Gujarat Narmada Valley Fertilizers & Chemicals Limited
CIN : L24110GJ1976PLC002903

(An ISO 14001 & OHSAS 18001 Company)

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May 10, 2018

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Company Code : BSE : "500670"

Company. Code : NSE "GNFC EQ"

Sub: Transcript of Analyst / Investor Conference Call on the Audited Financial Results of the Company for the quarter and the year ended 31st March, 2018.

Dear Sir / Madam,

We had vide our letter dated 5th May, 2018 intimated the Stock Exchanges about the schedule of Analyst / Investor Conference Call on Monday, the 7th May, 2018 at the Registered Office of the company, on the Audited Financial Results of the Company for the quarter and the year ended 31st March, 2018.

We send herewith a copy of Transcript of Analyst / Investor Conference Call which took place on 7th May, 2018. The said transcript is also uploaded on the company's website.

Kindly take the above on record.

Thanking you,

Yours faithfully,
For GUJARAT NARMADA VALLEY FERTILIZERS & CHEMICALS LTD

T.J. Lakhmapurkar
Company Secretary & GM (Legal)

"Gujarat Narmada Valley Fertilizers & Chemicals Limited Q4 and FY2018 Post Results Conference Call"

May 07, 2018

ANALYST: **MR. RANJIT R. CIRUMALLA - BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

MANAGEMENT: **MR. DILIP V. PARIKH - CHIEF FINANCIAL OFFICER - GUJARAT NARMADA VALLEY FERTILIZERS & CHEMICALS LIMITED**
MR. TUSHAR LAKHMAPURKAR - COMPANY SECRETARY & GENERAL MANAGER (LEGAL) – GUJARAT NARMADA VALLEY FERTILIZERS & CHEMICALS LIMITED
MR. G S MAHARAJA – EXECUTIVE DIRECTOR – GUJARAT NARMADA VALLEY FERTILIZERS & CHEMICALS LIMITED
MR. R.T. BHARGAVA – EXECUTIVE DIRECTOR - GNFC LIMITED
MR. D.B. SHAH – EXECUTIVE DIRECTOR (OPERATIONS) – GNFC LIMITED

Moderator: Ladies and gentlemen good day and welcome to the GNFC Q4 FY2018 Post Results 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. Ranjit Cirumalla from B&K Securities. Thank you and over to you Sir!

Ranjit Cirumalla: Thank you. We at B&K Securities welcome all the participants on this call and thank the management of GNFC for giving us opportunity to host this call. We have with us Mr. Dilip V. Parikh, Chief Financial Officer of the company, Mr. Tushar Lakhmapurkar, Company Secretary and other senior members of the management. I would now request the management to start off with opening remarks on the Q4 performance and FY2018 performance post, which we can take the Q&A session forward. Over to you Sir!

Dilip V. Parikh: Good morning everybody. I am Dilip Parikh, the CFO of the Company. This is an overview of the results, which I am covering as of now. The revenue from operations for the full year has grown by around 20%. The profit has improved; PAT has improved by around 51%. The PBT has gone up from 715 Crores to 1162 Crores which is a rise of 63% and similar rise of 51% is there in EPS.

The growth is actually coming from two segments; one is predominantly chemical and within chemicals, it is driven by both volume and price realizations. In terms of segment, the major improvement in fact more than 95% of the improvement has come from chemicals only. Fertilisers we are still lagging behind because of certain provisioning we have done, but then that has cleaned up the balance sheet.

The segment profit of around 1335 Crores, which is apparent in the chemical is mainly driven by the volume and good price realizations across the chemical apart from TDI. This is what I wanted to cover in brief the financials. Now we invite specific comments and questions from the results or any other aspects of the financials of the company.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have our first question from the line of Shuchi Nahar an individual investor. Please go ahead.

Shuchi Nahar: Good morning Sir. Sir my question was regarding capital expenditure. What is the capital expenditure outlook for FY2019 and FY2020? And what chemical capacities are we planning and when are they scheduled for completion?

Dilip V. Parikh: There are three products where we are planning Brownfield expansion. One of them could also end up into a Greenfield expansion. The three products are acetic acid, concentrated nitric acid and formic acid. There is a possibility of a Greenfield project in acetic acid, but that is at a very evaluation nascent stage. Now depending upon the possibility of the production the capex would be around 1000 Crores plus at least over the next couple of years. And if we go for a Greenfield project on acetic acid, it would definitely be close to $1 billion of capex.

Shuchi Nahar: And how are you going to fund this capex in the upcoming years?

Dilip V. Parikh: Except for the Greenfield, I think our internal accrual should be sufficient enough to fund these projects. If required we might go for a smaller term loan from the banks. But if you look at the cash flows of the Company, the Company has around 1500 Crores of operational cash flow per annum, so that should be sufficient for next couple of years to fund the expansion plans of these project and if it remains other than the Greenfield project then it is close to 1000 Crores which we can easily meet out of or less than one year's internal accruals.

Shuchi Nahar: Thank you Sir. That is it from my side.

Moderator: Thank you. We have the next question from the line of Keval Shah, individual investor. Please go ahead.

Keval Shah: Thank you for the opportunity Sir. Sir, my first question is regarding our Ecophos JV. So, by when can we expect the JV to start its production?

Dilip V. Parikh: That has been scheduled around mid of 2019.

Keval Shah: Okay and Sir, some followup questions regarding this that is related to this only. Sir, 100% capacity utilisation of our TDI, what would be the volume of HCl that we would have generated?

