



## “Gujarat State Fertilizers and Chemicals Limited Q2 FY18 Post Results Conference Call”

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LIMITED**

**V. D. Nanavaty:**

Hi everybody, good afternoon. I would just like to mention that the numbers that are in the press may seem to be little disappointing but just to clarify the decrease in urea subsidy made effective from April '15. So '15-'16 and '16-'17 effect has been taken in this quarter in totality. So it has reduced the revenue and the bottom-line by almost 92 crores.

So to see the things in perspective, the revenue and PBT need to be increased by 92 crores to get the real picture of this quarter. So if we do that reworking, then it is comparable to the Y-o-Y basis in revenue as well as in the PBT, PAT part. So just I want to assure the audience that the things are going on in a normal way in the company. We achieved a volume of 5.55 lakhs metric tonnes during the quarter and as we discussed earlier, it is more than 16% growth on a Y-o-Y basis. With the redrawn EBIT, we can say that from Rs.1,500 per tonne margin of quarter one, it has gone to more than Rs. 2,500/- during this Q2. So it has reached the normal level. Last year, on overall basis it was Rs. 1,800. So there is a good improvement in that in this year in view of good rain all over. Going forward for Rabi season also, we see good prospect with late monsoon coming in Tamil Nadu and Karnataka. So that will augur well for the coming season. And we see the same 15% growth on Y-o-Y basis for Q3-Q4.

As far as industrial product or chemical product segments are concerned, because of the emergency shutdown of Ammonia IV plant in July, the availability of material for sale in chemical segment was less. So that has reduced the turnover and margin in that segment, but we hope going forward the things will improve and we will have a better picture in that segment also. The capro-benzene spread was around \$865 in Q2, but with the rise in the crude price for October, it was around \$900 and now for November it is more than \$1,200. So we see a good result in chemical segment, at least in Q3.

Production except this Ammonia thing is all normal. We are running Ammonia IV plant at some 80% till December-January when this new equipment will be installed. Then we will take it to more than 100%. As far as CAPEX is concerned, our Melamine project is going on as per the schedule and by next September end, we will see the production of the new melamine plant and our phosphoric acid, sulphuric acid expansion at Sikka and similar expansion at Baroda is also on the board level or drawing table level and we hope that by March end we should finalize this CAPEXes on a firm basis. So, what we promise during our last meeting in Mumbai in September, we are working on a 1,000 crore PBT plants in a 5-year period and we hope that can be achieved with various initiatives like cost reduction, improvement in logistics, new CAPEX, better utilization of existing assets. With all these measures, we will be able to achieve those kind of things. Thank you. That is all from my side.

**Giriraj Daga:**

Sir, couple of questions and clarification. What was the volume growth in first half?

**V. D. Nanavaty:**

Same thing, that 15% thing, it remains the same.

- Giriraj Daga:** So last year we did about 1.5?
- V. D. Nanavaty:** We have the data on our website. So you can check the quarter one data.
- Giriraj Daga:** Okay. So last year we did about 1.5, so you remain confident that 15% volume growth on this year it looks possible.
- V. D. Nanavaty:** Yeah. So on overall basis also, we plan to have 18-20 lakhs tonnes which was 15.5 lakhs tonnes last year.
- Giriraj Daga:** And now October-November so far has been good to maintain this trend?
- V. D. Nanavaty:** Yeah. October has been good. November is going on.
- Giriraj Daga:** Second one, the EBITDA per tonne, you mentioned about like compared to last year the EBITDA is higher, I mean adjusting with the 92 crores. But when I look at fertilizer EBIT, we had last year 204 crores in the first half and this year it is 101?
- V. D. Nanavaty:** I am talking about overall because last year lot of discounts was given later on because the rains were not good. So even if quarterly things were good, but then we have to give discount later on. So first half was around 3,000 but really everything turnout to be 1,800 for the whole year. And that is the reality.
- Giriraj Daga:** Okay. Understood. Second sir in this reversal of decrease in urea subsidy, like there was some case pending going on or we had some discussion with the ministry, so what will...?
- V. D. Nanavaty:** That is based on the natural gas prices. So you know the price keeps on coming down, the formula based price of gas. But government don't adjust the subsidy in line with those prices. They take time. So they took a long time to make the price subsidy correction with the natural gas price.
- Giriraj Daga:** So this notification came last quarter?
- V. D. Nanavaty:** Yes, it came in this Q2.
- Giriraj Daga:** And just last thing there, in terms of our caprolactam-benzene spread you said right now it is about 1,200. So what is the kind of volume growth that you are expecting in chemical segments in the second half?
- V. D. Nanavaty:** Volume growth will not be there because our whole plants are running more than 100%. So whatever tweak we do in summer trading here and there, that only can bring some volume

growth. Otherwise manufactured products, we are at the peak. So it will be small marginal here and there.

