



**“Gujarat Narmada Valley Fertilisers & Chemicals
Group Business Update Conference Call**

March 19, 2021

**MANAGEMENT: MR. D.V. PARIKH – GENERAL MANAGER, CHIEF
FINANCIAL OFFICER, GNFC LIMITED
MR. Y.N. PATEL – GENERAL MANAGER (O & M), GNFC
LIMITED
MR. AC SHAH - GENERAL MANAGER & COMPANY
SECRETARY, GNFC LIMITED**



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Moderator: Ladies and gentlemen, good day. And welcome to GNFC Group 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 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. Parth Adhiya from Batlivala & Karani Securities. Thank you and over to you, Mr. Adhiya.

Parth Adhiya: Thank you, Neerav. Good afternoon, everyone. And thank you for joining us on the Gujarat Narmada Valley Fertilizers & Chemicals' general business update call. We think the management for giving us the opportunity to host the call and look forward to more such interaction in the future. Today we have with us Mr. DV Parikh –General Manager and CFO of the company, Mr. YN Patel, he is the General Manager of Operations; and Mr. AC Shah, General Manager and Company Secretary along with other senior members from the management.

I would now like to hand over the call to Mr. DV Parikh for his opening remarks. Thank you and over to you, sir.

DV Parikh: Good afternoon, everybody. Myself DV Parikh, I am the General Manager and CFO of the company. On behalf of the GNFC, a warm welcome to all the participants on this call of business update. Since quarter three has already passed, we are providing a general business update. While we will cover some of the glimpses of year-to-date as well as quarter three as well on this call.

Like as you know, we started off the year with a situation of a lockdown practically across the country. And this lockdown has a force shutdown impact when we started the financial year FY 2021. So, practically for the whole month of April, was under the shutdown mode, and we lost around 11% of the total annual production in the process, which had an impact on the sales volume as such. Sales volume have been impacted a little lower because with the opening up of different downstream sector, we could unload the opening stock which was a carryover stock and, hence, there is a net impact of around 6% in volume terms as far as sales are concerned.

So, with the opening up of the sector, however, the realizations have been quite better, especially when imports of certain chemicals have been impacted severely. Although, in case of fertilizer imports have been more, in case of chemical they were impacted which gave us an opportunity for better realization, especially over quarter two and quarter three. If we look at the production, down from quarter one to quarter two, to quarter three, gradually the production levels have been ramped up. And certain products which were hitherto under a kind of like forced shutdown sort of a thing due to demand scenario, mainly methanol and aniline have come up quite well in quarter three.

So, with this, on a YTD basis, our PBT are at Rs. 498 crores which is practically higher than Rs. 424 crores of last year. And that too last year there was a one-time write-back of the estimated subsidy, which adjusted for the year it was around Rs. 160 crores, totaling to Rs. 191 crores. But



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if we factor the subsidy of Rs. 31 crores for the financial year, which were anyway accruable there, there was a net accrual of Rs. 160 crores during last year. So, profitability has improved substantially on a YTD basis.

When we talk of quarter three in particular, on a Q-o-Q basis the sales are up by 27%, mainly led by volume as well as price realizations. And there is a substantial improvement in the operating EBITDA margin by 50%. If we look at operating EBITDA margin, it has gone up by 50%. So, that is reflected in the PAT as well. However, since now the company is not under MAT but under regular taxation, the PAT margins have improved by 33% at Rs. 240 crores as against the PBT of Rs. 337 crores.

If you look at line-item level within the P&L, there are two significant items where we would like to draw the attention. One is the other expenses which went up of because of the certain provisioning of bad debts as well as CSR provisioning which became mandatory. And there is another item called catalysts and chemicals where sharp recovery in prices, the increase in prices rather has impacted the company.

Second item is that of the income tax where, as I said, the rate has almost doubled from around (+17%) to (+34%), mainly because of the company coming under the regular taxation regime effective this year.

So, this is by and large sum and substance of what we have to cover in terms of like operations, production side and finance side. So, now, I leave the session open to question and answer to the participants.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Veera from Abacus Asset Management. Please go ahead.

Rahul Veera: Sir, I just wanted to understand in terms of our chemical division, our usual revenues are close to Rs. 3,000 crores in FY 2022, Rs. 2,800 crores to be specific, can you give the split of that chemical division between TDI, formic acid and aniline and other chemicals? Gladly top three for chemicals.

DV Parikh: Okay. On a YTD basis, if you look at the total turnover, it is mainly led by the TDI, I will give you the rounded figures of around Rs. 550 crores. As far as acetic acid, ethyl acetate is concerned, they are ranging between Rs. 200 crores to Rs. 250 crores in terms of the turnover. So, formic acid is, like we operate on a very low scale of around 65 metric tonnes a day, so that is not so significant. The other significant item is the technical grade area which is about Rs. 300 crore.

