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Co. Code: NSE- "GNFC EQ"

Sub: Transcript of Investors / Analysts meet through Conference Call.

Dear Sir / Madam,

We had vide our letter dated 10th August, 2021 intimated the Stock Exchanges about the schedule of Investors / Analysts meet through Conference Call on Monday, 16th August, 2021 at 3.00 PM IST through Conference Call.

We send herewith a copy of Transcript of Investors / Analysts meet through Conference Call which took place on 16th August, 2021. The said transcript along with the audio is also uploaded on the Company's website i.e. www.gnfc.in

We request you to kindly take note of the same on your record.

Thanking you,

Yours faithfully,
For Gujarat Narmada Valley Fertilizers & Chemicals Ltd.

CS AC Shah
Company Secretary & GM (Legal)



**“Gujarat Narmada Valley Fertilizers & Chemicals
Q1 FY2022 Earnings Conference Call”**

August 16, 2021

MANAGEMENT: **MR. D. V. PARIKH – GENERAL MANAGER &
CHIEF FINANCIAL OFFICER - GUJARAT NARMADA
VALLEY FERTILIZERS & CHEMICALS**
**MR. Y.N. PATEL - HEAD OF DEPARTMENT (O&M)
- GUJARAT NARMADA VALLEY FERTILIZERS &
CHEMICALS**
**MR. A. C. SHAH - GENERAL MANAGER &
COMPANY SECRETARY - GUJARAT NARMADA
VALLEY FERTILIZERS & CHEMICALS**
**MR. JITEN DESAI – CHIEF MARKETING MANAGER
- NARMADA VALLEY FERTILISERS & CHEMICALS
LIMITED**



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D. V. Parikh:

Thank you. On behalf GNFC we welcome all participants to this Q1 FY2022 earnings conference call. Now the results are well before you and you must have gone through the same so I am not going into as of now the much integrity of the results I will take the question as and when it comes up, but I will give you some general idea about the industry structure in which we are operating. On fertilizer front it is somewhat muted as compared to FY2021 Q1 in terms of the volume and consumption especially a mixed fertilizer laid by DAP is affected significantly. Apart from this where our input costs which have gone up significantly in case of both urea as well as mixed fertilizer affecting the profitability of non-urea manufacturers especially DAP and others and therefore the production rate has also gone down in some cases. With change in subsidy government support has definitely come for the NPK side, but it is for a limited period as of now up to October 2021 and with continuously rising price the industry is expecting not only the continuation but further rise in the NPK. On the chemical side like company has witnessed in general also there is buoyancy in chemical market since Q4 last year and the same has continued in Q1 except for certain products like TDI. TDI has not done well especially the reasons attributable are that of a pandemic for the first two months at least and there is a rub-on effect also after that in June.

Secondly if you talk of the company performance Q1-to-Q1 is little comparable because in April 2020 there was a forced step down on account of lockdown whereas this time it was because of the plant shutdown barring for the few days of differences between the number of days between the two periods more or less the situation in terms of the volume is comparable; however, in terms of the price there is a marked difference, so apart from volume of production price realizations are significantly different and sales volume are also significantly different, so Q1 FY2022 is actually laid by both improved price and volume realizations as such as compared to Q1 FY2021. As compared to Q4 FY2021 the volumes have gone down by around 23% and 30% mainly all the rounded figures I am talking my colleagues will give the exact idea about the volume performance and realization performance also, so it has gone down by almost 23% and 30% mainly because of the availability of the product in way of the annual plant shutdown, so this has been the operating scenario for the company in Q1 and as compared to these factors if you look at the results there was marked improvement both at PBT, PAT level as well as EBITDA level and if you compare at EBITDA level in terms of percentage there is an improvement over Q4 also. There are some changes in the cost structure mainly because of the shutdown, so this is broadly the scenario on the operating front for the company. With this, I will now



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hand over to you back for the question and answer and my colleagues will support the detailed questioning on the marketing as well as operations front. Thank you very much.

Amit Sanghvi: Just I wanted to know the price trend from Q4 FY2021 to Q1 FY2022 and also from Q1 FY2022 to Q2 FY2022 so far that is one thing, another thing whether the products and dispatches have become normal in Q2 so far, my third question is we have a huge cash balance of approximately 1800 Crores, so I just wanted to know whether there would be any buyback of sales because we do not have any major capex in the current financial year, these are the three questions from my side?