Dilip V. Parikh: HCl generated from TDI-II would be close to around 180000 to 200000 metric tonnes.

Keval Shah: Sir, what would be the cost per tonne incurred for lifting this HCl in FY2018?

Dilip V. Parikh: It depends upon the demand from time-to-time but you can say around Rs.2500 is what we work out on an average for lifting the HCl.

Keval Shah: Okay, Rs.2500 per tonne?

Dilip V. Parikh: Yes, now this price will keep on changing every month depending upon the supply and demand situation.

Keval Shah: Sir, what will be our annualized P&L impact due to this JV? If you could throw some light on that?

Dilip V. Parikh: There are two kinds of impacts, which we have covered from time-to-time on our call. The pricing with Ecophos is linked to certain benchmarks. The indexes which are operating in the Euro, but we hope to monetize around 30 Crores to 35 Crores of HCl. In some days we have 15% of the share in the profits as a JV partner.

Keval Shah: This share would likely be coming in bottomline levels, right?

Dilip V. Parikh: It depends. It will be an appreciation based on the fair values. They do not declare dividend and if they declare dividend it will come to us by way of cash.

Keval Shah: All right Sir. My second question is regarding our raw materials. So, I just wanted to know what would be the raw material trend in FY2019 and what will be the impact on our EBITDA levels, so do we have any pass through provisions with the clients etc., if you could throw some light on that?

Dilip V. Parikh: We predominantly have in terms of feedstock two things, which is fuel oil and natural gas including our LNG. Now substantial part of RLNG is a pass through because it goes into urea; however, at TDI-II we have an NG which is for power and steam which is not a pass through as well as here we operate it for methanol, which is again not a pass through. Now these prices have increased in the last year. If you see there is a 22% increase in the fuel oil price as compared to 2016-2017 over 2017-2018. And similar increase is there in the NG prices, but NG is mostly pass through so the impact is that of this fuel oil and it has eaten away close to around 100 Crores plus in terms of the price impact. That is the impact on the EBITDA and that is predominantly reflected in non-fertiliser segment.

Keval Shah: Sir, any pricing outlook for FY2019, if you can comment on that?

Dilip V. Parikh: No, we do not do conjunctures on the feedstock price outlook for that matter any chemical prices as well.

Keval Shah: I will get back in the queue. Thank you very much.

Moderator: Thank you, Mr. Shah. We have the next question from the line of Zain Iqbal, an individual investor. Please go ahead.

Zain Iqbal: Thank you for the opportunity. Can you tell me the average realizations in Q4 2018 for our key products like acetic acid?

Dilip V. Parikh: We do not share actually product specific information.

Zain Iqbal: Can you tell me something about TDI, a ballpark number?

Dilip V. Parikh: The TDI realizations if you average for the last quarter stood at around 4300. Let us talk about the international price first. The international prices for the Q4 2018 have been around 4500 and corresponding quarter last year it was 3500. This is the average based on the published publications like ICIS.

Zain Iqbal: And for methanol?

Dilip V. Parikh: Methanol it is a very volatile kind of a product. It has changed the prices from 24 to 32 range.

Zain Iqbal: And acetic acid?

Dilip V. Parikh: We are crossing the line gentlemen. You are asking each of the product tonne by tonne, we normally do not specify or reveal the product specific prices.

Zain Iqbal: Continuing on TDI, what realizations under TDI would be comfortable for us before it hits us as a loss?

Dilip V. Parikh: This is again a product specific question, but what we would say is current realizations are fine enough to cover up all and earn something decent.

Zain Iqbal: Thank you Sir.

Moderator: Thank you. We have the next question from the line of Naresh Kataria from Money Curves. Please go ahead.

Naresh Kataria: Thanks for the opportunity. Congratulations. My question was on the provisions; I heard it on one of the concalls that we had about 75 or 100 Crores provision last year. I also want to connect that with the fuel norms and the fertiliser prospects. So is it right that this 100 Crores will not repeat the cost or the excess provision and how does that relate to how well we will do in fertiliser and if we improve our fuel norms then how should fertiliser do broadly? I do not want a number, but a broad trajectory for the following years?

Dilip V. Parikh: First of all this 100 Crores has nothing to do with the fuel norms. Energy norms as we call it, which are governed with DUIF. The entire clean up was done in the 2016-2017 FY. As far as the difference of energy norms was concerned, so that is there in the notes to accounts annual report that we were recognizing at more than the prescribed norms which gave a reversal of close to roughly 105 Crores in the last year's financial. And this year the provisions, which we have made are very specific kind. One is on the account of complex fertiliser which is around 74 Crores and second is there is an ongoing gas dispute with GAIL for which we have provided around 25 Crores. So these are the 100 Crores and definitely this will not repeat because this was a one-off provision which was carried from year 2013-2014 onwards. This 25 Crores is for the ongoing dispute of totaling to around 150 Crores for which amounts appearing in the continuing liability the ongoing dispute which we have RCF, Deepak has and we understand Deepak has already won the case after going through arbitration, we have not chosen to go through that route, so our court is lying in the High Court of Gujarat, but we hopeful of getting this in our favour.