- Giriraj Daga:** Okay. Last one, ammonium sulphate subsidy, any receivable timeline?
- V. D. Nanavaty:** As we have mentioned in most of this thing, it is up to March 13 and March 13 to March 17, discussions are going on. So I think by March 18 we expect all things to close.
- Pratik Tholiya:** Is it possible for you to share the traded fertilizer volume breakup in terms of NPK and DAP?
- V. D. Nanavaty:** No I think what we have shared is sufficient.
- Pratik Tholiya:** So in that sheet you mentioned 4.5 lakhs is the manufactured and 5.5 is the total. So 1.5 should be the trading?
- V. D. Nanavaty:** Yeah, 1.05 is trading.
- Pratik Tholiya:** So how much would be from DAP if anything?
- V. D. Nanavaty:** Mostly it is DAP and ammonium sulphate. We don't import anything else. And something from urea also because we have been allotted this Rozi port, so we have one ship there. So we also sold imported urea.
- Pratik Tholiya:** Sir, how much is the subsidy as of September outstanding?
- V. D. Nanavaty:** Totally it is around 1,500 crores.
- Pratik Tholiya:** Including the ammonium sulphate?
- V. D. Nanavaty:** Yeah. Ammonium Sulphate is a major chunk. So there is a small amount.
- Pratik Tholiya:** And sir till when you have received the subsidy from the ongoing?
- V. D. Nanavaty:** Till July we have received, up to July, normal subsidy, yes.
- Pratik Tholiya:** And sir other income is quite high this time, almost 20 crores higher. So if you could just throw some color on that?
- V. D. Nanavaty:** One is the higher dividend, particularly GNFC declared lower dividend in 15-16. But 16-17 because of their good result, they declare higher dividend. So we are major shareholder there. So one, dividend income was higher and then there was some scarp sales on higher side as we have said earlier that...

- Pratik Tholiya:** Yes, I was just asking about other income, you said it is higher dividend and another thing was?
- V. D. Nanavaty:** Scrap sales and some write back of provisions were there. So...
- Pratik Tholiya:** Sir, and these 92 crores of this subsidy escalation that you have taken this quarter, related to that there must be some tax refunds also that you would be accounting for in the next quarter?
- V. D. Nanavaty:** Yeah. So if we go till PAT level, so out of 193, around 47 will be tax, 146 will be PAT.
- Pratik Tholiya:** Out of...?
- V. D. Nanavaty:** Suppose I add that 92 in my existing PBT, 193 and tax effect on that 193 will be 47 crores. So the readjusted PAT would be 146 against now 125.
- Pratik Tholiya:** Okay, got that. And sir lastly if you can just share some thoughts on capro-benzene spread, I mean the spreads are again moving upwards and this was a trend that we have seen last year also, that Q3-Q4 onwards, the spreads started to shoot up. But then again in Q1, it went down to lower than around \$800 odd. So is that some sort of trend that we are observing in the market, or is it just a coincidence that every time or this time also it is repeating, as what had happened last year?
- V. D. Nanavaty:** For both the spread, I will only back till December. And thereafter how the crude moves, we do not know. So yeah, what you said may be a coincidence that, but last year we had a rising spread only in December, so this time it has already started from maybe October and November. So we had a better spread last year in December and then post Q4 throughout. But as you know, the crude has improved. So I mean it has started little early this time. But Q4 I do not know. I think Q3 we will be able to maintain this momentum.
- Pratik Tholiya:** At around \$1,200 odd?
- V. D. Nanavaty:** Yeah, it might be more than \$1,000.
- Pratik Tholiya:** For the average for the quarter?
- V. D. Nanavaty:** For the quarter, yes.
- Pratik Tholiya:** Sir and in terms of any capacities in China which are facing issues from the environmental board over there. So will that also going forward?

