Management Discussion

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited

Okay, thank you. So good afternoon everyone, thank you for joining us for Q3 2027. Earnings call for Gujarat State Fertilizers and Chemicals Limited. It's always great to connect with all of you and share the key updates that we had from the quarter. I hope you had a chance to review the financial results media release and investor presentation available on the stock exchanges and also on our company's website. If we see consolidated financial performance, sales is up by 49% in Q2. YoY basis, our PBT and PAT is reduced by 42% and 38% respectively.

If we see consolidated actual numbers, YoY basis, then we have 55% growth in the sales revenue to 8,324 crores. Our PBT and PAT again is down by 26% and 22 value to Rs 4,741 crores. However, PBT and PAT, it is Rs 249 crores and Rs 200 crores, that is up by 22% and 26% respectively. So the company has delivered its ever highest Q2 and H1 top lines, achieving total sales of Rs 4,711 on a standalone basis in Q2 26-27. A bio-by growth of 50% and Rs 8,293 crores in H1 '27, a bio-by growth of 56%.

In Q2 '27, the fertilizer segment recorded a 55% bio-by growth in sales values, increasing by Rs 1,387 crores despite 6% decline in sales volume from 6.08 lakh metric ton to 5.69 lakh metric ton. The growth was primarily driven by the higher DAP realization, with DAP revenue increasing by Rs 1,659 crores, supported by the government's DAP special package to compensate for international price variations. However, sharp increases in key raw material costs, particularly sulphur by 327%, natural gas by 62%, significantly impacted margins.

Compressing EBIT of the fertilizer segment to Rs 17 crores only, compared with Rs 224 crores in Q2 '26. Urea subsidy rate remains subject to revision following finalization of the actual pool gas rate by FICC, which has been pending since April '26. The industrial product segment continued its positive performance in Q2 27 also, with sales increased by Rs 185 crores, registering a 30% growth over Q2 '26. EBIT improved from Rs 54 crores to Rs 66 crores. The improvement was supported by better realization across major products in line with the market trends.

Sales of Caprolactam and Nylon-6 increased by Rs 58 crores and Rs 60 crores respectively. Mainly due to higher realizations, while announced sales increased by Rs 36 crores driven by higher volumes. TGU sales also increased by Rs 26 crores, partly offset by Rs 5 crore decline in melamine sales. The caprobenzene spread improved significantly from US$512 per metric ton to US$849 per metric ton. Overall, against the backdrop of highlighted here, high, high-tended geopolitical uncertainty and evolving global supply chain dynamics, the company sustained uninterrupted operations and ensured supply continuity during the quarter.

While sharp movement in key raw material prices put pressure on profitability, agility in product mix, responsive production planning, and timely pricing actions enabled the company to mitigate the impact and defend core margins across business segments. We continue to maintain a strong balance sheet with no long-term debt, healthy net worth, and adequate liquidity. As on 30th September '26, the company had received subsidy dues for P&K fertilizers up to September, and in case of urea, up to October 3rd week respectively.

The company continues to advance its CapEx plans aligned with the strategic growth roadmap. 3-ton modification for 1,200 metric tons per day APS production in place of DAP as per market requirement at Chikka unit was commissioned on 23rd October '26. The country will enter the rainy

season with comfortable fertilizer inventory levels, the highest in the past 3 years, particularly for urea and PK grades, intensifying competitive pressures across the industry. The subdued southwest monsoon and lower reservoir levels, especially in southern India, are likely to constrain fertilizer demand.

The prevailing price distortion between DAP and NPK fertilizers continues to influence farmers' purchase preferences, adversely affecting NPK uptake. The forthcoming NBS subsidiaries will play a vital role in particularly mitigating elevated raw material costs and addressing price distortions. Concurrently, any easing of geopolitical tensions in the Middle East and Europe could soften international raw material prices and provide relief to industry margins. The Caprolactam-Benzene spread is expected to moderate in Q3 '27 as regional supply normalizes, potentially impacting margins across the Caprolactam Nylon value chain.

Demand for Melamine and Technical Grade Urea is expected to remain steady, while HX crystal exports may improve. Amid subdued domestic demand, other industrial products are projected to maintain steady demand, delivering reliable baseline stability to the segment. I now turn over the call for questions and answers.

Operator
Thank you very much We will now begin with the question and answer session [Operator Instructions] The first question is from the line of Saket Kapoor from Kapoor and Co Please go ahead.

Questions & Answers

Saket Kapoor - Analyst, Kapoor & Company
Yeah, namaskar, namaskar. Hope I'm audible, I'm audible.