Naresh Kataria: Sure Sir that is good to know that we had extra cost last year so the like-for-like adjusted profit is higher. My second question is on TDI. Our MD has given indication in the interview that we are going to do TDI at a higher capacity utilisation compared to 93%, and you also spoke about the capex we are doing in debottlenecking, not the Greenfield, but the other internal capexes. So what could be a conservative or an indicative capacity utilisation for FY2019 and FY2020 in TDI? I am just trying to understand even if the prices correct, I think they are slightly in a downward trend internationally, could the increased capacity compensate for that?

Dilip V. Parikh: This year performance itself is reflecting in volume increase. That is around 20% utilisation improvement in the TDI from 73% to 93% and on a rounded basis, we have manufactured around 60000 metric tonnes, 59633 metric tonnes to be precise as against 47000 metric tonnes last year. So, there is 13000 volume increase this year. Now regarding FY2019 and 2020 we have our head, Executive Director, Mr. G.S. Maharaja who will tell you about the various debottlenecking and stabilisation measures being taken in the TDI, which will improve, further the capacity utilisation. So over to Mr. G.S. Maharaja!

G S Maharaja: In TDI we are going to invest around 170 Crores for providing reliability of the plant and capacity enhancement. By doing so we are hopeful to have lesser downtime as well as higher on stream factors that can give us overall annual capacity utilisation around 100% to 105%. So that is our estimate.

Naresh Kataria: Compared to 93 what we have done in FY2017?

G S Maharaja: Yes.

Naresh Kataria: Excellent. One more related question on TDI Sir is we are seeing that internationally Sadara in Saudi has started, so that is partly reflected in the softening international prices. How can that be in the next one to two years? I mean I know we do not want to project, but could TDI go back to the older prices, which were much, much lower than current or is the international situation different now that we should have?

G S Maharaja: Recently looking through the international market scenario the production capacity in Europe are hampered by some accidents in Europe in their factories, and that way within two years, we do not see any much change in the market scenario because international market is developing at 5% rate annually and Indian market is developing at 7% to 8% annually, and no other production capacities are being added recently. So for this 2018-2019 and 2019-2020 we do not see much of a competition or softening of the price.

Dilip V. Parikh: Naresh to be precise to your question we have roughly 3.1 million tonnes of capacity globally for TDI, and substantial of this is in Europe and out of Asia. Now Asia after entry of Sadara we understand Sadara's target markets are Middle East and Africa and they are going to dump a very small quantities from what we have understood. Their capacity is 200000 metric tonnes when they come up to the 100% level of production, but anyway currently we are competing with all the Asian players including Sadara like we do the pricing every month based on the IPP of not only Sadara, Sadara, Borsod, BASF and other companies including Chinese companies, couple of Chinese companies. So our customers take prices from there, our customers take prices from us and then we do a matching at IPP levels. So, we do not think it is going to create substantial problems, because even if it is 3.1 million tonnes of capacity the kind of growth, which Mr. Maharaja had indicated, globally as well as in India we are going to play a catch up game. So with 80% operating rates, we do not think across the plants, we do not think this is going to be an issue. And even if there are certain pressures for the time being, we have a capacity to sail through smoothly.

Naresh Kataria: Great Sir. Thank you and my best wishes. I think you have done phenomenally well as a team. So please accept my congratulations and thanks.

Moderator: Thank you Sir. We have the next question from the line of Yogansh Jaswani, individual investor. Please go ahead.

Yogansh Jaswani: Thanks for the opportunity Sir. Could you help provide us with the export number that we clocked this year?

Dilip V. Parikh: We have exported total goods worth Rs.629 Crores.

Yogansh Jaswani: 629 Crores and how much of this is through TDI, because I understand the majority is through TDI.

Dilip V. Parikh: Major it is through TDI.

Yogansh Jaswani: And how much is that Sir?

Dilip V. Parikh: Product specific information we are requesting time and again not to please ask for.

Yogansh Jaswani: This is the figure that we usually give out on annual report, otherwise I would not have asked.

Dilip V. Parikh: No that was before 2013 Companies Act, we do not think it is really required, but substantial part of it currently is of TDI, but there are plans to expand into other chemicals export, so which will make this ratio little fair. As of now it is tilted in favour of TDI okay.

Yogansh Jaswani: So safe to assume 70%, 80% TDI?

Dilip V. Parikh: You may.

Yogansh Jaswani: Understood, okay Sir and the fertilizer provisions that you were mentioning in the beginning calls and you are working touched upon it so, those total provisioning is of almost Rs.100 Cores, Rs.74 Crores and Rs.25 Crores that is only the provisioning you are talking about?

Dilip V. Parikh: Yes, we made around 80 Crores provision, Rs.74 Crores is in the complex fertiliser and Rs.25 Crores is regarding the gain in dispute, which is not in the fertiliser segment, which is in the chemical segment Rs.25 Crores.

Yogansh Jaswani: Nothing on the deferred income or the other income part that we show for that energy project, no provision has been made on that front right?

Dilip V. Parikh: That kind of amount was already done in 2016-2017, so there is nothing. In fact there is an asset outside the books totally roughly Rs.253 Crores now. If this is approved it will come in the windfall gain.

Yogansh Jaswani: I understood Sir. I will get in the queue.

Dilip V. Parikh: All the bookings are based on the prescribed government norms only.

Yogansh Jaswani: I understood Sir.

Moderator: Thank you. We have a next question from the line of Sudhir Bheda from Right Time Consultancy Services Private Limited. Please go ahead.