D. V. Parikh: Mr. Amit Sanghvi we have received your e-mail as well, on your first question our marketing colleague will answer, on your other two questions the buyback part is something which we cannot comment as such as a company whether there is an active thinking or not, but we do examine various options okay, these are the matters of price sensitivity, so we do not comment on that. In fact I would like to supplement that such corporate action decisions are taken by the management at appropriate time and it is difficult to judge what time is the appropriate time, whatever in fact management feels appropriate at that time it will be considered. On your second question whether the production volumes have normalized yes, after the shutdown it has normalized at both the complexes okay and regarding now we touch upon the first question where our colleagues from marketing, Shri. Jiten Desai will answer about the price trends across the periods.

Jiten Desai: Good afternoon, Mr. Sanghvi. This is Jiten Desai. Your question is regarding comparison between Q4 last year and Q1 this year?

Amit Sanghvi: Right.

Jiten Desai: So, as Parikh Sir just mentioned that our sales volume has gone down to 23% in Q1 basically because of the pandemic effect in the April and May and as far as price is concerned over invoice value of the volume has remained intact means there is a 23% reduction in volume, but the gross invoice will be reduced by 21% that means that there is some improvement in net prices of the products and as far as Q2 is concerned which current period July onwards, July and August half of the quarter has been passed and in this quarter also net price is sustaining. I would like to mention that seven products out of 10 main products the prices have attended historically highest level in Q4 and that has sustained yet.

Amit Sanghvi: Thanks.



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Govindlal Gilada: Good afternoon to all GNFC team and congratulations for good set of numbers in spite of shutdown. My first question is how many days you have taken shutdown for which plant for both or one of the plants and any shutdowns are due in current financial year going forward that is the first question, second question how is the pricing scenario already you have told that highest prices (inaudible) 10:40 45 days of even current quarter also that is good news, but going forward what is your outlook that we want to know, these are the two questions? Thank you.

Y.N. Patel: Regarding first question I would like to answer, we have plant shutdown of 25 days which is our main ammonia plant and most of the plants which are dependent on ammonia plant downstream where the shutdown days varies depending on availability of gas production from ammonia plant, so it varies from 23 to 25, 27 and sometimes certain plant takes time because we call it is a whole shutdown when shutdown is of longer duration generally it takes a long time for stabilization, so this is about our plant shutdown, but now throughout the year there is no plant shutdown except in some of the plants we have expected a new production days of two days, three days here and there in different plants, otherwise in current year there is no plant shutdown as such.

D. V. Parikh: Mr. Patel covered the Bharuch complex, the TDI-II which is Bharuch complex also went under shutdown from the first week of June, so practically Bharuch was under shutdown for almost close to whole of April and Dahej plant was under shutdown for practically for June barring few days here and there. Regarding your next question which is on the outlook front so there is a dynamic situation especially in chemical and predominantly the volatility is always in the chemical both on the output prices as well as input prices, so as of now like my colleague told Mr. Jiten Desai we foresees a fair outlook, but these are like chemicals which are subject to volatility, so this is with a pinch of caution that you have to take the information.

Govindlal Gilada: Just for further clarification I also keep track mix of your product prices so as per my knowledge I may be wrong, so please correct if I am wrong there, so what I am tracking is most of your product prices are comparing last quarter average we have done as per my knowledge, we are saying that most of the prices of second quarter sustained that is one thing, and the second thing I want to know how raw material prices also behaving and first quarter now second and going forward or let us say it is 45 days or another 45 of this quarter how our margins will be there comparing first quarter?



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- D. V. Parikh:** That would be kind of a forward looking statement and sort of price sensitive information, so we would stay away from answering this particular kind of question, what are going to be the margins in Q2 45 days.
- Govindlal Gilada:** Okay, 45 days you told that last quarter prices have sustained and since prices have sustained so we presume that it is 45 days what has gone in second quarter we are maintaining margins of last quarter that we can presume and raw material prices in the benefit of lower raw material prices was there in first quarter that was I want to understand Sir?
- D. V. Parikh:** In chemicals all inputs are increasing whether we talk of key or non-key all inputs have gone up or going up rather since quite sometime, so it is a dynamic between the two, secondly we are not normally in a position to even foresee a week down the line as far as chemical volatility is concerned, there are many factors affecting, our colleague will touch upon some of the like products with example so it is very difficult to talk about the outlook which you are asking. May I request Jiten Desai to give couple of examples on the product pricing front which changes too frequently with too much volatility.
- Jiten Desai:** As rightly said by Parikh Sir that there is volatility and it is very difficult to predict as far as chemical market and chemical prices are concerned. I would like to give the example of acetic acid that acetic acid about 90% of the Indian consumption is met by import and in recent times due to shipping constraints there are delay in arrival of the parcels at that time the prices have gone up beyond the international level, but when this delayed parcel come in bunch then there is a surplus at once in the market and that will reduce the price below the international level, so that is what is going on nowadays this is one example that is more or less true for other products also.
- Govindlal Gilada:** Thank you Sir. I will come back in the queue if I got further questions.
- Saket Kapoor:** Thank you for the opportunity. Sir, in a way we can conclude that this plant shut down was good during the COVID times there were hindrance in maintaining the production level at optimum levels so had this happened in some other quarters the impact would have been greater since it was a COVID period also hence the shutdown have worked better for us?
- D. V. Parikh:** Some products yes, from the production perspective there would have been product available, but in some products like we talked about toluene diisocyanate it was affected severely so we are used of piling up, the other products also which were affected in the



