



**“Gujarat State Fertilizers & Chemicals Ltd. 4QFY21
Earnings Conference Call hosted by Batlivala & Karani
Securities India Pvt. Ltd.”**

May 28, 2021

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SENIOR VP (LEGAL), GUJARAT STATE FERTILIZERS &
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Moderator:

Ladies and gentlemen, good day and welcome to the Gujarat State Fertilizers & Chemicals Limited 4Q FY21 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. 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 the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Kolhe from Batlivala & Karani Securities India Pvt. Ltd. Thank you and over to you sir.

Gujarat State Fertilizers & Chemicals Ltd.
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V. D. Nanavaty:

Thank you, Deepak. Good afternoon to all the participants and welcome to this post result quarter 4 concall. We have Mr. S.P. Yadav, our Deputy Director, Fertilizer Marketing and Mr. Vachhrajani – Company Secretary and Senior VP (Legal) along with me.

Hope you have all seen the results. First of all, we have been back to 110% dividend which was lower last year due to the financial position during that time. Otherwise, the year was good, mainly marked by the huge collection in subsidy with the government initiative to give additional 65,000 crores subsidy to fertilizer sector, all the backlog prevailing year after year has been cleared and that is reflected in our financial position and in interest cost savings. So, otherwise in operational front, we had had production of fertilizer and in the industry chemicals we started the methanol plant which was lying idle for last 5-6 years. Melamine III plant also stabilized and was now running at 100% capacity. As far as the fair value of investment is concerned, as you are in the main market, you know all the SENSEX is up and that has been reflected in the investment that we hold. So, last year in March 20, due to COVID the fair value was down to 1,985 crores which has increased to 4,233 crores that is reflected in the other comprehensive income. Profit figures and other balance sheet figures are with you, so I am not elaborating. But because of good financial position we have paid back the only long term loan we had of 93 crores and also substantially return the working capital borrowing that we had, so which is down from 1,400 crores to 35 crores. And we have a deposit of around 1,000 crores in March 21 due to this good subsidy collection, also because of good rainfall we had a good collection from the field also. So, whatever outstanding was there of earlier years due to bad rains has all been collected. So, that is how the receivables are also showing a good improvement.

And as good corporate citizen, we were the first to start oxygen supply to the local municipal authorities. So, thereafter government realized that fertilizer companies can give oxygen. So, others are also requested join. So, everybody has welcome wholeheartedly.

As far as the projects are concerned, the board has recently approved 3-4 projects, one is ammonium sulphate 4th plant of 400 metric tonnes capacity which is in line with our already three ammonium sulphate plants we have which gives good margin in fertilizer sector. Then we have a sulphuric acid, fifth plant. We already have four plants, and this will be the fifth plant, 600 metric tonnes per day. Then we are commissioning nylon fix compounding plant that is expected to be commissioned by December 21, that is a 48 metric tonnes per day compounding lines that will be coming at the cost of around 35 crores. Then we are setting up 15 MW solar plants at around 85 crores investments and Board has also approved urea revamp projects for energy reduction in line with Department of Fertilizers norms of energy consumption for urea. So, we will be meeting those norms and **(Inaudible) 6:10** and making some savings in urea cost of production. So, these were the major highlights.

From now onwards from April onwards Caprolactam Benzene spread has gone beyond \$1000 which was stuck up below \$1000 for almost last 2-3 years. So, that is a good sign. And in the other income there is a one-time item as mentioned in our notes to the statutory result. Some parcel of land was sold which got a profit of 42 crores. So, that is a one-time item. Otherwise going forward there was some transition period in April and May when the raw material cost particularly for Phos-Acid, sulfur, ammonium everything went up substantially and companies were in dilemma whether to increase MRP or government will support by higher subsidy. But in the interest of farmers government decided to increase its subsidy and now the MRP for all DPMK fertilizers are maintained at same levels of last year by GSFC. So, that will be a great relief to the farmers.

Now as you know a normal rainfall is predicted this year. So, we hope to improve the fertilizer volume going forward and as you know the commodity super cycle, all our industrial products are fetching good price. So, we see an improved margin going forward in industrial products. So, we are optimistic for this current year also in spite of as you know, in spite of COVID agriculture sector, fertilizer sector has fared well. So, we hope this will also be the same story this year in spite of COVID situation.