Sudhir Bheda: Congratulation Sir for excellent results and super cash flow for last two years, in which you have repaid almost Rs.3000 Crores of loans. Sir my question would be in fertiliser our confirmation from fertilizer is almost like nil and our capital invested in this segment is around Rs.1500 Crores I believe if we will deduct the asset and liability on that, so that means above 1500 to Rs.2000 Crores is contributing nothing, so how do you look this current year, where the fertiliser segment will contribute in the bottomline going forward? Second question is chemical we are almost deriving 70% of our turnover and 30% from the fertiliser, so this ratio will continue this year or there would be a increase in favour of chemicals?

Dilip V. Parikh: Gradually, we will see more of a chemical than fertiliser because we are not expanding anything into the fertiliser. Close to 1 million tonnes we doing fertiliser, both urea and complex taken together more than that we do not have any plan to expand into that. Secondly we have various issues opened with Department of Fertilisers, so unless these are settled, there is no point venturing too much into these products. Whatever is the investment, which we look is generally done and something, which is not reversible, so we carried through as of now till the time the issues are resolved and if they are resolved in our favour there would be some conclusion gain and we will think further thereafter. Mainly the urea business except for Chambal nobody is venturing into a new kind of a project on urea, even if India a net deficit of around 7 to 8 million tonnes in urea, these are predominantly reasons because these are capital intensive and in terms of the return on investment that is very fixed and subject to the government policies from time to time, so it is not like chemicals where there are cycles and you get chunks to mint money.

Sudhir Bheda: Whether this unit with this segment will start contributing in this year 2018-2019?

Dilip V. Parikh: We hope to because if oil prices remain stable possibly we will be in a position to sail through safely because across if you see the urea is a regulated business, the unregulated business is nitrophosphatic fertiliser where number one on the topline we have an intense competition and there is a cost pressure because of the input prices of oil and rock phosphate, which we use. Rock phosphate again they are benchmarking their prices mainly through phosphoric acid, which has gone up substantially as compared to last year, so this is what the advisory phase in terms of the cost pressures.

Sudhir Bheda: Sir after this Brownfield expansion is over what would be the contribution of TDI in our chemicals, it will be reduced substantially I believe?

Dilip V. Parikh: Our efforts are to actually bring forward all the non-TDI chemicals as well but it has some time gestation of couple of years mainly acetic acid and formic acid and CNA.

Sudhir Bheda: Thank you.

Moderator: Thank you. We have next question from the line of Govindlal Gilera individual Investor. Please go ahead.

Govindlal Gilera: Congratulations for good set of numbers and for giving opportunity to me for asking question. I got two questions. One is other expenses instead of sale is going up substantially they have come down year-on-year and quarter-on-quarter also and next question is regarding other income on year-on-year it has gone up from Rs.141 Crores to Rs.224 Crores exactly what kind of contributions are there in this, why this has gone up correspondingly last year?

Dilip V. Parikh: Basically on the other income there are recognition of EPCG benefits and last year was the first year for recognition in terms of the adoption of international standards, so ASGP interest part also, this feedstock conversion project, which we had in 2013-2014 that income also has contributed and the third part is the insurance claim of around Rs.60 Crores, which was part last year, so these are substantially making up the other income of around Rs.200 Crores plus last year.

Govindlal Gilera: This Rs.200 Crores plus is there any one-offs Sir or it is recurring in nature, this year also we can expect same amount of other income?

Dilip V. Parikh: It is not like that. EPCG benefit we had an obligation of close to Rs.600 Crores and this year we are almost through with all the EPCG obligations paltry amount of Rs.5 Crores, Rs.10 Crores is left. So now no more yourselves of EPCG benefit obligations are expected this year.

Govindlal Gilera: How much Sir last year?

Dilip V. Parikh: Last year it was around Rs.60 Crores.

Govindlal Gilera: Other than that rest of it will be recurring Sir?

Dilip V. Parikh: Insurance again may not recur because insurance was one-off we got around Rs.60 Crores that year, so that may not recur and this year the total insurance was around Rs.10 Crores or so.

Govindlal Gilera: So Rs.60 Crores plus Rs.60 Crores, Rs.120 Crores is not recurring last year what you have?

Dilip V. Parikh: If you see FY2018 versus FY2017 that is the gap between other income.

Govindlal Gilera: Okay, regarding the other expenses are in spite of sales going up year-on-year, quarter-on-quarter they have come down substantially?

Dilip V. Parikh: That is mainly because of the freight on imported urea, we dispensed with the business of imported urea and this year we have done 150000 metric tonnes less than the previous financial year, so that has a direct impact on freight movement, so substantial part is contributed by freight.

Govindlal Gilera: Thank you.

Moderator: Thank you. We have the next question from the line of Jayesh Parekh from JMP Capital. Please go ahead.

Jayesh Parekh: Thank you very much for the opportunity. I think couple of my questions has already been answered; only two small questions is left. One is we have excellent operating cash flow of about Rs.1500 Crores, now suppose if these kinds of cash flow continue for at least next two years then what are the company's major plans on cash utilisation, the short-term working capital of about

Rs.250 Crores, do you think that the company would be debt free from working capital point as well?

Dilip V. Parikh: Our efforts are all to be debt free in terms of the working capital at the earliest well before this financial year, number one. Number two out of around Rs.1500 Crores cash flow, which you see the interest cost is going to be almost negligible now and if we assume a capex of Rs.1000 Crores spread over next three years possibly Rs.300 Crores, Rs.400 Crores of capex we will be doing every year, so rest some Rs.100 Crores, Rs.150 Crores may go in terms of dividend and remnant internal accruals should be with the company.