- V. D. Nanavaty:** On a long term basis, yeah. That should help because China is improving the environmental concerns from the world over. So all those capacities which are not meeting those environment requirements may be closed down. So going forward, this may help in improving the capro prices. Right now, the two plants in Japan are under normal shutdown. So that impact is also there in this input spread apart from the crude forming up. But on a long term basis, yeah, we should look forward to a higher spread.
- Viraj Kacharia:** Just had 3 questions. First is, you talked about us having a close to 15% volume growth in Q2. So what is driving the volume growth, is it more from existing markets where we are seeing the demand or we are actually penetrating in the new market and that is driving the growth. And added to that, how would be the inventory situation for us and the industry as of September 30<sup>th</sup>?
- V. D. Nanavaty:** So we have spread our wings to other states also, but that will really take some time to get the result. So this is the growth mainly accompanied by good rains everywhere except Maharashtra and part of Karnataka and Tamil Nadu where belated rain was there. Otherwise all over India, the rainfall was good. Plus we have this imported urea now in our fold at one Rozi port. So that also help in improving the volume growth and in some states, we also did some aggressive marketing along with the other competition. So that has also helped in improving the volumes. And inventories are quite down because imports are also less in the quarter and the half year. So that has helped to move the inventory. I don't have the figures, but it is quite down. So we see better growth in Rabi also and overall for the whole year we see a rise of at least 15% in the volume.
- Viraj Kacharia:** Sir just two questions to that. When you say 15% growth, how much would have been the growth in P&K?
- V. D. Nanavaty:** Mainly growth, however, comes from P&K only. Urea import is not a regular one, we have just recently got this port allotted to us. So maybe urea will be throughout the year, it can be 1 to 1.5 lakh tonne trading apart from our own urea. Otherwise, mainly it will come from P&K only.
- Viraj Kacharia:** Okay and when we say inventory situation is better than the industry, if you have any rough numbers at the start of the year, how much the industry was and how much give away and how is it now?
- V. D. Nanavaty:** I don't have any numbers right now. My marketing head is busy somewhere else. So he carries all those number. But maybe we will put some data on our website what to the ICICI securities for distribution amongst the investors.

- Viraj Kacharia:** And second question is if we look at DBT rollout, we have seen rather DBT being now rolled out in phases in different states. So what we have been hearing is DBT is now being rollout for starting first of November from Rajasthan. So since you are already midway into the month, has there been any formal confirmation from the government on past subsidy outstanding, you know do this...
- V. D. Nanavaty:** That will parallely go on. So it is not that government will make it zero and then...
- Viraj Kacharia:** That was the talk which was going on before the DBT being rolled out and whatever current outstanding subsidy dues will be first cleared before DBT is being rolled on.
- V. D. Nanavaty:** But on overall basis, this time subsidy is being cleared faster compared to earlier period and otherwise by this time the subsidy budget used to get exhausted with lot of imports on urea and DAP having faster access on the subsidy. So since both are slowed down, there is a subsidy on overall basis available to the government so far. So may be till December we will keep on receiving subsidy in a regular way. That is what we expect, but DBT and this will now go on parallely. So may be to encourage this new system, they may clear DBTsubsidy faster, because that volume is also not so high.
- Viraj Kacharia:** Is it happening now. I mean in states like Rajasthan, are we getting the money within 7 days or within 10 days?
- V. D. Nanavaty:** No. We have not got money from January 17 onwards for DBT sale. So it is almost more than 9 months. So it is stuck in different...
- Viraj Kacharia:** So with subsidy now being given more on actual sale, like in states where DBT is now being rolled out in Rajasthan and parts of Gujarat, how is overall working, how is it going on managing the overall working capital?
- V. D. Nanavaty:** Yeah. It will stretch the working capital cycle definitely. And so it will be just like a normal business like case that you get money when you sell the goods. You can get money when you transfer your goods to your own godown in the field. So it is a normal thing with the more and more commercialization taking place in place of no emotion and all those other factors. Now money and money is only the driving criteria. Government is right in a way that you get subsidy when the fertilizers are sold, why anybody should get by putting it in the field. So it is a normal business call which industry should be prepared. That is going to happen one day or the other.
- Viraj Kacharia:** No, I agree sir. But from a working capital situation till the time the past subsidy is not cleared and if we are getting the incremental subsidy on go with actual store, so is it happening within 7 to 10 days?

**V. D. Nanavaty:** Next year everything should be clear past subsidy. Right now past subsidy is not clear mainly because of the procedural hurdles, not because of really on the money account only, b1, b2 forms and this DBT hurdles and all this things, plus NIC that is National Informatics Center which is a government arm on the software side. They also take lot of timing in devising the procedures for uploading the data and all this thing, IMFS. So it is more technical things that are hindering the subsidy release for the past. So once that is streamline, I think things will move and the whole backlog will also be cleared faster.

**Viraj Kacharia:** Okay. Just one last question was on the raw material side. So if we look at the industry over last 3 to 4 years, we have seen significant gains from the low raw material cost and after subsidy being reduced and even after us, when the industry passing on those some of the gains of the raw material to the market. So do we have any view on how long do we expect this environment of low raw material to continue, I mean how are we looking at this particular thing?

**V. D. Nanavaty:** Lower raw material will continue. Right now, of course the ammonia price and the sulphur price has gone up. Sulphur is directly result of the crude prices. But on overall basis with good supply and many economies particularly African countries and all, they want to revive the economy based on the resources which are rock phosphate and sulphur and all those things. So there will be a good supply of raw materials to India and other countries. And in the short term, the price will move here and there and with some strategy that Middle East countries playing on selling more DAP rather than selling more PA and all this things. But going forward on a long term basis with healthy supplies, the raw material price should remain in check.