Rahul Veera: Okay. So, for a nine-month basis, for YTD as you mentioned, is close to Rs. 2,100 crores of chemical division revenues?



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- DV Parikh:** Okay. Yes, YTD, yes, it is that way.
- Rahul Veera:** Okay. So, we have just got the summation comes to around Rs. 2,100 crores only, sir.
- DV Parikh:** These are the product basket of around 12 chemicals and I will request our marketing person also, he will cover up the rest of the product if you are interested. So, I have given you the rounded number. I will request him to keep it rounded, because exact sales on a product-wise basis is not a matter of public disclosure.
- Rahul Veera:** Sure, fair point. And sir, just wanted to understand in terms of the visibility, like in terms of TDI pricing visibility over the next one quarter, it's understandable because of the disruption going on globally. But what is your view largely, do you think any import restrictions, or anything could help the TDI prices to continue above Rs. 200 crores, Rs. 220 crores?
- DV Parikh:** Okay, on prices, any prognosis is a little difficult. However, GNFC has been successful in getting the anti-dumping duty imposed effective December 2020. And these chemicals are like pricing is globally based, and it is very difficult to say. For a short term, I will request our marketing manager to respond on what is he expecting about.
- Moderator:** Thank you. The next question is from line of Tanmay from Marae Asset. Please go ahead.
- Tanmay M:** Sir, my first question would be, what would be the capacity utilization in the chemical segment? If you could give a blended number, that would be fine.
- DV Parikh:** Okay. See, from the time we started around 3rd of May, TDI business started a little later around middle of June, the rest of the plant started, and we are at more than 100% capacity utilization in all, except methanol. Because methanol we are not in a position to fully utilize the capacities because of the oil and gas prices at times. The rest of the products we are operating at more than 100% in all products.
- Tanmay M:** And sir, in terms of looking at, we have a good import substitution story considering the product portfolio, what would be sort of the CAPEX plan if were to look down the line? Anything on that front?
- DV Parikh:** We did not to get your question, can you please come again?
- Tanmay M:** So, considering our product portfolio, it's mainly based on import substitution, the chemicals that we manufacture. So, do we see any CAPEX plans in particular products, two or three years down the line or how is it?
- DV Parikh:** Yes, actually many companies because of this kind of lockdown effect as well as no visibility of when the downstream will open up, put a hold on the CAPEX. We, sometime, like MD said, a



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CAPEX of around Rs. 1,200 crores and it is in the public domain as well. And we have firmed up our plan to go ahead with substantially all the CAPEX which will come through around Rs. 1,100 crores. And we will be investing in these three product lines mainly acids is the area of focus and maybe some debottlenecking of ammonia which will contribute to the extent of around 50,000 metric tonnes per annum.

Tanmay M:

Got it. And in terms of raw material, are we seeing any pricing pressure right now?

DV Parikh:

See, the kind of relations which we are witnessing on the chemical front, these are getting absorbed. But if you look at the nine-monthly basis, the tapered down raw material prices and feedstock prices have contributed significantly to the bottom-line. In fact, there are three key components which contributed to the bottom-line. As you know, the volumes have been hit to the extent of 11%, yet because of the price recovery and realization recovery, lower input cost; and third is a gain which we booked of around Rs. 44 crores on the PF investment against the loss of Rs. 50 crores we booked last year. These are the three element, reasons which has improved the profitability.

Moderator:

Thank you very much. The next question is from the line of Naresh Kataria from Moneycurve investments. Please go ahead.

Naresh Kataria:

You had mentioned about the Rs. 1,100 crores CAPEX, mostly on acid, are we looking to expand TDI as well, because we are the sole manufacturer and TDI demand is of course much higher than what we produce, are we looking to expand in TDI from the current 60,000 tonnes, 70,000 tonnes capacity?

DV Parikh:

Okay. See, there is a debottlenecking plan which will improve the capacity of TDI 2 by around 30 metric tonnes per day. And there is further debottlenecking, which is underway at TDI 1 plant as well, for which, once I complete, I will request Mr. YN Patel to expound more on that. So, if you look at our market positioning, the domestic market share which we have is to the tune of around 70%, 73%. So, anyway we have to export certain part of the total production. Therefore, this debottlenecking should help in achieving more turnover. And as you know, we have witnessed over last four, five years the kind of volatility in the TDI prices. So, we have no brownfield kind of an expansion plan on TDI. However, we do have some debottlenecking plan which will improve substantially the production levels as we currently have. Like the production levels are likely to improve by around 30% or so overall, including TDI 1. So, TDI 1 plan, I am requesting Mr. YN Patel to talk about.

YN Patel:

TDI 1 is having daily production capacity of around 55 metric tonnes to 56 metric tonnes, where we are trying to add activity of 20 metric tonnes per day. But it will take long time to materialize, it will take at least two years; time, right from now. So, that is about TDI 1. And as Mr. Parikh has said, the 30 metric tonnes additional capacity, 30 MTD in TDI 2, that will probably materialize after...



