

Chairman's Speech at the 58th AGM of GSFC

Dear Shareholders, Ladies & Gentlemen,

It gives me immense pleasure to extend a warm welcome to you all to the 58th Annual General Meeting of your company. The Directors' Report and the Audited Accounts for the Financial Year ended March 31, 2020 have been with you and, with your consent, I shall take them as read.

Before I speak to you about the performance of your company, let me briefly highlight the economic scenario in which your company is operating.

➤ ECONOMIC SCENARIO

The year 2019-20 was a difficult year for the world economy. The business environment was weak, as also the demand, manufacturing and trade. The global GDP growth at 2.9% was the lowest since the financial crisis of 2009, dipping from 3.6% in 2018-19 and 3.8% in 2017-18. The global economic growth during 2019-20 was impacted by the protectionist tendencies of certain major economies and increasing political tensions.

Some of the important economic measures announced by the Government of India in 2019-20 were hike in minimum support price of agriculture crops, reduction in corporate tax rate, policy framework for development of textiles, handicrafts and electric vehicles, special programs for MSMEs, incentives for start-ups etc. Important steps were also taken to boost manufacturing, employment generation, financial inclusion, digital payment and improving ease of doing business.

Although the overall global economic growth slowed down, India is recognized as a bright spot. The country witnessed its best phase of macro-economic stability in recent years. From being the 11th largest economy a few years ago, today India has emerged as the 5th largest economy in the world.

➤ **GSFC's PERFORMANCE IN FINANCIAL YEAR 2019-20**

FERTILIZERS

During 2019-20, although the country received very good rainfall with prolonged monsoon, it could not help to rejuvenate the fertilizer demand. Rather, enhanced period of monsoon damaged the standing crops significantly during Kharif season. This resulted in delayed harvest, which disturbed the agriculture cycle. Excessive rains received in our home state of Gujarat and also in Maharashtra, Rajasthan, Madhya Pradesh, Bihar, Karnataka and UP, which constitute our major market segments, have impacted the farm economy and affected demand for fertilizers to a considerable extent.

I am happy to share that during the financial year under review your company sold 24.67 lakh MT of fertilizers.

With augmented availability of raw materials at better prices, production of phosphatic fertilizers at Sikka Unit was enhanced. With increased production of DAP, company has curtailed its imports drastically during the current year. Accelerated availability of Ammonium Sulphate has helped the Company to achieve record sales of this fertilizer to the tune of 4.39 lakh MT during the year. Similarly, the sale of 3.47 lakh MT Ammonium Phosphate Sulphate achieved in 2019-20 is an all-time high. For the first time, GSFC started importing Muriate of Potash for trading.

In view of very good potential for NPK 16:20:0:13, GSFC has started producing this grade from the current financial year.

In order to implement the national 'Sagarmala Yojana' GSFC has, for the first time, started the dispatch of bulk fertilizers through sea route from Kandla to South India. This will also help in catering to the demand coming from the coastal states.

Your company is taking up intensive promotional campaigns for the Kharif and Rabi seasons, which help in improving our products' brand image.

INDUSTRIAL PRODUCTS

Financial Year 2019-20 has witnessed a series of adversities, such as delayed but heavy rainfall, volatility in the price of crude oil, poor demand from automobile sector, depreciated rupee against the dollar and, at the end of the year, the COVID-19 pandemic across the globe.

Despite the substantially lower prices of Industrial Products manufactured by your Company, the sales volume of Melamine has increased by 42% during FY 2019-20 as compared to FY 2018-19 due to the availability of additional quantity from Melamine-III plant commissioned in January 2019.

The margin of industrial products continued to remain under pressure due to lower demand and upward prices of major raw materials. This has adversely impacted the profitability of industrial products.

The price of Benzene, required to manufacture Caprolactam, did not fall in proportion to the fall in crude prices; adversely impacting margins.

The Indian automobile industry, world's fourth-largest, is currently witnessing a slowdown after a decade of high growth. The sale of passenger vehicles in April 2019 declined by 17%, the lowest in eight years. According to the Society of Indian Automobile Manufacturers, this was the 11th consecutive month when car sales showed a decline. This has adversely impacted our sales of Caprolactam and Nylon-6 chips, whose prices were lower by over 25% on year-to-year basis.

Sales volumes have also gone down by 7% for Nylon-6 chips and 11% for Caprolactam. The oversupply of Caprolactam in international market has resulted into lower prices.

➤ **PERFORMANCE HIGHLIGHTS (INCLUDING Q1 OF FY 20-21)**

I am happy to inform you that your Company has achieved total income of Rs. 7730 crore for the year ended March 31, 2020. Profit Before Tax is Rs. 127 crore and the Profit After Tax is Rs. 98 crore for FY 2019-20.

For the Q1 of FY 2020-21, your Company has earned total income of Rs. 1614 crore as against Rs. 1708 crore in the corresponding period of the previous financial year. This marginal reduction is due to the severe economic impact of COVID-19 pandemic, closure of the plant for three weeks during lockdown-1 and lower prices of our products. However, the situation has improving substantially in the subsequent months. The Profit Before Tax for the first quarter of FY 2020-21 is Rs. 40 crore, while the Profit after Tax is Rs. 32 crore.