**Viraj Kacharia:** Just one last question if I may, how much of this excess new supply which are seeing in the phos acid, so if you look at the overall market for phos acid what will be the current demand supply, how much over supply would it be in the market and how much of this will be because of the change in Chinese export tax which we have seen in last 1.5 years?

**V. D. Nanavaty:** I mean phos acid supply to India come from overseas that is Morocco and now it seems that they have done some tie-up with the Chinese companies. So they will be diverting more to China and plus right now African countries are on the radar. So they will be selling more PA to African countries in the China. So supply to India in short term may get curtailed. But Vietnam is one country which now want to strengthen their economy and has improved their tie-ups with India. So Vietnam PA plus Philippines PA all those things may come in larger way to India, plus Senegal and other countries also want to sell their more rock phosphate. So rock availability also may improve along with the Egyptian supplies and all these things. But these are the long term thing which will take time, but right now of course China is delivering export phos acid to India, they only export DAP to India. So that policy will of course continue of selling DAP only to India. So lot depends on how Indian industry also take advantage of all



these situations and negotiate with new suppliers instead of relying on the old suppliers only. Much depend on that how smartly we move in this direction.

**Rohan Gupta:**

Sir 3 to 4 questions from my side, I will just go one by one. First is on our accounting policies, so almost Rs. 70 crores which is related to the de-escalation in urea itself of the last year, given that our last year sales volume of urea was not more than 3 lakhs tonnes, 3.4 something. It means we are talking about almost Rs. 2,500 per tonnes sort of de-escalation has happened. So I believe that is not even our profit per tonne in urea. So last year your profit of urea is wiped out and do you think that there is a need to review our accounting policy because last year profits was overly I mean...

**V. D. Nanavaty:**

This is not the final verdict from DoF on the price. So they just took a medial gas prices and came out with this notification, so that they can save some money, I mean the subsidy money going to the industry. So even if people as you know they account for formula on their own result, but the cash flow outgo comes when government notifies those rates. So for all those there is a cash outgo when this notification came.

**Rohan Gupta:**

But sir cash outgo is still okay, but because there is a profit so I mean almost all the players in the industry follows based on the current prices of the gas if they need to.....

**V. D. Nanavaty:**

But without showing something, whatever picture without corresponding cash in hand or cash outgo in place that gives a wrong picture because ultimately as you know all the big, so many companies not only in India but world over, they have bankrupted themselves because they don't have the good working capital management. Their balance sheet was showing very good strength, but still they collapse because of the working capital things. So accounting policies one thing, but I mean the most important thing really driving the companies are the cash and cash management. So unless you do it rightly, there is no sense in just showing the figures on the paper. So that is what we follow.

**Rohan Gupta:**

Sir it is just a general indication what EBITDA per tonne we are making in Urea under current scenario, just a general indication sir?

**V. D. Nanavaty:**

It is loss only because the fixed costs are back to 2002-2003 levels.

**Rohan Gupta:**

So in Urea, right now also we are incurring losses?

**V. D. Nanavaty:**

Yeah, if I allocate everything correctly, but no, Urea has many other advantage like a priority gas allocation. It cannot be quantified in the years, I mean money terms.

**Rohan Gupta:**

Correct that is a qualitative thing.

- V. D. Nanavaty:** And I can run large ammonia plant along with Urea production which gives me lot of efficiencies. If I put up a small ammonia plant buying ammonia for urea from outside or stopping my urea operation, so those things will not accrue to me. So there are lot of advantages.
- Rohan Gupta:** Sir I take the point here. I am just asking that on a like-to-like basis, Urea you said that doesn't add to any profit actually it is directly...
- V. D. Nanavaty:** But looking myopic view, it is not right because everybody has a tendency to see the things what are the numbers but no, the reality is not the number, and these are the reality.
- Rohan Gupta:** I take this point. Last year, we did some Rs. 287 crores EBIT from fertilizer division, of that Rs. 370 crores is related to losses because of de-escalation. It means effectively we made somewhere at Rs. 210 crores EBITDA and that even assuming that Urea is zero contributor, then it means that last year our EBIT per tonne on complex fertilizer was close to Rs. 2000 per tonne.
- V. D. Nanavaty:** Yeah, 1,800.
- Rohan Gupta:** Yes, which you are saying that has now moved to Rs. 2,500 per tonne?
- V. D. Nanavaty:** Yeah.
- Rohan Gupta:** But that is only for a second quarter, not for the first half average?
- V. D. Nanavaty:** No. That is for the second quarter. The first quarter was some 1,500 only.
- Rohan Gupta:** So this 2,500 do you see that for the rest of the second half this is the EBITDA per tonne in complex fertilizers you can work on or...?
- V. D. Nanavaty:** Yeah, definitely, we can work on.
- Rohan Gupta:** This is likely to stay here?
- V. D. Nanavaty:** Yes.
- Rohan Gupta:** What are the contractual phos acid prices for you, for the second half?
- V. D. Nanavaty:** Right now, it is 567 till December, some companies ask for more because the sulphur prices have gone up and all those things, but we don't buy to all those argument, we stick to the India notified price of 567.