Thank you. That was all from management side.

Moderator:

Thank you very much. We will now begin with 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. Could you please update on the production numbers for Melamine for the financial year FY21 because I think the new plant of 40,000 tonnes what you mentioned is like that have been already operating at 100%. But I just want an update for the previous two plants what we have of 5000-5000 tonnes. So, if you can just update on the Melamine production numbers for FY21? And a related question to this would be, sir, in last 3-4 months we have seen lot of ups and downs in the Melamine prices. So, the prices moving all the way high up to 200 then coming back to 150 now at 160-170. So, how you foresee the Melamine prices and what is driving the prices of Melamine higher in the international market. So, this is first question, sir.

V. D. Nanavaty:

Melamine, now we are mainly running Melamine III plant because that is a very energy efficient plant. So, when lot of imports are coming at cheaper price, so we cannot afford to have higher energy plants. So, the full year number for Melamine was 38,732 metric tonnes. Mainly coming from the Melamine III plant and looking to the price dynamics we run Melamine II plant, or we do not run Melamine II plant, but Melamine I plant we always keep on hold because of higher energy consumption. So, as far as Melamine pricing are concerned, yes, it is going up substantially every month and mainly because of the disruptions in the Europe and Japan arena there have been some downfall in the production world over. So,

melamine prices are going up and as you know the Melamine use in the laminates and all, clearly in India also in spite of COVID, more and more houses are registered. So, today only in Gujarat they have shown the 45% increase in the new house registration. So, all this drives the Melamine demand, and we are the only producer in India. So, we have that advantage of reaping this benefit. But it will keep fluctuating looking to the international demand and supply scenario and as you know we already have this anti-dumping duty on Melamine we are protected from the Chinese aggression.

Nirav Jimudia: So, sir, how we product Melamine? It is produced from ammonia, or do we produce it from urea?

V. D. Nanavaty: It is produced from urea.

Nirav Jimudia: So, ammonia to urea and then urea transfer into Melamine plants. So, this is how the production process happens?

V. D. Nanavaty: But ammonia is made from natural gas. So, there is a natural gas, ammonia, urea, melamine chain.

Nirav Jimudia: And sir, you mentioned in your opening remarks about diverting of oxygen for the COVID purpose. So, do we face any, so does it impact our production of ammonia because I think one of the critical raw material is oxygen also for the production of ammonia. So, how do we see ammonia production and its impact on our downstream product?

V. D. Nanavaty: No, this is not affecting any production. This what we are giving is 10 metric tonnes per day. But we produce 1,400 metric tonnes per day ammonia. This is very miniscule.

Nirav Jimudia: And sir, a last question on Melamine would be, sir, you mentioned that we have reduced the energy consumption for Melamine and our cost dynamics have improved. So, apart from gross margins, so sales minus RMC is not in our hands, because then it depends on raw material and finished product prices. But if you can give us some sense in terms of operating cost like what is our operating costs, fixed plus variable for Melamine that would be helpful, sir?

V. D. Nanavaty: We do not comment on individual products. But overall, this segment result EBIT, overall gives picture of the earning that we make and particularly your full year earnings, if you look at the fourth quarter that will be better because prices are going up. So, full year is still depressing. And as I said, going forward it is still more lucrative from April. So, like Caprolactam spread increased beyond \$1000 plus and from April. So, it is still going up.

Nirav Jimudia: And sir, on any guidance on the Caprolactam and Melamine production for FY22, like what are our internal target of production of both these products for FY22 if you can guide, sir?

V. D. Nanavaty: We are producing at full capacity. But there are regular shutdowns. So, melamine is 40,000 tonnes, that is mainly Melamine III. So, I think that much we will definitely produce. But if cost dynamics permit us to restart Melamine II plant there will be some further production, 5000 tonnes to 7000 tonnes. So, maybe 45,000 to 50,000 tonnes we will make in this year, that is Melamine. Caprolactam for sale purpose it is some 55,000 tonnes to 60,000 tonnes is available by then close to making nylon fix. So, production maybe around 50,000 tonnes to 85,000 tonnes. Out of it some 20,000 tonnes – 25,000 tonnes will go to make nylon fix; balance is available for sale.