Jayesh Parekh: My second question is that the dividend distribution policy whether any broad guideline has been finalized by the board as far as dividend distribution is concerned because in FY2018 your dividend distribution is about 18% to 20% including the tax part, now suppose if you generate such a huge cash flow, will it not be right to improve upon distribution policy and decide one dividend distribution policy by the board, any view on this?

Dilip V. Parikh: The Company already has a dividend distribution policy in place. You can get in touch with the shareholder's service department, and it is very much in place and subject to various factors being considered by the board of directors, so this is something, which is a prerogative of the board. This time also there are many discussions about the level of dividend and this is decided year-on-year.

Jayesh Parekh: Yes and once again my congratulation to entire team for a wonderful performance for FY2018 and all good luck for coming year.

Dilip V. Parikh: Thank you.

Moderator: Thank you very much Sir. We have a next question from the line of Hiresh Pathak from Goldman Sachs. Please go ahead.

Hiresh Pathak: Thank you for taking my question. Sir if you can share I know you are not giving product specific data but just out of curiosity I wanted to know that in the segment profit that we disclose chemical segment profit, if you can just briefly indicate how much of our operating profits in the chemical come from TDI?

Dilip V. Parikh: That would not be the disclosure, which the Company normally makes and this is what we made clear as a matter of policy before opening the call and from call to call time and again that this is not something, which will be shared, not only by us, but by any company. If you look at GSFC, GACL, I do not think they will share such kind of information.

Hiresh Pathak: Sir another question I have is if you can give me like three materials that are needed for TDI, I know about Toluene, if you can give me like as a thumb rule how much chlorine and how much power and natural gas you use for pertain of chlorine?

Dilip V. Parikh: Okay the key raw materials are concentrated nitric acid apart from Toluene and natural gas for steam and power. Chlorine you can say 10:10 ratio is there. In terms of natural gas, which is used, we use roughly 160,000 SCMD per day. Depending upon the TDI level goes up to 200000 SCMD a day and therefore natural gas has three key ingredients in deciding about the variable cost of TDI because the hydrogen and CO cost is dependent upon that.

Hiresh Pathak: Okay and concentrated nitric acid, what is the ratio used?

Dilip V. Parikh: Concentrated nitric acid is 0.785, so 0.8 you can say.

Hiresh Pathak: 0.8 for 1 tonne and Toluene is 0.65, is that correct?

Dilip V. Parikh: Yes, that is 0.7 you can say.

Hiresh Pathak: 0.7, and natural gas you say you use it for steam as well as power, so bulk of the 200000 SCM per day that is going into both, so there is no power purchase from the grid or from coal, this is all from natural gas, correct?

Dilip V. Parikh: Predominantly, we do have an arrangement for power, but predominantly we use this steam and power from gas.

Hiresh Pathak: Okay, is there like if somebody is using different fuel source, so is there a thumb rule in terms of how many units of power are needed for 1 tonne?

Dilip V. Parikh: No, I do not have that –our operation team is having but see this is getting into quantifying the variable cost of the product, so beyond this we do not take forward this discussion.

Hiresh Pathak: All right. Thank you Sir. I appreciate it.

Moderator: Thank you Sir. We have next question from the line of Pradeep Jalvi from PRB Securities. Please go ahead.

Pradeep Jalvi: Thanks for taking my call. I just wanted to know any subsidy we are receiving for the fertiliser segment and what is the time lag for receiving it?

Dilip V. Parikh: Subsidy normally in our books of account you see around 1000 Crores to 1100 Crores every year. Depending upon the rates of the gas. Now the time lag is between 60 and 90 days of the cycle, which is there for the product subsidy. Regarding this freight subsidy, it takes more time because it is given on an ad hoc basis. So on an average, the predominant part is to product subsidy, so you can say around three months' time is taken in processing the claims overall.

Pradeep Jalvi: Thanks. There was no other question.

Moderator: Thank you Sir. We have next question from the line of Seha Bahety from Credint Capital. Please go ahead.

Seha Bahety: Sir basically your previous guidance or with respect to new product, you were planning to extent Gujarat model to other states as well, which is why a collection target for financial year 2018 was somewhat like 40000 metric tonne of Neem seed and production target was around 29,000 metric tonne of Neem oil and 22,000 metric tonne of Neem cake, so can you just update me as to whether we have achieved those targets because they were quite high when you compare it to the previous year number?

Dilip V. Parikh: I will leave it our Executive Director, Mr. R T Bhargava to comment on this.

R T Bhargava: Good morning. I am Bhargava. Regarding the need seed, we have collected almost about 25000 tonne of Neem seed this year and our target for the next year, current year, the season will start somewhere from June beginning to July end, in this season we intent to collect about 40000 tonne of seed and that we will collect from the various states predominant will be Gujarat and then thereafter Madhya Pradesh, Rajasthan, Maharashtra, Karnataka and Uttar Pradesh. So these are the states from where we intent to collect the need seeds and whatever the numbers, which you have told regarding the oil and Neem cake, we will then follow because ultimately there is no waste product from the Neem seeds. So Neem oil is there and then there is a Neem cake that will follow.

Seha Bahety: Okay and also we have already ventured in too many Neem based FMCG product, what has been the improvement in terms of number of retail outlet in the geographical reach and the new products launched?