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- DV Parikh:** It should happen anytime in the next FY, because the major debottlenecking, which was concerning the equipment has already arrived, and we think that next financial year we should be in a position to reap the benefit of around 20% increase in the production as far as TDI 2 is concerned, with a capacity of 150 metric tonnes per day, on cumulative basis it is 165 metric tonnes per day.
- Naresh Kataria:** Sure. This is very helpful and also very encouraging that we are growing TDI, even if it is by the cost making. My last question is on, I think we had a joint venture with some Belgian company to absorb some waste finished product of TDI and that I think that meant saving some money which we were paying to dispose of, I think, with some HCL or something. So, any progress on that? Eco force I think if I am aware, that was an Eco Force joint venture with a Belgian company, can you please clarify on that.
- DV Parikh:** The joint venture was to valorize the HCL which is generated at TDI 2 plant, which is to the tune of 200,000 metric tonnes per annum. However, the company has gone bankrupt. Eco Phos SA at Belgium has gone bankrupt, so there are no further plans about those. And we wrote off whatever was the investment to the tune of around Rs. 25 crores last year.
- Naresh Kataria:** And we continue to spend for disposal of the HCL, right?
- DV Parikh:** Yes, we will continue to spend on the disposal, but so far this year, more or less, we have not spent on a net basis anything. There is some marginal positive side in terms of recoveries. So, otherwise on an average, depending upon the price lifting, discounts and all, we lose about Rs. 25 crores to Rs. 30 crores as far as HCL lifting business is concerned. But we are working about finding ways and means to valorize the HCL, but as of now it is difficult in near future.
- Moderator:** Thank you. The next question is from the line of Dikshit Doshi from Whitestone Financial Advisors. Please go ahead.
- Dikshit Doshi:** Sir, I have a question regarding our fertilizer business. So, just wanted to understand the subsidy matrix. So, I understand that if we sell through a POS machine, then the subsidies paid through direct benefit transfer, and if it is sold through non-POS machines then it's a monthly or a two-month kind of a payment cycle. So, if you then elaborate on that, how does the payment come?
- DV Parikh:** See, under DBT, any company is eligible for a subsidy only upon sales through the point-of-sale machine called POS sales. Hitherto till the time DBT went operational, somewhere around later part of 2017-2018 financial year, now most of the companies are subjected to the same regime. So, there is nothing like one can sell one can sell out of POS, everybody has to sell through POS only. And therefore, there is our working capital tied up. Now, so far working capital tied up till last year was in the region of around six to seven months of our total sales. Whereas this time because of this special announcement by Government of India, additional Rs. 65,000 crores of subsidy were budgeted over and above the original budget of around Rs. 72,000 crores. So,



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totaling up to around Rs. 139,000 crores. And fortunately, we have seen, practically, the disbursement coming also. So, our subsidy outstanding have substantially reduced, and we expect to end the year with a substantially lower subsidy outstanding than ever witnessed in the history of the company.

Dikshit Doshi:

How much we would have received till now and what will be the pending currently?

DV Parikh:

Currently pending is around Rs. 300 crores, which normally remains to the tune of Rs. 900 crores to Rs. 950 crores. As on December, we had a subsidy outstanding of a little above Rs. 900 crores.

Dikshit Doshi:

Okay. Now second question regarding this, so I understand that this accumulation of almost Rs. 900 crores to Rs. 1,000 crores of subsidy were also due to the arrears of many years which get accumulated. But let us say now everybody is talking that this year, by end of the year, almost the arrears of the subsidy will be over maybe from next year it will start from zero, let's say. So, how do you see it going forward from next year? Will we get the subsidy payment within one month or two months of the due date or next year also we may get the full subsidy, but it will come mostly at the end of the year?

DV Parikh:

See, normally subsidy outstaying has a direct relationship with the budget of Government of India. So, far, like last year when the budget was done, it was 10% lower at Rs. 72,000 crores as against Rs. 79,000 crores to Rs. 80,000 crores. So, it all depends upon what is budgeted. Normal subsidy generation should increase now with the passage of time, because there are five more plant over next three years which are coming up, as we know, Sindri, Ramagundam, Talcher two others, which will add up a capacity to the extent of 6.35 million tonnes per annum. So, it all depends upon what is the budget government keeps. But with this kind of arrears almost cleaned up, we see that a subsidy should be regularly. Even otherwise in the DBT the provision is to release the subsidy every week. Please note that the government has the resolve to clear up these kind of over dues which has happened. So, let us hope for the best.

Moderator:

Thank you very much. The next question is from the line of Sunil Singhania from Abacus. Please go ahead.