Moderator: Thank you. The next question is from the line of Bharath Subramanian from Sundaram Mutual Funds. Please go ahead.

Bharath Subramanian: Sir, as mentioned in your initial comments, if you could just give some color in terms of what are the current projects that we are undertaking at this point of time in terms of gross CAPEX and in terms of what is the outlook if you earmark for that, that will be helpful.

V. D. Nanavaty: So, you are talking about new projects?

Bharath Subramanian: Yes.

V. D. Nanavaty: So, as I said, the Board of Directors have approved ammonium sulphate new plant of 400 metric tonnes that will cost around Rs. 80 crores and will add some 230 crores to the turnover. Then we have sulphuric acid number V plant, we already have four, that is 600 metric tonnes per day. It will cost around 180 crores and we have nylon fix compounding lines, that is a further value added stream from the capro group, so capro, nylon fix and then nylon fix compounding that is the chain. So, that is 48 metric tonnes per day that will bring around turnover of 260 crores and CAPEX is 35 crores, and we plan to commission it by December 21. Then we have solar power for 15 MW at around 85 crores. We will complete it in say June 22. That will reduce our power bill. And then we have urea revamp program of around 300 crores CAPEX to match with the energy norms specified by Department of Fertilizers. Otherwise, they do not pay subsidy on higher energy consumption. But that will be done in the live urea plants. So, it will take around 24 months to 30 months to complete. So, these are the Board approved CAPEX plan. Plus, there are few others which are under discussion at different stage. Various details of project reports are under discussion with the outside professional consultants. So, once those are found to be viable, it will be taken up for further evaluation and Board approval. So, maybe by September and we will come with some more news on the CAPEX.

Bharath Subramanian: After the initial days DFR in Sikka, so that we are not progressing. So, in terms of complex there is nothing at this point of time, right sir, in terms of planning?

- V. D. Nanavaty:** No, that is also under consideration because of this large CAPEX and COVID situation that was on the whole, so now it will be revived because the full year we have seen that Agri sector can survive or can excel in COVID period also. So, there is no anything unknown in these times for undertaking large projects. So, it will be more than 1500 crores. So, now that will also be the evaluator and definitely with this kind of Phos-Acid price, definitely make a commercial sense to have Phos-Acid product in India.
- Bharath Subramanian:** If Sikka project were to be reviewed now, what in your view would be your revised CAPEX number compared to the original plan that we had earlier?
- V. D. Nanavaty:** So, we may go on a modular scale, instead of just going for just 1000 or 1200 metric tonnes per day Phos-Acid plant, we may as well go for a 600 x 2 kind of a size project. So, suddenly we do not jump into a large CAPEX commitment. So, it will be 600 metric tonnes per day Phos-Acid coupled with 1,800 tonnes per day sulphuric acid plant. So, numbers still are being checked, what could be the number. But as I said it could be around 1,500 crores.
- Bharath Subramanian:** And one last question, sir, in terms of the balance sheet. The other financial assets of 860 crores that we have, this is largely deposits, sir?
- V. D. Nanavaty:** Yeah, they are deposit because of this accounting standard classification. If I do not put it in bank and all, it is classified as other financial assets. So, they are deposits.
- Moderator:** Thank you. The next question is from the line of Ahmed Madha from Unifi Capital. Please go ahead. Please go ahead.
- Ahmed Madha:** Sir, what is the status on antidumping duty of Caprolactam?
- V. D. Nanavaty:** Caprolactam is going on in the **(Inaudible) 22:52**. So, it is both way for Atmanirbhar want to give protection to the Indian industry as well as there are lot of foreign pressures to resisting this kind of anti-dumping duty and since off late we are the only producer, though FACT is there, but they have not been producing Caprolactam for many years. So, no comparative data available to the regulators in India. So, they are taking some time to notify this antidumping duty and as I said, the prices are rising. So, when you make good profit then there is a problem in not giving some other protection.
- Ahmed Madha:** Understood. And sir, in DAP our key raw materials are Phos-Acid and the ammonia, and we are integrated in ammonia and government has addressed the rising Phos-Acid price by increasing the subsidy. On the NPK side, in the foreseeable future is there any hike in subsidy for NPK fertilizer?
- V. D. Nanavaty:** No, they have increased the subsidy in all fertilizers. Only a DAP being well known fertilizer and NPK having so many grades, so of what grades they will talk. So, they are not talking of

NPK, but they have increasing basically subsidy in the phosphatic key components of the PNK fertilizer. So, wherever P is used the subsidy spends increase. So, all kind of NPK 12-32. 16-10, 26-26 then ammonium phosphate sulphate that we make that is 20-20-0-13-16-20, so many grades where P component is there. The subsidies then increase depending upon the weightage of the P in that fertilizer.