- Rohan Gupta:** Sir, second question is on our balance sheet, there has been sharp increase in our payments, what it is related to?
- V. D. Nanavaty:** Which one?
- Rohan Gupta:** Trade payables sir, which has gone up in the balance sheet significantly in the current year from March onwards. So this has gone up to almost 1,050 crores from 600 crores.
- V. D. Nanavaty:** Yeah, because of this projects and longer credit period that we enjoy like phos acid earlier with India price it was only 30 days, 45 days credit, but now I get phos acid with India notified rate with 100 days credit, 120 days and 180 days credit. So that is the case.
- Rohan Gupta:** So first is the credit availability, it has gone from 60 days to 100 days.
- V. D. Nanavaty:** Yeah. So that is why it is showing as stable.
- Rohan Gupta:** And any particular reason, I mean as you said that as on one side, there is an interest on availability of phos acid, China is getting more imports for phos acid. Then, why we are getting this facility of increasing credit?
- V. D. Nanavaty:** No, as I explained just now before your question that new countries are offering, Vietnam, Philippines, Senegal, so with new countries offering better terms and our approaching them at the right time. So like first quarter is not the time to buy PA in large number because really second and third quarter the sales picks up. So when they don't have the buyers and if we are ready to buy, so we get better terms. So that is the secret.
- Ranjit Cirumalla:** Most of the questions have been answered. Finally on the subsidy pending of 1,500 odd crores, so how much would have been the AS?
- V. D. Nanavaty:** AS, we have mentioned 13-17 is 663 crores and some old up to 13 is some 80 crores. So that is 743 crores.
- Ranjit Cirumalla:** And sir going by your quantitative data which you have disclosed, what we are observing is that there has been a fall in the realization for the melamine and the nylon. Any specific reason for that, and there has been a sequential fall as well?
- V. D. Nanavaty:** It is linked to international parity price. So if price decreases, we also get lesser realization. In nylon fix because the new plant and its teething troubles, so some before we achieve the final quality, whatever is produced has to be sold at least at less price. So overall realization in nylon has reduced. But it will improve along with the capro price, the nylon prices have also

increased from November onwards. So we will have better realization in Q3 on both melamine and nylon.

**Ranjit Cirumalla:** Okay, the spreads under pressure in 2Q for caprolactam?

**V. D. Nanavaty:** It was around \$865.

**Ranjit Cirumalla:** What was it in 1Q?

**V. D. Nanavaty:** That was also same, some 815 or so.

**Ranjit Cirumalla:** Because in the rupee terms we are seeing a significant fall in the realization from 1.48 lakhs to 1.14 lakhs sequentially.

**V. D. Nanavaty:** I mean 148 which?

**Ranjit Cirumalla:** 1Q to 2Q sequentially?

**V. D. Nanavaty:** I think some Forex thing might also have played the role for x movement because it is converted into rupee and plus something depends on the offtake by the customer. So if the large buyers buy in large quantity, those quantity discount and all this thing goes, which reduced the realization in my hand.

**Ranjit Cirumalla:** Are there any exports of caprolactam for us?

**V. D. Nanavaty:** No, everything is sold in local market in fact.

**Ranjit Cirumalla:** But the realization would have been impacted by the input parity pricing because of...

**V. D. Nanavaty:** Yeah. That is linked to that. So there we, because our large buyers are fixed, so I mean there is no negotiation in between during the year that I should get more price, even if IPP is less, so that is not possible.

**Ranjit Cirumalla:** Sir from the other expenditure side, was there any one-off interest we have seen in the 7 odd crores...

**V. D. Nanavaty:** Yeah, so last year this ammonium sulphate 33 crores government was supposed to deduct before releasing ammonium sulphate subsidies. So we had provided some 15 crores in Q2 last year for that expected reduction. So that is why it was high.