Sunil Singhani:

Congratulations on a great result. Sir, we had these advances for this employee provident fund trust, because we had shifted the PF to the outside agency, what is the status there, sir? Have we received everything; we have been able to move every asset outside of the company's balance sheet?

DV Parikh:

No, we took over the investment to the tune of roughly Rs. 820 crores when financial year started. And for that, we took a special short-term loan from a couple of banks to the extent of Rs. 600 crores. As of today, the outstanding investment are to the extent of around Rs. 90 crores, rest are all sold off. The loan taken has been completely repaid also. So, this is the status of the PF investment. And in terms of like the losses which he booked, we booked last year around



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total Rs. 62 crores loss, out of which Rs. 50 crores were on capital account and Rs. 12 crores were towards the interest part. Out of the capital loss of Rs. 50 crores, we have already recovered Rs. 44 crores by now. So, this is the status of investment taken over from provident funds.

Sunil Singhani: So, we will have other income this time of Rs. 44 crores, because we had already taken the loss?

DV Parikh: It is already there in the nine monthly financials. Up to quarter two it was already reflecting and thereafter very marginal disposal only.

Sunil Singhani: Right. Sir, one last question, now with the subsidies also being received and this also getting settled, what is the net cash balance we have now?

DV Parikh: See, it will be over Rs. 1,000 crores. In fact, as of December we were at a net Rs. 860 crores.

Sunil Singhani: And there is no plan of utilizing that as of now?

DV Parikh: Like we said, there is a CAPEX plan which will materialize because any CAPEX will not happen over one year, it will take some time, and we have enough wherewithal in such times, so we may not have to fund our CAPEX through any loan or something like that.

Moderator: Thank you very much. The next question is from the line of Manvardhan Ved from MS Investment Advisors. Please go ahead.

Manvardhan Ved: Congratulations on a great set of numbers, sir. My first question was again with regards to the fertilizer division. Now, I mean, in terms of profitability, we lag our peers significantly in that particular division. So, any plans as to how that division will become more remunerative?

DV Parikh: You are talking about fertilizer, I believe, not chemical?

Manvardhan Ved: Yes, fertilizer.

DV Parikh: Okay. Fertilizer, if you look at the segment results, the segment results are severely impacted because of three main reasons. One is in the mix fertilizer we have cost headwinds, as well as the pricing pressure. Secondly, we lost the production and sales of one full month. So, there are three reasons, cost escalation in terms of the input cost, price pressure especially in case of mixed fertilizer, and the third is we lost production, fourth is marginal on energy once we are crossing the line beyond 6.20 up to December 2020. So, this is all contributed to fertilizer. But going forward, if we do regularly on an annualized basis, then we hope we should turn profitable. And in December quarter results, we also took a provision of around Rs. 14 crores on account of some retailer incentives, so that is why the profitability is down. Otherwise, we are hopeful of at least maintaining Rs. 20 crores, Rs. 25 crores of profit on an annual basis on the fertilizer front. And we don't have any plan of expansion on the fertilizer being a regulated market, and



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country has enough capacity which is coming up, which will bring down the import to its original level of 2015-2016. So, this is all about the fertilizer plan of the company.

Manvardhan Ved: Any plans of hiving off this division, since this is not a focus area for you anymore? And you are sitting on Rs. 2,500 crores of assets in this particular division where the kind of sort of profit that you are generating is miniscule given the asset base. So, wouldn't it make sense to hive off this division?

DV Parikh: So, we thought about this a couple of times in past, but we think the kind of contribution it gives, and ours is not a company which will ask like certain infrastructure to be laid off, which we will think in those terms. So, we don't have any such plan of hiving off the division and selling to somebody else. Number one. Number two, operationally also because of the kind of integration we have, it is not possible to hive off and de-link the fertilizer totally from the operations side.

Moderator: Thank you. Our next question is from the line of Sameeksha Jain from ANS Wealth. Please go ahead.

Sameeksha Jain: Sir, I have two questions. One is, I believe our major chemicals that aniline, acetic acid and TBI, right, am I correct?

DV Parikh: Major chemicals are like, if we talk in terms of commercial sales, probably yes. If you talk in terms of capacities and including captive, then the scenario is different.

Sameeksha Jain: In terms of revenue.

DV Parikh: In terms of commercial sales, TDI comes first, and followed by other chemicals it is made by acetic acid, ethyl as well, TGU as well. So, exact sequence our marketing person will tell, if you are interested to know.

Sameeksha Jain: Sir, actually I was interested in knowing the prices, the realization for the major top three chemicals this quarter and if you could give a comparison to what they were last year same quarter.

DV Parikh: Okay. See, realization is something which is a little confidential. So, from finance side, we have inclination not to share such kind of numbers on realization.