Ahmed Madha: Are we planning any VRS in the near term?

V. D. Nanavaty: Which one?

Ahmed Madha: VRS, voluntarily retirement.

V. D. Nanavaty: We are good pay masters. So, anybody will go home? Nobody will. In fact, we have reduced our employee cost from last year. So, that is always there in our mind, but no VRS.

Ahmed Madha: And sir, what margins can we expect for fertilizer segment in FY22? Can you give some guidance?

V. D. Nanavaty: Maybe this 5%-6%.

Moderator: Thank you. The next question is from the line of Poojan Patel from Mahadev Capital. Please go ahead.

Poojan Patel: Sir, I want to ask about the company's plan under Atmanirbhar Bharat. How many products you want to launch in near future under these projects?

V. D. Nanavaty: So, when this COVID situation occurred we saw that lot of pharma intermediates are coming from China and that needs to be improved. We need to make it in India. So, we examine the synergy of our products, our raw material, our market which pharma intermediates that is required and to make them in the Atmanirbhar. So, we have identified some 11 products which GSFC can make and go back to the pharma industries locally. Few of them has already been put in the market. Their quantities are not so big, and others are in development stage. So, we are working that once you have taken up that subject. So, some of them are made in India by other manufacturers, some are not at all made, 100% is imported. This 11 products that we are talking is something that will be useful to India, if not that we will be one more producer and we want to get into this in anyway. So, we have selected only those products which India is importing in large way, there are no local or few local manufacturers and GSFC synergy with their own operations. So, we are not jumping into totally unknown area where we do not have any expertise. So, looking to all these things, we have selected those products and they are at different stage of product life cycle so to say before they come into the market.

- Poojan Patel:** And sir, company is now debt free and has a huge cash in term or some bank holding. So, do you have any big expansion plan?
- V. D. Nanavaty:** As we said about this project, as you see that we have been doing small or big projects from many years and we hardly take any term loan from outside and the one term loan that we had taken for Melamine III, that we also repaid before due date. So, generally, when we have the cash on hand or deposit like this, we do not go for outside borrowing. So, the project that we talked recently they will all be mostly done from the in-house funding and plus the large phosphoric acid plant at Sikka and some MMA plant, all those kinds of investments are more than 1500 crores. So, all this cash would be used up in the project coming.
- Poojan Patel:** Sir, this investment only invested in '21-22 or take some longer time?
- V. D. Nanavaty:** No, they will take some longer time but as we said before there are some project advance and some equipment advance and all these thing is coming. Plus, subsidy also government is not going to give some hefty subsidy like 55,000 crores additional. So, once government fund also dries up there will be subsidy blockage also going forward where then our internal fund will be used for production purpose. We do not want to put it in FD and enjoy interest on that thing, we want to do business.
- Poojan Patel:** Yes, sir. Company wants to do business. The company has invested a huge amount in Gujarat Gas, Gujarat Alkalies, GNFC? Is there any plan to monetize this investment and ramp up production or expansion, something in big way?
- V. D. Nanavaty:** That government controls all these things. But we will only decide monetization. Right now, there is no plan.
- Poojan Patel:** But sir, this is an investment just like FD, this you can expand.
- V. D. Nanavaty:** Yes, but you know if we had sold GSPC Gas or Gujarat Gas two years before, we would not have got this kind of valuation. So, just by holding two years it multiplied number of times.
- Poojan Patel:** But there is any plan to reward investor?
- V. D. Nanavaty:** In a public sector, it is difficult to dispose of this investment because valuation nobody can say how the valuation will move. So, if you sell it at a price then there is the allegation that who decided and why it was sold at so less price, and somebody should be brought to charge and all this thing.
- Poojan Patel:** Sir, last question. How you predict '21-22?