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lockdown marketing people will give you some better idea if we would have the production worth 26 days what would have been the scenario.

- Y.N. Patel:** Yes, in one way pandemic has affected the demand and that is why it is a coincidence with our shutdown schedule, but by and large plan for the shutdown actually whenever there is a plant shutdown we plan for it and for some of the products our sales is not affected because of the shutdown, we were having some inventory for that and obviously we have to plan to cater the need of our customers continuously and uninterruptedly.
- Saket Kapoor:** There is an inventory pileup what we see in the quarter numbers of 96 Crores it is predominantly TDI?
- D. V. Parikh:** Yes.
- Saket Kapoor:** Okay.
- D. V. Parikh:** If you see in the quarterly numbers there is a net increase in the inventory, which is led by TDI.
- Saket Kapoor:** The TDI price trends for March quarter and June quarter, what was the trend in the TDI international prices?
- D. V. Parikh:** TDI prices remain steady actually.
- Saket Kapoor:** That means they are flat?
- D. V. Parikh:** In the last 15 to 20 days and last two to three weeks there is slight increase.
- Saket Kapoor:** In dollar terms can you give some more colors for what was for the March end and what are the trends currently, just a ballpark?
- D. V. Parikh:** In the month of March it is almost steady, April and May it has gone down but compared to that it has increased in the month of July.
- Saket Kapoor:** Then you can give the realization for the last quarter, what was the realization for TDI, the blended realization for the entire quarter and the March numbers?
- D. V. Parikh:** The product specific information we normally avoid.



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Saket Kapoor: Right, Sir, you have spoken about raw material prices moving faster at an escalating pace, so if you could give some more colour how and what products raw material prices have flared up quarter-on-quarter?

D. V. Parikh: Raw material prices are going up across the Board okay whether you take of oil, gas, toluene, benzene, rock phosphate, any commodity, imported ammonia, phosphoric acid although we do not use phosphoric acid, imported fertilizer, and every commodity has gone up and actually they are on fire. If we talk about gas it has been on fire, if we talk about the international freight it is also on fire, like more than 100% change is there in case of transportation as far as international transportation of certain products are concerned like you must have in the public domain what are the per SME rates also we do not give exactly what we buy at and what is the cost, but then in the public domain if you see the graph of RLNG it has constantly gone up over four or five months and that too very sharply.

Saket Kapoor: Right Sir, any other details out of this basket of 616 Crores for the raw material what are the major portions if you could give?

D. V. Parikh: Oil and gas are both predominantly used as feedstock and part of it has fuel as well like if you talk of TDI-II it is as a freight for a generation of certain stream of gases to support the TDI production, here also like very small quantity we use for fuel but predominantly is used for freight like we talk of ammonia production it is used as freight both oil and gas and in terms of the proportion normally out of our raw material consumption it all depends upon the price part in the given period but by and large when we assume that roughly 60% to 70% out of the total raw material cost comprises of oil and gas taken together.

Saket Kapoor: What goes for the power, fuel and other utilities of 192 Crores?

D. V. Parikh: Yes, it is driven predominantly by coal, coal prices also gone up, coal, oil and gas.

Saket Kapoor: So, the same charges are being clubbed at two levels under raw materials and power and fuel?

D. V. Parikh: Which charges?

Saket Kapoor: You are telling that oil cost is also there in the raw material as well as it is there in the power as well?