Sameeksha Jain: Sir, my second question was actually a follow-up question that an earlier participant asked, this is regarding your fertilizer business. What we understand is, with the DBT, most of the backlog of all the previous year would be mostly cleared. So, now on a steady state basis, I believe our receivables should substantially go down going forward, is my understanding correct? If yes, then I believe that will impact our working capital to an extent. And if you put through some sense as to how much of impact this would have on our working capital requirement?



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- DV Parikh:** See, the overall receivables have already come down by Rs. 600 crores right and we are like net non-utilizing company, so working capital has come down because of that by Rs. 600 crore, but we are not drawing any money from external sources. So, that is adding up to the cash which was erstwhile locked up into receivables.
- Sameeksha Jain:** So, what I want to understand is, going forward, since the previous dues are going to be cleared mostly, all the backlog is going to be removed so going forward, on an annual basis our working capital requirement will substantially go down, right?
- DV Parikh:** Yes.
- Sameeksha Jain:** Okay. So, what kind of an impact would it have, like would it come down to our current requirements?
- DV Parikh:** Okay. Normally along with the subsidy our drawing power hovers around Rs. 1,200 crores. So, if you factor Rs. 500 crores to Rs. 600 crores of subsidy like this, it will bring down the drawing power by around Rs. 500 crores to Rs. 600 crores.
- Moderator:** Thank you. The next question is from the line of Nitin Gosar from Invesco. Please go ahead.
- Nitin Gosar:** One question, sir, you talked about CAPEX requirement or the CAPEX that you will incur, around Rs. 1,100 crore spreading over three products. I could guess the two names, that is ammonia debottleneck and the second one is TDI related CAPEX which is sort of 50 metric tonnes per day expansion over two facilities over next two years, which was the third one, sir?
- DV Parikh:** No, there is no CAPEX within this Rs. 1,100 crores to Rs. 1,200 crores of TDI 1. This Rs. 1,100 crores CAPEX is on acids and ammonia debottlenecking. Apart from that, we had like last couple of years we had Rs. 150 crores which is almost extended on TDI 2 debottlenecking. So, what we covered, like 30 metric tonne per day minimum we should get from TDI 2 is after expanding on certain CAPEX of debottlenecking in the downstream.
- Nitin Gosar:** Okay. Could you put a number to it, like how would this Rs. 1,100 crores CAPEX would be spread, broadly the product volume?
- DV Parikh:** Ammonia debottlenecking will have close to Rs. 200 crores, in acid and nitrate business, ammonium nitrate business will pick up the rest of it. As long as acids are concerned, it will be close to Rs. 750 crores out of the balance and rest is ammonium nitrate.
- Moderator:** Thank you. Next question is from the line of Abhishek Maheshwari from Skybridge Wealth Management. Please go ahead.



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- Abhishek Maheshwari:** Sir, what I wanted to know was, our chemical realizations have spiked up considerably over last quarter, and they are still rising. So, do we expect some kind of normalization to occur in coming quarters or it is expected to remain high for a particular time being?
- DV Parikh:** I request our senior marketing people to respond on this.
- JI Desai:** Our prices have gone up and it has gone up substantially, and some products have attained the ever-highest prices nowadays. And we expect that to come to ever highest level it will come down to the normal fee actually. But in our expectation, all the prices, all the products will discover the new normal. Like in COVID situation we have discovered so many new normal, the prices of the products will also discover new normal. So, it will attain normalcy but at a higher level.
- Abhishek Maheshwari:** Okay, got it. And we are absorbing all the input price increases, right, still?
- JI Desai:** Pardon.
- Abhishek Maheshwari:** No, I am saying that whatever the gas price increases and all that we have seen.
- JI Desai:** Yes.
- Moderator:** Thank you. The next question is from the line of Tanmay from Mirae Asset. Please go ahead.
- Tanmay M:** Sir, on the CAPEX part that you referred to, the assets part of Rs. 700 crores, out of that what would be used for the captive consumption, if you can give a rough number? And what will be for the final sale, group CAPEX and **(Inaudible) 35:53.7** that will be required?
- DV Parikh:** Okay, we start with the ammonia which is on the upstream. So, ammonia should get substantially consumed, out of 50,000 tonnes, we expect the kind of production levels which we have, it should absorb practically 80% of the ammonia when we start on the other new products, two new products, nitric acid as well as ammonium nitrate. As far as nitric acid is concerned, like we have considered nitric acid which is coming up somewhere next year by March 2022, which will consume from the existing pie of around 50,000 tonnes of weak nitric acid. So, out of 100,000 tonnes which we are planning, 50,000 tonnes will be like there, and another 50,000 tonnes will be meant for further down uses into the ammonium nitrate. Ammonium nitrate, while we have a capacity planned for around 100,000 tonnes, it should consume weak nitric acid to the extent of around 0.8, so around 80,000 tonnes. So, on a net basis it looks like we will have to go for a little more than what we have planned as of now, but these are at an advanced level of discretion as to what level of nitric acid plant we need to bring, whether 100,000 tonnes or 200,000 tonnes.