**Ranjit Cirumalla:** Around 15 crores?

- V. D. Nanavaty:** Yeah.
- Ranjit Cirumalla:** But even if you deduct that there is a largely flat other expenditure.
- V. D. Nanavaty:** Yeah, so you see it was 177 or 178. And right now it is 165. So if I just deduct 15 from, so it will be flat. There is no rise.
- Ranjit Cirumalla:** If the shutdown happening, one was expecting the over rates should be on the higher side?
- V. D. Nanavaty:** No, that all the cost reduction and all those things that we talked in our September meeting, all these things are showing up some result.
- Ranjit Cirumalla:** Pardon my ignorance on the accounting thing, but can this 90 odd crores of thing would have classified as an exceptional or there was no provision for that?
- V. D. Nanavaty:** No. Then it creates problem in income tax. So if you saw this exceptional or some other accounting things and this is a routine thing. So for most of the years, we had a positive escalation in urea, but now with the falling gas price from say 2014 October 14 onwards, there have been a reduction in gas price. So this has come, but this will not happen in this current year, I mean for 17-18 we will have a more subsidy rate for urea than what they are paying right now. But again, we don't account the expected rise in subsidies. So there is no negative for current year operation going to come up say next year, that is what I can assure you.
- Ranjit Cirumalla:** So the entire thing has been accounted?
- V. D. Nanavaty:** Yeah, so because gas price have risen in fact, which government has not factored in the subsidy. Their subsidy right now prevailing is on the very low gas price. So I am going to get more for the 17-18 operation. So there is no negative hidden coming up next year, that is what I can assure.
- Abhijit Akela:** First just a clarification on the volumes, you mentioned 5.5 lakhs was the total volumes this quarter, is it?
- V. D. Nanavaty:** Yes, 5.55.
- Abhijit Akela:** And for 1H, what would the number be sir?
- V. D. Nanavaty:** Which one?
- Abhijit Akela:** For first half entirely, 1Q plus 2Q?

- V. D. Nanavaty:** First half, I mean it was I think 3.02 lakhs in first half, so 8.57 for 1Q.
- Abhijit Akela:** Okay, 3.02 in 1Q was inclusive of trading?
- V. D. Nanavaty:** Yeah, everything is inclusive of trading because we don't see from marketing angle. It is sales whether I manufacture or buy.
- Abhijit Akela:** This quarter the manufactured is 4.5, correct?
- V. D. Nanavaty:** Yes.
- Abhijit Akela:** And regarding the margin per tonne, I think you had commented that it is 2,500?
- V. D. Nanavaty:** Yeah, with adjusted EBIT.
- Abhijit Akela:** When I take 55 crores EBIT for this quarter and I add back 91 crores of the urea impact, I actually end up with more like 3,200.
- V. D. Nanavaty:** So it is 146, right?
- Abhijit Akela:** Yeah, 146 divided by, alright 5.55 I should do.
- V. D. Nanavaty:** Yeah, just in total.
- Abhijit Akela:** So you are including the trading in that?
- V. D. Nanavaty:** Yeah. Everything.
- Abhijit Akela:** Sir, was there any benefit from the lower ammonia cost in 2Q and with the ammonia cost going up in 3Q, how do you see the margins trending in 3Q?
- V. D. Nanavaty:** Yeah. There is a reduction in raw material cost on a Y-o-Y basis. But since volume is there, so there is no direct comparison possible. So there was a benefit as you say in this 2,500 spread. So there is some increase in ammonia price, so it will impact, but the output prices or rather the special rebates and all those thing that was prevalent last year has substantially come down. So I think we are able to absorb this ammonia price rise. NPA is stable till December. So there is no issue. There should be some impact of this sulphur price hikes at Baroda unit where we buy for our sulphuric acid plant. So there will be some impact going in this ammonium sulphate and ammonium phosphate sulphate. But I think the margins that we are talking should be able to maintain.

- Abhijit Akela:** And regarding the volume guidance for FY18, we have done 8.5 odd in the first half. To do another, to do 18 or 20 lakhs for the full year we will have to do a big fourth quarter. So how do you...?
- V. D. Nanavaty:** See, last year quarter three was very small volume, it was 3.12x or so. So we expect around 5 but I will maintain my 15% growth only. So with 5-5, I think we have done 5 in Q4 also. So 18 lakhs should be there. So 18.5.
- Abhijit Akela:** Okay. Understand. And one last question on the fertilizer side, the urea ROE what was the government work with sir, is it 12% ROE for us, that is working?
- V. D. Nanavaty:** Yes, 12%, they work.
- Abhijit Akela:** But the fixed costs are extremely dated and that is the problem.
- V. D. Nanavaty:** Yeah. So fixed cost, I mean they don't take into account fixed cost, they only take the variable cost. Fixed cost is pegged at 2,023 level for urea. So which there is a talk of increasing by Rs. 350 across the board and further Rs. 150 for more than 30 years old urea plant. So this Rs. 500 can help me by 1,520 crores in margin whenever they declare. But I am not accounting that. Many are accounting that. So what this Rohan Gupta said, so I don't account all those things.
- Abhijit Akela:** Right. And then on the chemical side sir, quickly this ammonia plant shutdown was for how long in the quarter?
- V. D. Nanavaty:** It was for almost full month, July, some 25-26 days. And so we are running it at now 80% now also. So because unless the new equipment comes, we cannot take chance. So then I will be down 100% if something again happens.
- Abhijit Akela:** Okay. The new equipment we expect will be fully installed and running by end of 4Q probably?
- V. D. Nanavaty:** No, January.
- Abhijit Akela:** But you are going to take some time to sort of get it properly...
- V. D. Nanavaty:** No, we will express, maybe it will reach in December and by January and we should have the full production.
- Abhijit Akela:** So at that point, the sales and margins can pick up from 4Q onwards?
- V. D. Nanavaty:** Yeah. Definitely.