LAUNCH OF NEW PRODUCTS

Your Company has developed a very good R&D infrastructure. It is committed to innovation and has a focused approach in developing new processes and products in the fertilizers and industrial products segment.

Your Company has begun producing Technical Grade Urea in October 2019, new stream of Liquid Bio-Fertilizer in February 2020 and new grade of Water Soluble Fertilizer in April 2020.

The Methanol plant of your Company was not in operation since the last six years due to commercial viability issues. I am happy to inform you that it has been re-commissioned from 31st August 2020. The Methanol plant is currently operating at 90% capacity. In a full financial year, the plant will produce 7.5% of India's Methanol requirement. This initiative of your Company is an important step towards import substitution.

➤ **DIVIDEND**

I am happy to inform that a dividend @ 60%, i.e. Rs. 1.20 per equity share of face value of Rs. 2 each, has been recommended for the financial year ended 31st March 2020. The net outgo on account of dividend shall be Rs. 47.82 crore.

➤ **EXPANSION AND DIVERSIFICATION**

I am happy to share highlights of the commissioned and upcoming new plants and projects of your Company.

Urea Plant Revamping Project

Your Company is carrying out revamping of Urea-II plant, in order to reduce energy consumption and improve reliability. The feasibility study and financial viability of the project has been completed. The process licensor has been selected for supply of technology and preparing the Basic Engineering Package.

400 MTPD Sulphuric Acid Plant at Vadodara Unit

Your Company is setting up a new 400 MTPD Sulphuric Acid plant at Baroda Unit, in order to minimize the purchase of Sulphuric Acid from the market and to meet the captive requirement. The plant will also export about 440 MTPD steam to the complex, which will reduce the load on natural gas fired boilers. The Company is getting the Detailed Project Report prepared by a reputed consultant.

400 MTPD Ammonium Sulphate Plant at Vadodara Unit

Your company is setting up a new 400 MTPD Ammonium Sulphate plant at Baroda Unit to capture the growing market for this fertilizer.

Refurbishment of Phosphoric Acid and Ammonium Phosphate Sulphate plants

Your Company has taken up refurbishment of the old Phosphoric Acid and Ammonium Phosphate Sulphate plants at Baroda Unit to improve their productivity, efficiency and reliability.

15 MW Solar Power Project at Charanka

To make use of green energy and meet the Renewable Purchase Obligation requirement, your Company is installing a 15 MW solar power plant at Charanka in north Gujarat. Company has floated RFP to reputed vendors and is in the process of selection.

NPK Pilot Plant

It is essential to introduce new grades of complex fertilizers in a competitive market. For developing new NPK grades and optimization of process parameters for effective scale up, your Company is installing a pilot plant at its Baroda Unit.

➤ ATMANIRBHAR BHARAT

The business models and environment are changing rapidly due to the impact of COVID-19 pandemic. This change will intensify; requiring new business dynamics. Your Company has developed a short term, medium term and long term strategy to reduce the adversity of the pandemic on its operations and also to be ready for the changing business environment.

Inspired by Hon'ble Prime Minister's vision of **Atmanirbhar Bharat**, the R&D and Market Research departments of the Company have been strengthened; and 8 new Industrial Chemicals, 11 Pharma & Biotech Intermediate Products and 1 Fertilizer have been identified for production. The selected products are strategically aligned with the Company's existing product lines. This unique initiative will result in substantial import substitution; thereby saving precious foreign exchange.

This is a major step by your Company in effectively joining Hon'ble Prime Minister's call of **Atmanirbhar Bharat** and in significantly diversifying its basket of industrial products.

➤ **INDUSTRIAL RELATIONS**

Industrial peace is very important for any organization to grow. At GSFC, we strongly believe that constant communication with employees, mutual understanding and welfare measures are the pillars of harmonious industrial relations. The year witnessed very cordial relations between the workmen and management.

Long term wage settlement was signed with the Unions at Baroda and Sikka Units in a congenial atmosphere. Your company is committed to continue this trend of industrial peace in the times to come.

➤ **GSFC AGROTECH LIMITED**

GSFC Agrotech Limited is a wholly owned subsidiary company of GSFC, and is its marketing arm for agri business. It is founded with the objective of diversifying into the growing non-bulk fertilizers and agri inputs segment. GATL also aims to increase retail penetration in Gujarat and other states in bulk fertilizers through company owned depots.

GATL provides quality agri inputs and sustainable services to the farming community. It has doubled its retail revenues and tripled the share of non-bulk agri inputs in its turnover during the last three years.

➤ **ACKNOWLEDGEMENTS**

On behalf of the Directors, I sincerely thank the shareholders, customers and all stakeholders for their continued patronage and the confidence they have reposed in us. I am grateful to the Government of India and the Government of Gujarat for their assistance and cooperation.

I also express my sincere thanks to SEBI, NSDL, CDSL, Stock Exchanges, Bank of Baroda, State Bank of India, Central Bank of India, other banks and institutions for the support and coordination given to the company regularly.

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