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- Moderator:** Thank you very much. The next question is from the line of Raghavendra Kedia from MH Capital Partners. Please go ahead.
- Raghavendra Kedia:** My question is regarding TDI. Sir, if you can enlighten us on how much is GNFC's market share for the entire Indian market? And we have seen that this market share is gradually increasing where the unorganized and smaller players are slowly getting a lesser market share. So, if you would know or can you also share how much is the unorganized smaller participants' market share for the TDI market?
- DV Parikh:** Yes, it is 70% domestic demand.
- Raghavendra Kedia:** And would you know from the 30% how much is unorganized and smaller players?
- DV Parikh:** So, we are the only manufacturer in India of TDI, balance is import.
- Raghavendra Kedia:** Okay. Just a follow-up question, do you see any more import duty hike in the next quarter or in the next two, three quarters on TDI coming from the government?
- JI Desai:** Not really.
- Moderator:** Thank you very much. The next question is from the line of Pawan Nahar, an individual investor. Please go ahead.
- Pawan Nahar:** Mr. Parikh, I had a few questions. We are doing new CAPEX, so generally when we do CAPEX, what is the kind of payback we expect?
- DV Parikh:** Okay. We have internal guidelines about payback and IRR. We look forward to about 12% to 14% post tax IRR and payback of around seven to eight years. There are internal guidelines, however, we do take deviation depending upon the positioning of the project. There could be strategic aspects to the projects where we may compromise on these kind of benchmarks.
- Pawan Nahar:** Okay. And when you say CAPEX, you are only talking about project costs, you are only talking about gross block and not working capital, right, when you when you say that seven to eight years or 12% to 14% post tax IRR, how do you define the project costs? These include working capital.
- DV Parikh:** Yes, it includes.
- Pawan Nahar:** So, if I were to just ask you, like for simplicity's sake, without working capital how would this number change?



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- DV Parikh:** Okay. As far as CAPEX number is concerned, the number will not change. However, for the purpose of calculation of IRR, the numbers will change because it will have working capital margins as well factored.
- Pawan Nahar:** Sure. So, it will improve?
- DV Parikh:** Yes, it will improve meaning the IRR we calculate is after considering, let's say, Rs. 1,100 crores of project. And in terms of cash out go, the marginal working capital is also considered. So, when it comes to the general public, when you look at the balance sheet they will see a net addition of Rs. 1,000-plus crores on the fixed asset side. Whereas, if we look at the cash side of it, it will generate an IRR in the range which we indicated.
- Pawan Nahar:** So, second, just to continue on this, today our fixed assets gross block is about Rs. 8,000 crores is my understanding right that ballpark Rs. 6,000 crore is relating to chemicals? And out of that Rs. 6,000 crores, ballpark Rs. 3,000 crore is relating to TDI?
- DV Parikh:** TDI 2 is the carved-out CAPEX as such, if you look at internally in the books of accounts. And TDI 2 is close to around Rs. 2,300 crores in terms of the gross block. That includes everything, land, plant and machinery, everything, equipments.
- Pawan Nahar:** Sure. And if I were to aggregate TDI 1 and 2, some approx. number, just approx.
- DV Parikh:** TDI 1 is not carved out so no immediate idea, okay. If you still want to know we can get back on it. TDI 1 is a two because older plant, so no exact immediate idea about the net CAPEX which you are asking for.
- Moderator:** Thank you very much. The next question is from line of Rishabh, an individual investor. Please go ahead.
- Rishabh Baldava:** I got only one question. Your MD has gone recently on record on CNBC interview that next 2022 and 2023 our volumes will go up by 20% and 30%, 40% and margins will be maintained 20%, 25%. These two things I want to clarify, this is on overall sale including fertilizer, the sales will be going up and margin is blended or on chemical? Thank you.
- DV Parikh:** Okay. Margin improvement is something which is futuristic, so we normally restrict ourselves in terms of stretching ourselves too much into that direction. So, we might give this question a pass.
- Rishabh Baldava:** I am asking, what is your MD has gone on record, the same thing I am just clarifying, I am not asking something guidance. It is already on record in public domain, that is what I am just clarifying.



