** See what is happening is that we are setting up a new company called GSFC Agrotech to focus on the new agricultural inputs of this nature, liquid bio-fertilizers then you have tissue culture of various types and bio-pesticides we should take into the new company and that will sort of keep pushing so that revenue essentially will be new company and will not be direct revenue for GSFC.
- Amit Shah** Sir that will be 100% subsidiary of the GSFC Sir?
- Atanu Chakraborty** Yes 100% subsidiary.
- Amit Shah** So on consol basis we will be seeing some revenue flowing from this particular subsidiary?
- Moderator** Thank you very much. Due to time constraints that was the last question. I would now like to hand conference over to Mr. Harjit Singh Sethi for closing comments.
- Harjit Singh Sethi** On behalf of Almond Global Securities I thank Mr. Atanu Chakraborty and other members of the management for giving us their valuable time and providing detailed insight about the company. I also thank all the participants for joining the call thank you very much and have a very nice day.

Moderator

Thank you very much members of management. On behalf of Almondz Global Securities that concludes this conference call. Thank you for joining us you may now disconnect your lines.

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