"Gujarat State Fertilizers & Chemicals Limited Q3 FY'24 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to Gujarat State Fertilizers & Chemicals Limited Q3 FY'24 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

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

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

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

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

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

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

So some relief in Q4 fertilizer operations may be there. On subsidy, government has already provided for the supplementary budget of INR13,000 crores. The subsidy received is regular and for urea, we have received subsidy up to first week of January and for phosphatic fertilizers received up to first week of December.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V D Nanavaty: One minute. Yes, yes.

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

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

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

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

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

V D Nanavaty: Definitely.

Nirav Jimudia: Yes. So sir, if you can just help us explain in terms of our cost of natural gas because for the fertilizer, I think we will be getting some allocation from the APM quota. But for the chemical business, I think we have to either have some contracts with GAIL or GSPL there for the purchase of the natural gas. So if you can just walk us through in terms of our total requirement of natural gas at the Baroda complex for ammonia production and split it between the chemicals and the fertilizer business?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Shrenik Mehta: How much?

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

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

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

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

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

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

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

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

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

M S Swaminathan: Sir, this is Swaminathan from Chennai. I just have a couple of short questions. The first one is, further to whatever you have explained now quite elusively, I see actually that as of 9 months ended current year, our EPS per share is around INR13.5. Last year, for the 9 months ended 31st December, it was around INR26. So we are currently at about half what was our run rate in the previous year in terms of EPS. And I understand from you that yes, because the subsidy has gone down, there is an impact -- overall impact in terms of profitability.

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

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

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

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

V D Nanavaty: Difficult to say. It may not reach INR20.

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

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

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

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

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

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

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

V D Nanavaty: 5% of our holdings.

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

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

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

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

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

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

V D Nanavaty: Right now, it is around 6.5 Gcal per ton. And government is now insisting for 6.2 Gcal per ton.

Nirav Jimudia: Okay. So we are already above what is being actually to be...

V D Nanavaty: But they provide some relief because this energy consumption is a huge exercise. So we'll be spending around INR450 crores for meeting the government norms.

Nirav Jimudia: Correct. So sir, is it safe to understand that currently some of the fixed cost absorption, which we need to be availed because of our energy consumption being higher, that is a cost on us and that is actually driving or keeping our profitability down. And with this exercise, we'll be actually coming below 6.2. So that extra money which is not getting absorbed through the fixed cost would be an additional cost saving for us?

V D Nanavaty: There's not much loss because of some slight not meeting of the consumption norms because they allow companies to complete the capex plan to meet those norms. So because as I said, it is huge. Neither government gives any capex support nor do they want to allow a company to keep the saving with them. So it's a win-win for government in both ways. So they allow sometimes very much, much loss that we are incurring for not meeting the norms. And -- but post implementation in February '25, we will be lower than government mandated amount of 6.2. So there will be some savings post, say, April '25.

Nirav Jimudia: Correct. And sir, out of our total urea production, and I think we sell some technical-grade urea also, which is, I think, not coming under the purview of the subsidy regime. So if you can walk us through like out of our 400,000 tons, 450,000 tons of urea production, how much we would be producing technical-grade urea?

V D Nanavaty: No, technical grade urea is not produced from urea plant. Our urea plant for agriculture purpose only. Government don't allow to use it for technical grade units. We have our melamine plant where urea is produced for making these specific technical grade urea. So there, there's flexibility is there, so which we are using to produce TGU.

Nirav Jimudia: So sir, is it possible to quantify some numbers? And if you can just share the dynamics of the business like is that business profitable? Or are they meaningfully contributing in terms of the profitability or some understanding on the same?

V D Nanavaty: Yes. So you see technical grade urea is used largely in the chemical industries, particularly dyes and intermediate. So they are not getting because they cannot import urea because import of urea is through channelizing agency of Government of India. So neither they can import urea for their production neither they can use any agriculture urea because that is a subsidized urea.

They are finding it very difficult to get urea for dyes and intermediate production. The government understood their issue and allowed from like GSFC they are already making TGU from many, many years. So they allowed it, GSFC we can sell some quantity as a TGU. And we are not -- the melamine plant is a chemical plant. So we are not under purview Department of Fertilizer for making TGU. So they allowed these chemical industries to buy TGU if it is authentically available within India. So that is how now they are able to procure from us.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V D Nanavaty: No. Buyback is going into the comprehensive income OCI because every quarter, we provide for a fair value of this quarter investment. So whatever price change has happened quarter-over-quarter, everything is captured in OCI. When we do actual sales then only OCI gets impacted, not the upper portion.

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

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

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

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

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

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

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

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

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

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

Saket Kapoor: And sir, the exit prices for December for our major chemicals, what have been our trends for January and the current month? How are the price trending for the big industry products that we have in our basket?