- Abhijit Akela:** And the Japan plant shutdowns that you mentioned in caprolactam, is that because of some maintenance shutdown or...
- V. D. Nanavaty:** It was along with this lower ammonia production and ammonia shutdown, the availability of ammonia had reduced. So caprolactam production was on lower side, melamine was on lower side, all those things. And urea was under complete shutdown for July because urea requires CO<sub>2</sub> and all those steam and all those things, which cannot be managed otherwise. So Urea was under shutdown for July and other plants ran at a little lower capacity.
- Abhijit Akela:** Right. I was just talking about this caprolactam, you had mentioned globally that some plants in Japan and...
- V. D. Nanavaty:** Yes. Under Japan they are under temporarily, I mean normal shutdown. But with China taking care of the environmental aspect, the capacities which are not matching those standards may have to be closed down going forward. So on a long-term basis, supply of caprolactam in international market may get reduced, so may help in maintaining some improved spread or better capro prices.
- Abhijit Akela:** In 3Q given the expectation of \$1000 plus spread, what roughly might be the percentage margin we could be looking at sir?
- V. D. Nanavaty:** So, it should improve from what it is hovering around 7% and 7.5%. It should improve. I have not worked out the number, but definitely some 5,000 tonnes we sell every month. So on a 15,000 tonnes if I say even \$100 improvement in margin, so anything from 10 crores to 30 crores could be higher margin compared to what is the present, their value. So overall, it is around some 27-30 crores so it could double.
- Abhijit Akela:** And just one last quick thing. The caprolactam prices and spreads that I track were actually up significantly in 2Q compared to 1Q?
- V. D. Nanavaty:** Not at all, marginally, may be some \$50 it might have improved compared to 1Q, but...
- Somant Kumar:** Sir regarding EBIT margin of chemical segment, so the margin has declined as you mentioned that there is a plant shutdown of one year plant. So what are the other key reasons for margin decline?
- V. D. Nanavaty:** One is the lower availability of this industrial product quantity that is one, other is that we were regularly selling ammonia at a good margin. That sale has completely stopped because of lower ammonia production. So that is a major other reason. So that will continue say up to January or so, lower ammonia sales. And some trading volume may have gone lower that you can see from my data uploaded on the site that IP trading is down. So that is also a reason.



- Somant Kumar:** So your RM cost has increased because you are buying from the domestic market, so that price has declined I think. What is your cost of manufacturing of ammonia internally versus domestic market price?
- V. D. Nanavaty:** That particular product, we cannot comment how it is, these are all the confidential data.
- Jai Balaji:** Sir, just to understand that the trade receivable part of 2,500 crores include this ammonia sulphate part of 700?
- V. D. Nanavaty:** Yes, so it is ammonia sulphate plus other subsidy plus outstanding from the field for industrial product sales and fertilizer sales, everything is in the 2500 crore.
- Jai Balaji:** Sir, the item number 6 is just below the other comprehensive item, items that were not reclassified to profit and loss account, the figure is 247 crores. So that is relating to which item sir?
- V. D. Nanavaty:** That is relating to our investment in various companies where every quarter fair value of the investment as per IndAS requirement. So as you know we are a major shareholder in GNFC and...
- Jai Balaji:** I got your point, MTM will be there.
- V. D. Nanavaty:** So there is a huge increase in the share prices of these companies and it is reflected, yes.
- Jai Balaji:** Sir, on the sake of repetition, you earlier commented EBIT was lower at 19 crores to the tune of that adjustment of urea, if you could just explain the same how has that been factored in the account for this quarter sir?
- V. D. Nanavaty:** You see, we account for urea subsidy increase, decrease when government notifies the rates. We do not calculate the things on the various input prices prevailing during the quarter on our own and account in the same quarter which most of the urea companies are doing, but we account only when government notifies increase or decrease in the subsidy rates. So government took up this natural gas rates comparison with this urea subsidy rate from April 15 onwards which they should have done regularly in time, but they work with a lot of time gap. So they compared the natural gas cost for making urea and the subsidy that is paid by government on urea and then, they reduce the urea subsidy rate and notified in this current quarter. So we took effect from 15-16, 16-17 and even quarter 1 of 17-18, all this reduction in one quarter only. So that is why the quarterly performance officially is lower. But in reality, that is not the true picture of the quarter. This is a one-time effect of earlier period that we are...