- V. D. Nanavaty:** We are a very optimistic organization, and it is very good future and that has happened so far. So, we expect some growth in both industrial product and fertilizers. We see growth in this '21-22 also.
- Poojan Patel:** Sir, any contribution from the Atmanirbhar Bharat product in '21-22?
- V. D. Nanavaty:** Yeah, they have been giving. Though their turnover is small, but they are very good in profitability. But these are all some secret things. We cannot talk in public.
- Moderator:** Thank you. The next question is from the line of Nishith Shah from Equitus Investments. Please go ahead.
- Nishith Shah:** Sir, I wanted to understand how has the fertilizer sales been in last 2 months, April and May?
- V. D. Nanavaty:** There has not been many sales, as I said the raw material prices for Phos-Acid, ammonia, Sulphur went up substantially high. There were only two alternatives before the company, either increase the MRP or wait for subsidy support from government, higher subsidy support. So, government was sounding that okay, take care of pharma's interest, they will be increasing the subsidy. So, companies were holding that since. So, there has not been much seen in this last two months, but of course it was also a lull period for fertilizer because season will start. Now Kerala will receive the monsoon in 2-3 days' time. So, with that the monsoon will be set in India. So, now the real buying will start. So, even if we make some first point sales, real consumption is going to happen from June only.
- Nishith Shah:** And sir I wanted to understand for an industrial product, any significant price changes in last 2 months?
- V. D. Nanavaty:** Yes, prices have increased substantially from January onwards. And they are still increasing. So, it is bringing newer heights to the sales as well as profitability in the industrial chemical. So, till this crude remains around \$65, we are going to see a sustained good price in industrial products.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir, what is our current working capital requirement for the fertilizer segment, sir?
- V. D. Nanavaty:** Right now, 35 crores have been used for working capital borrowings. So, it is right now negligible in view of the subsidy to me.
- Saket Kapoor:** Sir, I want to understand on an annual basis, sir. On annual basis what is your working capital requirement for running the fertilizer business?

- V. D. Nanavaty:** You see on an average, barring subsidies, we have some 60 days outstanding from the fertilizer. So, from the field suppose we have 6000 crores of sales, we get some 2,500 has subsidy and 3,500 we collect from the field. So, from the field we have some 60 days collection, it will be Rs. 600 crores and fertilizer subsidy we have 90 days outstanding. So, that is [0:36:47] __. So, around Rs. 1000 crores are needed for working capital, 1000 crores-1200 crores.
- Saket Kapoor:** And sir, how does the Math work for our industrial chemical there?
- V. D. Nanavaty:** If you see, we are monopoly producers for Caprolactam, Melamine, even ammonia is also not freely available. So, we sell most of the things and cash on credit basis and even if we extend credit, we charge interest, working capital interest. So, some bias, open LC and ask for some credit period, but that is based on the interest cost which is not a free credit. So, there we have the credit requirement is very less. So, you can see that as on March end against these 1700 crores - 1800 crores industrial product sales, our overdue was just Rs. 45 lakhs that is also some old parties. No current overdue outstanding but some overdue stuck up in the past. So, it is just nothing.
- Saket Kapoor:** Sir, if we take the fertilizer product PBT level sir in the segmental result, it is 368.56 crores. Sir, out of this portion how much is on account of any subsidy or are these totally the profit margin getting converted into PBT?
- V. D. Nanavaty:** This is a profit margin getting converted to PBT. There is nothing, no one-time thing, or anything abnormal or things like this. This is all the fertilizer profit.
- Saket Kapoor:** And sir, these margins are sustainable for the fertilizer product for this year also, sir, or due to this changes in the business environment, we do not foresee them?
- V. D. Nanavaty:** This is 6% for sales. So, it will vary between 5% to 6%.
- Saket Kapoor:** Sir, in the methanol sales part, in your volume data where is that methanol sale is clubbed, sir, under which category?
- V. D. Nanavaty:** In the part of the industrial products, volume we have put it in our website, base volume, production volumes.
- Saket Kapoor:** Yes, sir. I have seen that. But under the industrial products, sir, we have clubbed only Caprolactam, Melamine, Nylon fix and MEX OX, am I right?
- V. D. Nanavaty:** Yes. This new product, so we are not separately; getting, right, but it is a part of the industrial product. From next quarter we will show it separately.