D. V. Parikh: Very small portion of oil goes as fuel.



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- Saket Kapoor:** So, major is the coal?
- D. V. Parikh:** Yes, predominantly it is a coal.
- Saket Kapoor:** How is the sourcing done, we have a long term contract or depending upon the spot market?
- D. V. Parikh:** No, for fertilizer we do have a contract, we call it FSA fuel supply agreement and for the non-fertilizer normally it is an imported buy and the prices have gone up in the import market of coal substantially.
- Saket Kapoor:** Sir, then there is going to be some impact definitely going forward also on account of coal charges also?
- D. V. Parikh:** In spite of the increased material price it all depends upon what is finally the difference which we maintain in the output price and the input cost, so far it has been profitable and we hope it is going to be over advantage in time to come, but if somebody wants us to quantify it is difficult.
- Saket Kapoor:** Correct and there are also talks for revision in the fertilizer prices again because of the unabated rise that you have in the raw material prices and hypothetically what kind of price rise are we contemplating just to support the inflation created due to the jump in the raw material prices?
- D. V. Parikh:** There are two factors, this is actually government decision which is not possible to comment from our side, as far as impact is concerned all mixed fertilizer companies are subject to the scanner of government because they are auditable for the kind of margins they are keeping and there is a department of fertilizer guideline to keep certain margin not beyond that so which almost tantamount to profiteering otherwise.
- Saket Kapoor:** For fertilizer business we are in wafer-thin margin only how can we think of even profiteering and all?
- D. V. Parikh:** No, your question is how much the government...
- Saket Kapoor:** That is what I am speaking with the increase in raw material price trend in the fertilizer segment how much should be the increase so that it will compensate our margins at this level?



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D. V. Parikh:

If you see these change came on May 20, 2021, before that also there was an increase in the cost which is absorbed by the company or across fertilizer industry the burden is absorbed by the company, so it is difficult to say when there will be a revision, if that revision is there it will come as a respite actually otherwise increase in cost and for certain NPK producers there could be a decision also required whether to continue or not continue the production because all the input prices phosphoric acid, rock and ammonia have gone up significantly, if you look at the last 10 to 12 months the information which is otherwise available in the public domain there is a sharp rise in all the three, in fact in some product it is more than 100% in other product it is close to 100%, so these are the impacts on the fertilizer industry and what happens normally public sector units or the government run companies are substantially they are apart from the cooperative sector so it supports irrespective of the profitability so they do not close down the plant like in our case also we do not close down because of that reason apart from that we have certain integration also so we cannot close down and take at times it also if required and you must have seen like this time we have done profitable otherwise overall fertilizer segment has strong losses because of various under recoveries which industry also face and we also face, we face more predominantly because we do not expand on the volume terms especially in urea and NPK, here at Bharuch complex and even otherwise with likely commencement of around 1.27 million tonnes of four refineries there is going to be a substantial closure in terms of what the country is importing and what is the total demand. If you look at the statistics of NPK plants they have more than 40% of the capacity depending upon the prices remain idling out within the country.

Saket Kapoor:

Sir, I missed your last two points, 1.27 some figure you gave in the last comment, there was a disruption, if you could repeat?

D. V. Parikh:

In case of NPK there are around 40% capacity which are not operational because of one or the other reason normally, this is mainly because see what happens either we say it is a decontrolled market, practically it is a controlled market why because for a manufacturer there is a cost of production and only it is offset by a certain subsidy which is decided under NBS route muted the subsidy route, now the rest is on their account only whereas product prices are not going up substantially because of the competition and at times when the product prices go up there is a government intervention also unlike last time what happened most companies thought of increasing the prices, some companies did, we were also in the process of doing that and by the time around May 20, 2021 this notification came when the rates were changed predominantly of the phosphorus part, which substantially changed whereas there was no change in N and K out of NPK.



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- Saket Kapoor:** This figure of 1.27 million what was that, will you come again?
- D. V. Parikh:** 1.27 million tonnes I am talking about the new capacity you must have heard about one company with three plants apart from that there is a coal gasification based plant also around Odisha so there are actually five units, three under one company and two different companies, effectively three units are that of Hindustan Urvarak, the one is Talcher and another is Ramagundam, Talcher and Ramagundam are a separate entity whereas three other plants are under HURL, Ramagundam has already started the production and the rest four are also expected to start the production in the next couple of years time, these are all different timelines they keep on like getting reschedule, but we may expect in the next two years this capacity should be operational and the import of like last year there was 9 million tonnes, which were imported so it should come down to that extent is what we hope in case of India, whatever we discussed 1.27×5 is only in case of urea.
- Saket Kapoor:** Thank you.
- Nitin Gosar:** Good afternoon, Sir. Brief you touched upon this question, if you can help us understand how the spreads of key chemical products have behaved for the quarter especially for TDI, aniline, acetic acid, formic acid?
- D. V. Parikh:** Asking for the comparison with what kind?
- Nitin Gosar:** How the spreads have behaved for the quarter which has gone by, the reasons that we have seen that how the spreads for a couple of key products have behaved like PDI, aniline, acetic acid, formic acid?
- D. V. Parikh:** As I mentioned that individual price of product wise I would not answer, but overall our main products the realization remained steady if you compare Q4 and Q1.
- Nitin Gosar:** The spreads also would have behaved the same; idea is to understand the gap between raw material and the finished products?
- D. V. Parikh:** Yes, we understand your question, see regarding certain product although it was impossible to discuss product-by-product, key product if we talk aniline is impacted both in terms of like volume as well as freight, acetic acid as a key input which is methanol that is impacted because of the gas prices, but we had a good run on acetic acid in Q4 even in Q1 also, if we talk about TDI, yes toluene prices itself are evident how it has gone, it is inching up, moving up and the price of TDI is not going in tandem, so in terms of spread we are little