R T Bhargava: We have launched number of product and recently in April we have launched a face wash. We are already selling our products in Delhi, UP, Rajasthan, Punjab, Haryana, Gujarat, Maharashtra, to all these regions we are selling our products through almost more than 20000 outlets.

Seha Bahety: Okay and what portion of the segment the revenue is contributed by this selling FMCG product?

R T Bhargava: See we are into all Neem product only and unlike other such segments, we have all products where the Neem oil is used, like a pesticide, face wash, handwash, then all other soaps, different type of soap, so all those products where the Neem oil is used predominantly, even Neem mosquito repellent, so those products I would say that I would not like to use the term FMCG, I would like to use the term the Neem oil where the value addition is there in those products.

Seha Bahety: No Sir, my question was what is the generation of revenue from these Neem based products?

R T Bhargava: We can say roughly about 15 Crores to 16 Crores.

Seha Bahety: Bottomline, 15 Crores to 16 Crores is in the bottomline, right?

Dilip V. Parikh: Product specific information, madam please do not ask, this is what we requested on the call.

Seha Bahety: All right. Thank you.

Moderator: Thank you. We have a next question from the line of Tejas Seth from Reliance Mutual Fund. Please go ahead.

Tejas Seth: Congrats on these set of numbers. I just wanted to know this 1000 Crores of capex, which you said over the next three years, Rs.170 Crores will be towards TDI plant, where the balance will be utilized and what would be the economic of rupees this 1000 Crores capex in terms of turnover potential?

Dilip V. Parikh: Apart from TDI debottlenecking, there are three products, which we are planning. One is the formic acid, second is acetic acid and third is concentrated nitric acid. There is another debottlenecking in the ammonia also, which is around close to Rs.104, which we are planning. Now in terms of the turnover and all, it is a little premature because these are just found in the last quarter, so once a proper evaluation is done we will be in a position to throw the numbers, but these are having an IRR of roughly around 15% to 20% minimum, on which we are working. So in terms of topline and bottomline, we will come back after certain time when we have detailed feasibility reports available.

Tejas Seth: Okay. Fine Sir. Thanks a lot. That is only thing.

Moderator: Thank you Sir. We have next question from the line of Nayan Kapadia, Individual Investor. Please go ahead.

Nayan Kapadia: Congratulations for the good set of numbers. Sir I need to understand what is the antidumping duty on Sadara plant, it is applicable to their plant also?

Dilip V. Parikh: No. Sadara came recently, so it is not part of the antidumping duty and we made applications Sadara was nowhere on the horizon, so it is not applicable in case of Sadara imports.

Nayan Kapadia: Okay, Sir what is the rate of antidumping duty on TDI?

Dilip V. Parikh: It depends on what is the origin of the country, and there is a detailed notification available in the pubic domain as to for which origin, what kind of specific duty is applicable.

Nayan Kapadia: Okay. Sir do you manufacture MDI also in our plant?

Dilip V. Parikh: No.

Nayan Kapadia: Thank you.

Moderator: Thank you Sir. We have next question from the line of Hiresh Pathak from Goldman Sachs. Please go ahead.

Hiresh Pathak: Thank you. Sir for Brownfield capex, you mentioned 15% to 20% IRR, for the Greenfield capex, which you said is it early stage as of now. I just wanted to understand that what is typically our hurdle rate, the minimum IRR that we need for a Greenfield?

Dilip V. Parikh: In case of a Greenfield, it is going to be decided by our technology provider, so it is too early to tell you what will be the hurdle rate because it is definitely going to be multinational company, which we will be venturing into and we have no idea about their hurdle rate as of now.

Hiresh Pathak: As the investment committee that we will have in the company that what is the minimum IRR that we need, when we decide to invest?

Dilip V. Parikh: We are fine with 15 to 20, but the hurdle rates normally in multinational companies are very high. We have no idea about that.

Hiresh Pathak: At that equity level, you are saying or at the project level the 15% to 20% IRR?

Dilip V. Parikh: IRR is IRR whether it is with the assumption of combination of debt and equity.

Hiresh Pathak: Combination of debt and equity, all right. Thank you.

Moderator: Thank you Sir**.** We have a next question from the line of Devendra Bhandari from Joindre Capital Services. Please go ahead.

Devendra Bhandari: Sir, this is answered only.

Moderator: Thank you Sir. We have next question from the line of Aakash Jain from Ajcon Global Services Limited. Please go ahead.

Aakash Jain: Sir my question is regarding plants on non-TDI products?

Dilip V. Parikh: Yes, you can assume around 800 Crores other than TDI.

Aakash Jain: Okay and what is the progress on exports on ethyl acetate and formic acid?

Dilip V. Parikh: So, it is taking shape?

Aakash Jain: Okay and till what time we can expect rally in TDI prices, can it cool down and what factors can post it to cool down?

Dilip V. Parikh: Difficult to answer.

Aakash Jain: Thank you Sir.

Moderator: Thank you. We have a next question from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Good morning Sir. Sir with respect to other income side, could not get – you have mentioned regarding the insurance claim of 60 Crores and some other benefit, so both this two item, it appeared in FY2019?

Dilip V. Parikh: No. See the question was comparative between the two years of other income. 2016-2017, we have more of another income, that was predominantly comprising of the EPCG, insurance claim and the feedstock conversion gas amount of around 60 Crores.

Siddharth Mohta: So it was not there in FY2018 actually hence the reduction in the other income?