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- DV Parikh:** You are right, but the current quarter is still on and therefore we cannot comment exactly on that.
- Rishabh Baldava:** Okay. Regarding volume growth, all that, next two years?
- DV Parikh:** Volume growth, growth there are certain debottlenecking, which in fact has happened in both aniline and ethyl acetate. We are not putting exactly the numbers as of now. Let the quarter pass by and then we will come back with the exact numbers of debottlenecking, which is contributing additionally to the turnover and profit.
- Rishabh Baldava:** I hope what we are conducting, do you recall, after so many years I don't remember when we are conducted, in due course the post results call will be conducted?
- DV Parikh:** We are trying to like be in touch with investors. Last call happened, if I recall correctly, in fact the conference happened similar on 9th or 10th of July 2018. And after that, we are connecting for the first time and we hope to remain connected on quarterly basis regularly in the coming years.
- Rishabh Baldava:** Yes, that is my request. This practice keep as a regular after results or post results so we will get the opportunity to clarify our doubts and all that. And one more request, along with results if you can give some presentation about the company with some flags, figures, production, sales, all that, that will be more helpful.
- DV Parikh:** We note this suggestion, and we will try to cover that.
- Rishabh Baldava:** And sir, what will be our tax rate this year, it will be around the 27%?
- DV Parikh:** It will be normal corporate tax, close to 35% now. Last year we were under the MAT which is no more there with the kinds of profitability we have; we have used practically most of the MAT credit available. Since we have one more year to go for the infrastructure benefit which we are getting under Section 80 I A of income tax, we will continue with the present regime of regular taxation of close to 35% for another year. And thereafter, we will think between the options which are given by Government of India last year, between around 25% versus 35%.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir, with respect to TDI, we are hearing all these capacity shutdowns which have happened globally. If you could help us understand the status of these capacities and in your opinion when should the supply normalize for TDI? And what is the extent of these global disruption in capacities, if you could help us with that?



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- JI Desai:** There are a series of shutdowns lined up now onwards. BASF Germany is planning shutdown of the 3 lakh metric tonnes plant, and this will be followed by Covestro's 3 lakh metric tonne plant. There are certain shutdowns planned in Korea also, Hanwha Corporation. So, these shutdowns are planned over a period of next three to four months. And at the same time, the Chinese plants have come up again to their normal operation rate. So, we have to really absorb the effect of these shutdowns in due course of time. But we expect that the price which is prevailing nowadays will sustain for another three, four months at least.
- Pritesh Chheda:** Just a continuation, what is the net capacity which is now out of supply?
- JI Desai:** Out of 33 lakh tonnes capacity, around 4 lakh tonnes capacity are out at present.
- Moderator:** Thank you very much. The next question is from the line of Rohit Nagaraj from Sunidhi Securities and Finance. Please go ahead.
- Rohit Nagaraj:** Thanks for the opportunity, sir. Sir, we being a state controlled enterprise, what is our incentive policy and how do we nurture and retain our talent? Thank you.
- DV Parikh:** See, most of the Government of Gujarat promoted companies have similar structures. And it is driven by our standard pay package, and those pay packages are revised at the time of every long-term settlement. And this is the kind of practice with mostly the Government of Gujarat companies follow. And so far, we are not seeing issues in nurturing, our people have been with us for more than three decades. Things might change with the change of time, but then we structure ourselves accordingly in that case.
- Rohit Nagaraj:** Right. And second question is on the capacity available for us for FY 2022 and FY 2023. So, you mentioned that in FY 2021 there was 11% loss of yearly production, and we are operating at 100%. So, will there be any volume growth expected in FY 2022 and FY 2023, given that our CAPEX plans will culminate only sometimes towards the end of FY 2022? Thank you.
- DV Parikh:** Okay. There are a couple of things as far as capacity addition is concerned. Like we said, debottlenecking plan of TDI 2 will materialize somewhere in next financial year. Our formic acid, the brownfield expansion is going to materialize somewhere in next financial year. Our concentrated nitric acid is going to be operational by March 2022, around a year down the line. Apart from that, we have certainly debottlenecking which has already happened, so that will see certain margin volume growth in aniline as well as ethyl acetate in time to come. So, this is what we have as of now on table. And there are further CAPEX plans, but each will have its own gestation time.
- Moderator:** Thank you very much. And the next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.



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Saket Kapoor: Sir, my first observation is about this DIPAM policies, although I think the state PSUs doesn't fall in the ambit, but the way the things are articulated by the Government of India in rewarding the investors in dividend payout, buybacks and other measures, that should be contemplated by other state PSUs also. So, it's a request on the part of investor that the key constituents of the DIPAM policy must be studied by the board and its applicability also on the Gujarat based companies that fall under these state PSUs. That is a humble suggestion from my side. Hope the Board looks into it.

And again, you spoke about the factors that will create a new normal for the prices of products. So, are the shutdown being the only factor that that will create the new normal? By that what are you trying to explain us? And how long this new normal is going to be as being said by you?

JI Desai: As Parikh sir told you earlier, I told you earlier that the prices are anybody's guess actually in chemical industry. But the way all things are developing, that is why the new normal level will be attained by some of the products. And new normal means it will remain plus or minus either side by 20% or so.

Saket Kapoor: And on the raw material basket, how is that shaping up? And you have told that there are inflationary pressures, so how much are we vertically integrated in terms of our raw material requirement and what steps are we taking in that purpose?