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affected, but then still overall there is a profitability which is maintained, product-to-product there are certain pluses and minuses like weighted average and the portfolio mix it has been profitable.

Nitin Gosar: Got it. Thank you.

D. V. Parikh: Regarding the spread I would answer one thing, these are available even on certain publications like ICIS if we talk about methanol, if we talk about TDI, they are in dollar terms what happens these are the general trends so what we have given you is the company specific, what we witness in terms of our realization because they do report based on the days known to them and there are many things which are not getting reported in those kinds of publications.

Nitin Gosar: Got it Sir. Thank you.

Govindlal Gilada: Sir, our all capex plan are on track as we have discussed in our previous quarters?

D. V. Parikh: Regarding capex see these are manufacturing companies so once it undertakes capex it has a transition time of a couple of years at least, so quarter-to-quarter the plan does not change and the capex part was well covered in the last quarterly earnings call, if there is specific question we might answer that otherwise it is not something which will change quarter-to-quarter significantly, if there is anything we will cover in our opening remarks as well.

Govindlal Gilada: Great Sir, that is helpful. Thank you.

Parth Adhiya: Thank you, Sir. Sir wanted to understand are the higher freight cost also leading to higher prices and if they are what would be the extent to which the prices are higher because of them?

D. V. Parikh: Actually your voice we heard in a ruptured manner, would you be little louder and closer to the mike.

Parth Adhiya: I wanted to understand if the higher freight costs are also leading to higher prices of these products and if they are to what extent would the prices will be higher because of them?

D. V. Parikh: No, see those are rising that is different part, but it is not necessarily because of the higher input costs the output prices are also higher okay, so many products we are absorbing at the cost of margin also, so it is not that if our cost will go up it will go up it is not like in urea



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piece, which is a total pass through on variable cost front, but normally we have a reason to believe like we take the case of ethyl acetate we have a reason to believe because as the special denatured spirit, which is used as input there has gone up significantly, there is a scarcity across world market and therefore we have a reason to believe that ethyl acetate price will not come down, if it comes down there will be substantial effects on the manufacturers, so we are going to believe in spite of like the kind of surplus market we are not like importing ethyl acetate practically in this country, but then in spite of that we will see the prices to remain at robust level, which are already at higher level, our marketing people will talk more on that.

Jiten Desai: Yes, this example of ethyl acetate is a perfect example, this product we are surplus, India is net surplus and it is a export driven product, as far as major this two major raw materials are therefore ethyl acetate, one is the acetic acid and one is ethanol denatured spirit, now the price hike of denatured spirit in such a way that no manufacturer it is feasible to sell at below at a certain level so the product of above Rs.55000 will not be affordable if the price goes below 85000 or so.

Parth Adhiya: That was helpful and secondly in the last previous call you mentioned that there was certain TDI capacity that shutdown globally, so are there any more shutdowns that has taken place?

Jiten Desai: Yes, TDI supply and demand is balanced actually and currently if you see then at current time there is no major shutdown planned by any manufacturer in the world.

Parth Adhiya: So, there were couple of capacities that you mentioned were shut so they have restarted now?

Jiten Desai: Last quarter yes, some big plants in Europe have gone into shutdown at that point of time, which have restarted maybe not at 100% level but up to 70% level the BASF Germany plant has restarted.

Parth Adhiya: Thank you.

D. V. Parikh: We thank you Batlivala & Karani for holding this call as well as all participants. More than this there is nothing specific from our side. Thank you very much.

Y.N. Patel: We conclude this conference. Thank you so much for the arrangements. Thanks a lot.