Dilip V. Parikh: FY2018, the insurance was not to that extent and the EPCG gain reversal also was not to that extent because gradually the EPCG obligation came down, the substantial chunk was recognized in 2016-2017 because of the adoption of international accounting standards.

Siddharth Mohta: Got your point and Sir my second question is with respect to fertiliser segment, so at the current energy cost or at the current raw material cost, whether you will be making any profit at EBIT level for ANP and complex?

Dilip V. Parikh: EBIT level, we can say around 2% to 3% we will make definitely, but at net level, we do not know because of the dynamics involved on the oil front.

Siddharth Mohta: Okay.

Moderator: Thank you Sir. We have next question from the line of Levin Shah from ValueQuest Research. Please go ahead.

Levin Shah: Thanks a lot for the opportunity. My question pertains to this Greenfield capex that you have just mentioned about on this acetic acid, so how big is the capacity that we are actually planning and how much would be roughly the capex involved into it?

Dilip V. Parikh: We already answered that. We are saying that as of now the plan is all Brownfield, in case something really clicks then it could be Greenfield and if it is Greenfield and of a level, which we have as of now envisaged it could be closed to $1 billion.

Levin Shah: Okay and so the capacity that we have currently would be more than doubling the capacity, if we go for Greenfield capex?

Dilip V. Parikh: It would be substantially more than the existing we have because the Greenfield, which we are talking is substantially many times than the current capacity we have and therefore this is large sized capex but it all depends upon what our partner thinks about.

Levin Shah: Okay and Sir on this acetic acid and ethyl acetate, what is the global supply demand scenario that is currently on like in the global market?

Dilip V. Parikh: Ethyl acetate, the India is a surplus market, so we have enough capacity of ethyl acetate within India. Acetic acid is a net deficit market in India. The total import is around 1 billion metric tonne out of which 8.5 billion metric tonne is being imported and therefore we are planning big thing on acetic acid.

Levin Shah: Globally Sir what is the supply demand scenario in acetic acid?

Dilip V. Parikh: Supply demand global capacity I do not have much idea as of now, so I am not in a position to answer this question.

Levin Shah: Okay and how has been the price movement in acetic acid international prices or maybe both domestic as well as international?

Dilip V. Parikh: Acetic acid has moved up substantially this financial year. In fact we have one of the best realizations in acetic acid this year.

Levin Shah: Okay and how do you see that panning out over next year?

Dilip V. Parikh: Difficult to answer.

Levin Shah: Thanks a lot.

Moderator: Thank you Sir. We have a next question from the line of Suyash Kapoor from Kapoor Company. Please go ahead.

Suyash Kapoor: First and foremost, congratulations as your result are very solid. Sir, kindly if you can elaborate on spot, strengths, weakness, opportunities?

Dilip V. Parikh: This Company first of all has a very good technical expertise. Now most of the products, which are import substitute. This is the strength of the company. The swat we will cover detail in our annual report.

Suyash Kapoor: Okay. The debt reduction, which you are doing, what is the main reason for doing that? Meaning many companies have some debt, but your company is reducing the debt? What is the reason for debt reduction?

Dilip V. Parikh: As of now there is nothing further to deploy and we had a very bad experience in year 2014-2015 of High-Debt structure and our team is to become debt free and what your intend to do going further, we do it more out of the internal approvals is the thought.

Suyash Kapoor: What is the impact of the DBT on the finances of the Company, Direct Benefit Transfer, which is being on the planning stage?

Dilip V. Parikh: It is tying up little more working capital, because after the sales only we will get these subsidy, which hitherto was based on the receipt of the subsidy.

Suyash Kapoor: Thank you.

Moderator: Thank you. We have next question from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Sir within chemical division Sir we have seen there has been increase in the power and fuel cost especially due to increase in the crude oil, so whether they have been able to take the price increase across all the products?

Dilip V. Parikh: This is how the bottomline has increased. The power and fuel cost on an annualized basis has gone up from 779 Crores to 889 Crores, so around 109 Crores of increase but as against that if you see the difference in the profit from 715 Crores to 1162 Crores of PBT, so we are in a position to not only pass but to extract more from the market.

Siddharth Mohta: Okay at the current crude level of $70-$75, we have pretty much comfortable with our finished good prices?

Dilip V. Parikh: Most of the product you can say.

Siddharth Mohta: And Sir with respect to urea that is notified energy norm, Sir where we are?

Dilip V. Parikh: We closed the year at 6.49 as against the prescribed norm of 6.301 for our Company and early 2019 we intend to surpass this target of 6.301, so this is what is on the agenda. Moreover I would like to have the comment from our Executive Director Operations he would guide more on the subject.

D.B. Shah: This is Mr. D.B. Shah. As our CFO said, we will be crossing the target of 6.301 by early 2019 and still we have some plans, so we will see that whether we can reduce it or not by some investment, but definitely in 2019 we will be through with the norms given by the government.

Siddharth Mohta: Okay, Sir so due to this difference of 6.5 versus 6.3, so we might be incurring some loss from the government side?

D. B. Shah: Not government side, on the Company side.

Siddharth Mohta: Yes, that is the government is not paying that particular difference amount, so what would be that amount?

Dilip V. Parikh: This is measured in terms of the gigacalorie and the rate of gigacalorie is around 20 to 50 as of March 2018. So you can calculate the difference for 0.2, so around Rs.400 is what we have absorbed per tonne of urea.

Siddharth Mohta: Okay, so if you can just quantify the entire amount because calculation is – it is bit difficult?