- Saket Kapoor:** Sir, what was the sales figures for this year, sir?
- V. D. Nanavaty:** It was 181 crores.
- Saket Kapoor:** Sir, just a short understanding and request. Sir, when we do a peer comparison. in the industrial segment we are the pioneer in many of the products where only GSFC is the manufacturer. There are no peer comparisons for us in that segment. But in the fertilizer part sir, if we take our size and the geographies which we cover, what is our market share and if we can cover this, go for a peer comparison?
- S.P. Yadav:** Good afternoon. In case of DAP we are enjoying a market share of 5.43% and overall we are enjoying eighth position in the country, and we are enjoying 4.2% market share.
- V. D. Nanavaty:** That is all PNK fertilizer together.
- Saket Kapoor:** And for the urea part, sir?
- V. D. Nanavaty:** Urea part, 2.5%
- Saket Kapoor:** Sir, I have two suggestions, sir. We find that the reach between the company and the investors, the company should look forward for press release and investor presentation also before the conference calls are ahead so that more information can be decimated prior to what the conference calls are ahead and that will give a fair idea of how the quarter has performed. It if warrant any merit it should be looked into and that should be contemplated going forward if that would be merit. And for the volume data also sir, we find that the volume data figure only shows the comparative figure for the last quarter, Q4 of 19-20 versus Q4 of 20-21, but the cumulative numbers for the 9 months or for the period ending for that, up to that period is not mentioned. So, there should be a, now like when you are giving for June, give us for the June and last year's numbers also. So, we will get the understanding how the trajectory is panning out. So, this small tinkering would be really helpful, and we look for the continuity of interaction with investors. Sir, for the employees' part, sir, you have informed that, it is mentioned, it is seen that from the employee cost has gone down from 729 crores to 659 crores. But there is an ad hoc increase in quarter-on-quarter, sir. From 172 crores to 227 crores. So, what kind of employee benefit expense should we penciling in for the year as a whole and is there any revision or that is pending some ad hoc payment that may happen for the next year?
- Saket Kapoor:** And for the urea part, sir?
- V. D. Nanavaty:** So, 700 crores are reasonable estimate and there is nothing pending. We do wage revision every hour years. So, till four year, nothing is going to change substantially. What changes in quarter or quarter is this fair evaluation of this long-term liability that is actual valuation of

pension gratuity, leave, all this thing? So, all these actually will now make some sudden changes in their assumption. Like they say that now India's people will live 3 years more and they were leaving earlier. So, they increase the liability, that you have to give more for pension scheme, so your liability increase. When was it in our hands, it is all assumptions they make sitting at home? But there is no go. We cannot argue all these things. 3-year government bond rate will change. So, if government bond rate decreases then your liability increases because of discounting factor. So, these are not in our hands, we have to adjust with this. What else to do.

Moderator: Thank you. The next question is from the line of Deepak Chitroda from Phillip Capital. Please go ahead.

Deepak Chitroda: My first question is about the CAPEX plan which Nanavaty sir was talking about. Sir, if you can just repeat that about what has been earlier, we were planning and what the new Board has approval in terms of sulphuric acid and all, I basically missed that part initially?

V. D. Nanavaty: So, we will have new ammonium sulphate plant of 400 metric tonnes of around 80 crores. And we will bring turnover of 230 crores. And we will have a sulphuric acid fifth plant of 600 metric tonnes per day at a CAPEX of around 180 crores that will be captive consumption. So, there is no sale. And we have nylon fix compounding plant of 48 metric tonnes per day that on a full year basis it will bring 260 crores turnover and the CAPEX of 35 crores and that is expected to start in December 21. Then we have solar 15 MW solar plant and that will commission in June 22 at the cost of 85 crores. And then to make the urea energy norms we are revamping our urea plants at a cost of 300 crores that will bring down the energy consumption and it will make the DOAS energy norms. So, it will take some 24 months to 28 months to complete because all these changes will be done in the live plants. We are not stopping the plant and doing the CAPEX. These are some plants for the CAPEX going ahead and the two planning had earlier decided of sulphuric acid, phosphoric acid at Sikka that was on hold because of COVID situation last year. So, we may review these and take them forward. So, that is a 600 metric tonnes per day processes and 1800 metric tonnes per day sulphuric acid at the cost of around 1500 crores and then there is an MMA chemical 1,64,000 metric tonnes that is also around 1,500 to 2,000 crores plant. So, review on these two will be taken in this year and will be decided whether we are going ahead or we are shelving those plans. Various detailed project reports are for other 5-6 products are also going on. So, we found something viable we will come back at the time of September results.