- Jai Balaji:** This item has been debited in which column sir?
- V. D. Nanavaty:** It was debited in revenue from operation. Revenue from operation is reduced and my profit before tax is also reduced.
- Jai Balaji:** To the tune of 90 crores?
- V. D. Nanavaty:** Yeah, to the tune.
- Jai Balaji:** And earlier we have not made any receivable on account of this also?
- V. D. Nanavaty:** Because government pays the subsidy whenever it is due. So when they reduce the rate, I have to pay it back to the government.
- Jai Balaji:** When we make the sale, at that time we have made account for what is the subsidy part, how much is the sales on account of sales realization?
- V. D. Nanavaty:** Those prevailing at that time. Suppose I may sales in say April 16, why accounted subsidy at the prevailing rate of April 16 which was higher, then government say no, it was not the same, it should have been Rs. 1000 less subsidy. So they declared it is Rs. 1000 less. So now I account April 16 sales quantity in Rs. 2000. So I reduce my quarter 2 urea sales by that amount. So that I have done from April 15 till June 17 and reduce my urea sales for this quarter.
- Jai Balaji:** This quarter in totality by Rs. 90 crores?
- V. D. Nanavaty:** Yeah, that is the 90 crores.
- Jai Balaji:** And then the receivable must have also gone down by 90 crores on account of...
- V. D. Nanavaty:** So, government took away that 90 crores from me. They do not wait.
- Jai Balaji:** So the receivable in the balance sheet must have been adjusted with 90 crores.
- V. D. Nanavaty:** Yes, definitely.
- Jai Balaji:** Other thing is existing entity part also (Inaudible) 59.00, Indorama how are you now seeing new player entering the space having low raw materials sourcing to them, they have a better phos sulfur extra mining part in the Indian Ocean belt I think so. So how are you seeing that this player playing its part in the Eastern market especially with Tata Chemicals exiting the business?

- V. D. Nanavaty:** We do not sell much to the Eastern part. Of course, we sell to some trading. So our that market is yet to be developed, but the new player coming and Tata Chemical existing, definitely they must have some plan of reviving and making profits survivability part. So we will have to see how, but we have the least cost producer almost efficient producer in P&K Fertilizer in the country. So we will use our skills to counter any new competition.
- Jai Balaji:** Sir in the industrial product, turnover as well as the profit part, can you share the mix sir how much has caprolactam contributed and the other chemicals sir out of this 370 crore turnover and 27.5 crore PBT, what is the contribution from the caprolactam part?
- V. D. Nanavaty:** Caprolactam is our star product. So it sells in larger volume in this industrial product segment and that gives a better margin also. So that is a major product in volume as well as value.
- Jai Balaji:** Can you quantify sir how much it will be?
- V. D. Nanavaty:** No, we do not quantify product wise basis. So only the sales volume I have given the breakup from my side.
- Jai Balaji:** That I will go through. And this spread improving to 1000 plus genre which you have earlier stated will result in profit for this product going up in the vicinity of 30 crore for a quarterly basis or for this..
- V. D. Nanavaty:** 30 crore is extreme. So that is based on the premise that my 1200 crores spread versus 900 crores which I was earning so far, there is a rise of \$300 in the spread. So \$100 rise give me 10 crores, \$300 rise should give me 30 crores. It is based on that assumption but that 1200 crores should remain throughout December, January and all those. That is the assumption.
- Jai Balaji:** But even in the conservative part also, this product margins..
- V. D. Nanavaty:** So \$100 is a conservative part. So 10 crore improvement, it seems possible in the quarter 3.
- Jai Balaji:** On top of 27.5 crores?
- V. D. Nanavaty:** Yeah, definitely.
- Jai Balaji:** And sir earlier you also commented about going with some retail outlet also for the fertilizer part so that the retail margin...
- V. D. Nanavaty:** All those things are going on, yes. It is a part of my five-year strategy of reaching 1000 crore PBT where I will keep on opening new depots and retail outlets and strengthen my retail

presence all over at least in neighboring states. So all those things are being worked out and will be implemented in the phase wise manner.

**Jai Balaji:**

How well are these progressing, I mean you are getting this desired result?

**V. D. Nanavaty:**

There are ups and downs that will happen in a very long period. But right now, we are committed to do like this. I give Rs. 450 dealer commission which I save if I sell through my retail outlets, so there is a direct benefit in that.

**Jai Balaji:**

And in the very likelihood, this ammonium sulphate subsidy should, part should be over by March I think, we should account for further sale?

**V. D. Nanavaty:**

That should be over, correct.

**V. D. Nanavaty:**

So it was a nice question and answer session. I hope that lot of things were clarified and in summary, I can only say that the volume growth will continue to happen and with good capro-benzene spread is the IP segment margin should improve and on fertilizer, we should be able to sustain the adjusted margin on fertilizer that we talk on ongoing basis for the rest of the year. So that is some of the future that is unfolding that we see. Thank you.