DV Parikh: Okay. Raw material in general, if we talk about oil, toluene and benzene are definitely going up. But then it's an interplay between output prices and input prices as well as like, demand supply position at a particular point in time. So, far over the years we have been in a position to wither away such kind of headwinds and we hope to maintain such position in time to come as well. As far as derisking part is concerned, to insulate ourselves completely from the price rises, there is a strategy from like risk management to broaden the supplier base which we have often done in case of certain products, which have given benefit both in case of like procurement as well as other products.

Moderator: Thank you very much. The next question is from the line of Ramkishan from Intuit Intelligence. Please go and

Ramkishan: Sir, we are doing some expansions in Romania, and because of that our TDI 2 plant also is expected to go up. So, I think I understand that we have TDI 2 capacity of 50,000 tonnes per annum. So, how much it will go up? And TDI 1 we used to operate 15,000 tonnes, we used to operate around 120%, 130% capacity utilization in the past. So, TDI 2 also can we go to that level?

DV Parikh: First of all, ammonia will not have a direct impact on TDI 2. TDI 2 consumes concentrated nitric acid in its process which is sourced from Bharuch. And concentrated nitric acid is made up from ammonia, so there is a link like this. As far as production increase is concerned, like we



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indicated, it is going to be in the range of around 30 metric tonnes per day at TDI 2. So, you may expect around 12,000 tonnes, 15,000 tonnes depending upon when it actualizes to what extent it debottlenecks. At the same time, it will now have a good amount of reliability because of the new equipment and parallel equipment being put up at the plant. So, benefits will be in terms of reliability as well as production increase, both.

Moderator: Thank you. Next question is from the line of Vinay from Alliance Bernstein Holding. Please go ahead.

Vinay: I just had one question probably on your balance sheet. So, if I remember correctly, you mentioned about Rs. 1,000 crores of net cash today. And with the kind of business coming along, the prices and the demand, I presume we would be continuously generating cash flows going forward. Just wanted to understand your cash allocation policy given that now we have a much stronger balance sheet.

DV Parikh: We are thinking about going further down into the new projects which are being evaluated, apart from like Rs. 1,000 crores, Rs. 1,200 crores kind of investment we are talking about. We are actively thinking about few other lines of business. The current constraint which we are facing is on the technology tie-up front, because most of the time the technology is closely guarded and we are finding it very difficult, like in past we have narrated some of the issues on sourcing the technology of acetic acid. So, although the products might be promising, we are trying hard first to freeze upon the technology part. Once that happens, we can meaningfully utilize our cash; and therefore, we are quite aggressive on this kind of focusing on the new products or new projects.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraints, we will take the last question from the line of Vikram Sharma from Niveyshaay Investment Advisory. Please go ahead. Hello.

Vikram Sharma: What is your major raw material for acetic acid?

DV Parikh: We use methanol as well as specialty nature spirit, SDS we call it, for manufacturing acetic acid.

Vikram Sharma: And is there any pressure on raw materials?

DV Parikh: I correct myself; it is methanol. SDS is into Ethyl Acetate, I stand corrected.

Management: It is methanol plus carbon monoxide, carbon dioxide, as well as some hydrogen, it is basically from SDS. But major consumption is methanol.

Vikram Sharma: So, sir, most of raw material is same or there is any price pressure for cost of raw materials?



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- DV Parikh:** Yes, for the NG part, natural gas part, normally at times there is a price pressure because we are to compulsorily operate that plant, we call it methanol 2 plant capacity at least for catering to the acetic acid to the tune of around 250 metric tonnes per day.
- Vikram Sharma:** Is there any shortfall in market in India for acetic acid? What is current pricing scenario for acetic acid?
- DV Parikh:** Acetic acid, the total market size in India is more than 1 million tonnes. And we are just a 15% player in terms of production and 10% player in terms of the market size. Regarding the pricing, I request our senior marketing people to respond on that.
- YN Patel:** Pricing in India, because the majority of the consumption in India is met through import, it depends on the international price. And international price depends on demand supply as well as methanol price. Methanol price in fact has very direct relation with the natural gas price. So, this is the link as far as price is concerned. And we have to sell our products on import parity price.
- Vikram Sharma:** Sir, right now there is a shortfall in market, what is current market scenario?
- YN Patel:** Right now, since two weeks, because of the delay in parcels there was a short-term temporary shortage. But now the things are improving, parcels are coming now.
- Moderator:** Thank you very much. Due to time constraint, that was the last question. I now hand the conference over to the management for closing comments.
- DV Parikh:** Thank you everyone for active participation and making this con-call meet a grand success. We extend our special thanks to the coordinator and the arrangers of this con-call meet. Thank you, everyone. Thanks again.
- Parth Adhiya:** We thank you everybody, once again.
- Moderator:** Thank you very much. On behalf of Batlivala & Karani Securities India Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.