Deepak Chitroda: So, on the urea side, if you can tell me what is our present energy norms at Baroda which we produce?

V. D. Nanavaty: Government has managed a 6.2 Giga Calorie per ton. So, we are little higher than that and after AUMs we will be lower than these norms. So, these norms are applicable till March 25.

- Deepak Chitroda:** So, will be bringing it down to around 5.5 Group 1 level?
- V. D. Nanavaty:** 5.5 to 6.
- Deepak Chitroda:** Now, my second question is, we were talking about backward integration at the Sikka by setting traditional capacity, I am hearing over past, in fact 3 years. So, I think this will definitely going to improve our margin if we try and do a backward integration because I think as of now if we look at versus other competitors, our margins are much lower because we are highly dependent on the imported acid and ammonia. So, is that any particular priority which we might see towards next September or so for this particular project?
- V. D. Nanavaty:** Yeah, definitely we are going to look at it as soon as possible. So, if there is a clear vision then yes, definitely we will announce it.
- Deepak Chitroda:** Why I am saying this because as I understand, as of now it is not viable for at least imported Phos-Acid and ammonia players to basically product DAP and maybe some may be some high nutrient grades NPKs, so I mean probably what will be the GSFC strategy at least for this kharif season. Probably, we might be selling this ammonium phosphate sulphate only or we will be catering to some DAP, otherwise we might lose some market share?
- V. D. Nanavaty:** Definitely, we will be selling what we sold in this current year about some 25 lakhs tonnes and there is no going back at number. So, we hope to only increase it. Maybe some product mix as you correctly said may change, so instead of making so much of DAP which is not viable we may focus more on NPKs, ammonium sulphate, APS and all those categories. But we will definitely will not like to lose the market share.
- Deepak Chitroda:** So, basically try and do some reshuffling in terms of the product wise specifically the Sikka unit, I guess?
- V. D. Nanavaty:** Correct.
- Moderator:** Thank you. The next question is from the line of Sreemant Dudhoria from Unifi Capital. Please go ahead.
- Sreemant Dudhoria:** Sir, firstly on the volumes in our industrial segment in the current quarter. There was a sequential decline across the three product categories that we show, in Q4 as compared to Q3 of 21. So, what has led to that decline?
- V. D. Nanavaty:** So, you are talking about quarter 1-2 in industrial products?
- Sreemant Dudhoria:** Quarter 4 21 versus quarter 3 21 q-on-q decline.

- V. D. Nanavaty:** Let me see. So, as far as turnover is concerned in fact there is an increase in turnover by 43 crores.
- Sreemant Dudhoria:** On volume basis, sir?
- V. D. Nanavaty:** So, some product mix, maybe here and there. But we brought mainly the methanol into the lye. So, methanol was sold more in quarter 3 as compared to quarter 4. So, there the volume difference has come up, otherwise all volumes are more in quarter 4.
- Sreemant Dudhoria:** So, for example Melamine volume was down, right? Somewhat 15,387 to about 10,672?
- V. D. Nanavaty:** Melamine volume data for quarter 3 is not immediately available for me for industrial products. Something here and there happens, but there is nothing structurally hindrance and they might increase. So, it is just a marketing some here or there. There is nothing special or long-term adverse thing there.
- Sreemant Dudhoria:** And how has the COVID 2 impacted our business in the industrial segment. Has the volume been impacted? How much has actually impacted?
- V. D. Nanavaty:** No, it has not impacted. Initially from April to September there were some impacts because downstream industries were closed because of this lockdown. For that time, we export to the other countries for Melamine, Caprolactam etc. But since October slowly things are opening up. So, now we do not do much export and whatever is produced is domestically sold. So, there is no hindrance to demand or there is no impact on the demand. In fact, as you know when the prices are rising everybody wants more and more materials because there is a doubt that further rise will happen. So, better to buy it right now. So, that kind of filling drives then to buy more and more.
- Sreemant Dudhoria:** Sir, if I look at the history of our industrial products over the last decade, FY11-12 was kind of a golden period in the industrial products. And I think our margins at that point in time was north of 30%. Now the product mix has been changed because we have introduced new products over the years. But do you see the prevailing trend be in the Caprolactam spread and also the realizations of other products, we should near to earlier highs in terms of margin that we achieved in this segment?
- V. D. Nanavaty:** No, those days are permanently gone. When China enters into any particular product the whole scenario changes in 5 years' time. So, earlier they were importing Caprolactam but now they have huge plants, and they have some 20 lakh metric tonnes and that has changed the whole world scenario. So, they are flooding the markets with their product and those kinds of margins are never going to return. Those were very abnormal like Caprolactam price which is \$2000