Dilip V. Parikh: So around 30 Crores is what we have absorbed in the urea.

Siddharth Mohta: Okay and it may continue for calendar year 2018, then it will not be there?

Dilip V. Parikh: It is likely to come down effective third quarter 2018-2019.

Siddharth Mohta: Yes Sir and Sir my last question is on this TDI Dahej plant. Sir we are trying to improve the efficiency and the cost parameter of Dahej plant, so can we assume that TDI Dahej is somewhat equivalent to TDI plant I?

Dilip V. Parikh: In terms of?

Siddharth Mohta: In terms of operational efficiency, in terms of power and fuel consumption?

Dilip V. Parikh: I will leave the question to our Executive Director, G S Maharaja is looking into the TDI II operation. The question is whether we can come to the same efficient operation level as that of TDI one?

G.S. Maharaja: It will take some more time because I think, but 2020 we can expect because some reliability measures will be in place and then this is possible.

Siddharth Mohta: So today the difference between the two plants it would be 20% to 25%, in terms of EBIT per metric tonne?

G.S. Maharaja: 10%.

Siddharth Mohta: Thank you Sir. All the best.

Moderator: Thank you Sir. We have next question from the line of Hiresh Pathak from Goldman Sachs. Please go ahead.

Hiresh Pathak: Thank you for taking my question again. Sir I just wanted to understand this investment that companies do in improving the energy efficiency norms of the TDI plant, is there like sort of a guarantee that the government tells that you will be able to recover the investment for a period of years or they can change the energy norms after you have done the investment?

Dilip V. Parikh: This is the industry wide phenomenon. Most of the companies in the urea business is in the same boat more or less. The degree is different. Government is not considering any capex reimbursement for the urea energy, which we have to bring down. Like in our case, we have invested more than 300 Crores on our own to improve the energy efficiency and we are about to incur some more capital expenditure about 60-70 Crores further down to bring the energy level to below 6.301 because the government has given a relaxation from the current standard for around two years with 1% and 5% penalty clause respectively for two years.

Hiresh Pathak: And so once let us say achieve 6.3 then government can further lower our reimbursement at which they can give us the energy efficiency norms?

Dilip V. Parikh: Till April it has already lowered down to 6.201. The only relaxation they have given is in case any companies higher than 6.20 in the band, in which GNFC is done a penalty of 1% would be applicable for year one and 5% for year two.

Hiresh Pathak: Okay. All right. Thank you.

Moderator: Thank you Sir. We have next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: Congrats on the good set of numbers. In Q4, the power and fuel cost has come down Y-o-Y, why is it?

Dilip V. Parikh: Why is because Madam you referred to the Q4 numbers of last year 2016-2017. We did one time adjustment in the Q4, which is evident in the notes to accounts, so the entire power and fuel cost got adjusted for the whole year in Q4 last year, and thereafter quarter-on-quarter we are witnessing a higher power and fuel cost. This is mainly because of the three dominant reasons, one is in the nature of input, which we change, it is of a higher NG price which we are considering now for power and fuel because of the ongoing dispute with the GAIL.

Charulata Gaidhani: In chemicals how much was the volume growth and how much was price growth?

Dilip V. Parikh: Volume and price growth differs from product to product, but predominantly there are three or four products where volumes have increased substantially, one is technical grid urea, second is TDI, third is formic acid and fourth is aniline apart from methanol and ethyl acetate. The realizations are quite better in case of aniline, acetic acid, formic acid; three products apart from TDI.

Moderator: Thank you. Due to time constraints, we are taking the last question. We have a last question from the line of Rishub Botra from Sharekhan. Please go ahead.

Rishub Botra: Good afternoon Sir. Congrats for the good set of numbers. I have two questions. One is we have investments to the tune of around 350 to 400 Crores, and they are almost trending near to the book value only, so rationale for holding these investments, one of them is GSFC 1.88% and secondly since we are going forward you mentioned that we are more towards chemical segment, so can there be a possibility of more to consider hiving off fertiliser division to GSFC?

Dilip V. Parikh: No, there are no such plans on the anvil.

Rishub Botra: And regarding investment?

Dilip V. Parikh: Investment, most of the investments are strategic in nature. So I do not think we are so indirectly GOG, Government of Gujarat owned company and most of the listed investment including the Gujarat Gas, GSPL and GSFC, GACL, so they are all government of Gujarat owned company and we do not think board will consider any such move of hiving off or liquidating these investments.

Rishub Botra: But Sir since these would release cash portion for us and GSFC has twice the turnover of fertiliser division, so I think it would be appropriate for the government also to consider such things?

Dilip V. Parikh: This needs to be represented by somebody at different forum, we at the Company level are not envisaging any such thing.

Rishub Botra: I mean the board can consider and propose it to the government in case it feels fit so?

Dilip V. Parikh: We will leave it to the board to decide.

Rishub Botra: Thank you Sir.

Moderator: Thank you Sir. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments. Over to the management!

T J Lakhmapurkar: We are thankful to Mr. Ranjit Cirumalla from B&K Securities India Limited for arranging this concall. We are also thankful to Mr. Bikram from Chorus Call for nicely handling this concall and last but not the least all investors and participants without, which we cannot do this concall. We are also thankful to all the investors and leading broking house. Thank you so much.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Batlivala & Karani Securities that concludes this conference call. Thank you for joining us. You may disconnect your lines.