V D Nanavaty: So caprolactam prices have increased, but again, benzene price also rises. So the trade does not improve substantially. And in melamine and all, the prices are quite stable. Nylon price, because of the Chinese New Year vacation, there are less imports. So we are able to increase the price in the nylon product. We have to see the market and behave, but we don't have any demand issue. So that is a good part, whatever we are producing is being sold out.

Saket Kapoor: So just to get the sense for the month of January, the average selling prices or the losses which we have incurred in the December quarter, have they narrowed down? Are we profitable, at least for the industrial segment for the first month? Or if you could give some color because...

V D Nanavaty: There is some improvement in realization and profitability, but it will not be -- we are not out of raid. There will be some losses on an overall basis in January.

Saket Kapoor: And lastly, sir, on the inventory part, this INR92 crores change in inventory that has increased is attributable to the fertilizer segment only then?

V D Nanavaty: Yes, because this is off season. So we don't do any advanced billing, we do whatever is required by the field. So there will be some inventory during this quarter. But immediately from April onwards, the demand will start and we'll be stocking those things with the dealers and retailers.

Saket Kapoor: And how should Q4 be shaped up, sir, for the fertilizer segment?

V D Nanavaty: Some improvement may be seen because for the sale price they have reduced by $17. And ammonia prices are also reduced from more than $500 to around $400 or less than $400. So some relief may be there in the costing and some improvement in margin, but not any significant improvement is seen unless subsidy dictates.

Saket Kapoor: But as of now, there's been no negative impact? Earlier the change in subsidy, everything has been impacted as on...

V D Nanavaty: Yes. So whatever October onwards, whatever was to be done, government has done. So there's no further negative impact, we are waiting for some positive if really it happens, otherwise it will come from April only.

Saket Kapoor: Because the country will now move into the election mode, maybe a week from now.

V D Nanavaty: Right, right.

Saket Kapoor: [inaudible] in that case do we expect any revision in the subsidy or they're tinkering with the same? Or what have been historically done, sir?

V D Nanavaty: Government is quick in reducing the subsidy but increasing it is difficult. So more or less, it will be from April onwards only.

Saket Kapoor: Okay. So then we'll have a negative impact on the same this quarter also?

V D Nanavaty: Yes -- no negative, but whatever has been done from October, that will continue to impact amidst reduction in rates.

Saket Kapoor: But prices of key raw materials are trending lower only that is what...

V D Nanavaty: It will be a little bit lower compared to October, December quarter.

Saket Kapoor: Right, sir. And last point on the power and fuel mix and the employee benefit expense, how are these two line items going to behave, firstly for the power and fuel sir that has gone up Q-on-Q also, and employee cost what should be the...

V D Nanavaty: Some increases, some minor differences there on -- I mean Q2, Q3. But fairly -- it is fairly stable. And as you know, rupee is -- our exchange rate is also fairly stable. So that impact is also not there.

Saket Kapoor: And on the employee and the other expense, sir, any particular color you would like to…

V D Nanavaty: Last time wage revision has been done from 01/01/23. So that provision has been incorporated in the employee numbers. So till March '24 that will keep showing rise and it will stabilize.

Saket Kapoor: So this run rate of INR175 crores will be there going ahead?

V D Nanavaty: Yes. Overall impact of -- it will not be so much. It will be a little less.

Saket Kapoor: Okay. And on the other expenses, what explains this reduction of INR50 crores -- not exactly 50, 31 and 70 yes, INR48 crores reduction Q-on-Q?

V D Nanavaty: That is because a lot of employees are retiring also. So we are rationalizing the manpower and reducing the duty points. And we don't fill up the post when the person retires. So all those savings are also coming. So we are aware of the rising employee cost but trying to composite that number of employees managing the company. So it will pay over a period of time.

Saket Kapoor: Just to get it clear sir, for other expense going down, it is because of the employees getting retired?

V D Nanavaty: Other expense is definitely not in employee cost. One is taking expenses lower because of lesser production and lesser dispatch. So that was the case. And then last year, we had made some provisions for some litigations so that those provisions are not repeated in this quarter. So that is the major difference of reduction in other costs.

Moderator: Next question is from the line of Shrenik Mehta, Self-Investor. Ladies and gentlemen, we will take that as a last question. I will now hand the conference over to the management for closing comments.

V D Nanavaty: Yes. Thank you for the patient hearing and your corporation during this difficult time. But as we have assured you in past also, the growth story of the GSFC is intact and barring the market forces, whatever best we can do, we are doing it to increase the top line and bottom line, that will be a continuous focus for us.

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

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