right now was around \$3500 at that time and the benzene spread, those \$1000 were \$2000 spread was there. So, those days are gone. They are never going to return.

Sreemant Dudhoria: So, globally are there more capacities getting added, sir, especially in China for Caprolactam and do you see the spread kind of compressing in the near term or do you think that it should continue at least for the next say 12-18 months?

V. D. Nanavaty: Yes, it will continue around this \$1000. So, in all chemical business is cyclical in nature. So, it will go up and then come down and so average you can expect \$1000 at least and we will be then specializing in the nylon field, if persistent downward trend in Caprolactam is seen, then we will move in the next value chain where though it is a niche product with variety like NPK fertilizers, so, so many varieties in nylon fix grade with different applications. So, then we will move to that area by selling less Caprolactam. By the way, we are the only producer of basic nylon fix in India. So, nobody is producing nylon fix in India.

Moderator: Thank you. The next question is from the line of Priya Mehta from Rishi Finstock. Please go ahead.

Priya Mehta: My question, I wanted to know 3 things related to Caprolactam. So, what is the expected price for FY22 versus FY21 trend or the ballpark figures? I missed on the antidumping duty status which was asked by the previous participant. It could be great if you could repeat that and the third one was that the custom duty was reduced from Caprolactam in the said projects. So, will that have any impact for us? Thank you.

V. D. Nanavaty: So, if we take the duty part, they have reduced the custom duty on Caprolactam to help the textile sector. As you know the prices have gone up substantially, so the 2.5% duty reduction has not made any impact on us. On the contrary, the Caprolactam spread has improved, and prices have also improved and that has got more profit to the company. Antidumping duty as we said it is going on in the Ministry of Commerce and since we are the only producer at present, regulators do not have any comparable data. So, they are evaluating the thing. So, it is call between Atmanirbhar Bharat and resistance from the foreign exporters to given due advantage to a single company. So, that is the choice ultimately, they will have to make. So, this last two years Caprolactam prices are remaining in the range of say \$1,200 to \$2,000 with the only sales gone above \$2000 from April and with the crude oil also remaining between \$65 to \$70, we think that this price will be maintained at least in this year, and we will have a good margin on Caprolactam.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: Sir, just wanted to know in Q4 FY21 Capra benzene spread was exactly how much?

- V. D. Nanavaty:** Q4 was around some \$800.
- Falguni Dutta:** And for this coming 3 months, let us say 3-month view, your outlook on caprolactum prices?
- V. D. Nanavaty:** It will be about \$2000 which has been of around \$1000.
- Falguni Dutta:** And lastly on this DAP, now the entire increase the government will be bearing in terms of subsidy. So, we do not have to hike any DAP MRP, right?
- V. D. Nanavaty:** Yes, correct. So, it was Rs. 1200 per spread before change. So, it will still be Rs. 1200 from now also. They have been making subsidy of Rs. 1200 by government.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.
- V. D. Nanavaty:** Thank you, everybody. So, as we discussed we see positive this year and coming year. And Vacchrajani is keen to hold a conference physically in Mumbai once this COVID settles down. So, there we will have a more detailed discussion and we will have more clarity on the CAPEX also by that time. So, it will be a joyful discussion. Till then, thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us and you may now disconnect the lines.