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
Please go

Saket Kapoor - Analyst, Kapoor & Company
Sir, sir, firstly, in terms of the CapEx program

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
My

Saket Kapoor - Analyst, Kapoor & Company
Voice is going, sir

Bruhanuddin Solanki - Individual Investor
I am

Saket Kapoor - Analyst, Kapoor & Company
No, I am good, I

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited

Am good

Saket Kapoor - Analyst, Kapoor & Company
Okay, sir, [Foreign Speech] in terms of in terms of the CapEx program which was alluded to us during the first concall that we are cont Some effect at, uh, also and some, some forward integration. So where are we, sir, in terms of the CapEx schedule, uh, from large, large chemical complex? Yeah,

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
As far as CapEx is, uh, to be put in, in the Sikka, we have finalized the PSA project at Sikka because phosphoric acid prices and sulphuric acid prices remains very volatile in international market, so it is better to have our own sulphuric acid production capacity at Sikka, so that DAP and other NPK-ated grades of fertilizers can be produced at reasonable cost. So we have financed this project at around 3000 crore And then the production will start.

Saket Kapoor - Analyst, Kapoor & Company
And how will the metrics work in terms of the asset turnover, margin profile, and other aspects?

Bruhanuddin Solanki - Individual Investor
This depends

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
Upon at that particular point of time when the production starts, what are the prices in the international level of the PA and sulphur especially, and rock. Because rock, for the rock we are going to enter in a long-term contract, but the- while entering into the contract, no contractor is ready to fix the pricing. So it will prevail as on the date, particular date where the material is purchased. So that price will prevail as per the market conditions. But presently we see that it has a comfortable, uh, 20% margin if we go by the PA production route rather than the purchasing of phosphoric acid and sulphuric acid.

Saket Kapoor - Analyst, Kapoor & Company
There will be margin addition and our, and our dependence on the RM fluctuation will also go down. Yeah,

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
Yeah, that's correct.

Saket Kapoor - Analyst, Kapoor & Company
And by what percentage, sir, we will be, uh, we will be captive consuming it?

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
It is 50% actually. So whatever the total requirement for, uh, DAP and NPK fertilizers 50% of the requirement will be met from the captive consumption.

Saket Kapoor - Analyst, Kapoor & Company
And since you mentioned the timeline of completion by, uh, can you come again, sir? What will be the timeline? 32-33

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
Months.

Saket Kapoor - Analyst, Kapoor & Company
32-33 months. Lastly, in terms of what have been market conditions are different for market capitalization, but Other than that, what kind of value creation exercise can the board envisage going ahead for your investors? And what can we expect in terms of only the value creation exercise, if anything will be undertook in terms of buyback or any other activities?

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
No, actually whatever money in the project we are putting in, whatever the restrictions in the capacity utilization in Sikka, So by putting this facility, we are sure that we will be optimizing the capacity utilization at our Sikka plant. However, as far as buyback and other measures are concerned, still there is no, uh, discussion in the board, and at appropriate levels, uh, we will discuss and then come, come back to you.

Saket Kapoor - Analyst, Kapoor & Company
Right. Lastly, on the subsidy repayment part, we see closing balance of Rs 3,400, and you mentioned about a subsidy amount for urea received for October. So what is now closing balance and how much you have received on account of

Bruhanuddin Solanki - Individual Investor
Urea?

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
No urea we have received, I think, up to the last third week of October, all the subsidy and there is no much impact on the urea because in the total subsidy bill if you see the DAP NPK case of for because of the high prices of phosphoric acid and ammonia so in case of urea we are comfortable as per the subsidy is concerned and it in impact one to two hundred crore only but since the regular production is

Saket Kapoor - Analyst, Kapoor & Company
There and actual sales of urea is there so again it well Yeah, yeah, yes,

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
Yes.

Saket Kapoor - Analyst, Kapoor & Company
So, sir, lastly, sir, on the H2, how, how do you think currently, uh, the H2 will shape up? Uh, I think this is very difficult to give any understanding on how the margins and all will shape up in such so much volatility, but taking into account what, uh, our, uh, the metrics with which we do our business

plan What should be and what would be the understanding for HP?

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
[Foreign Speech] Saket, it is very difficult question as you rightly say. But yes, if you ask, I will give the question [Foreign Speech] mistake answer. Because the subsidy rate what is going to be announced by the government with effect from first October to thirty first March twenty seven for six months, these are the very vital information. Which will come from the government. Till now there is no notification published in this regard. However, we have started the production and we are hopeful that whatever information we are having, if that rate is increased and approved by the Government of India at top level, then there will not be any problem.

Whatever the deficit in the profits we have incurred during the last quarter, this will be compensated in the next quarter. So that I can say. And for the next 6 months, I think it is very good, uh, six months but H2 for the company there is no doubt about it. We are taking certain measures based on the growth strategy suggested by BCG. So there is some cost cutting measures we are already applying at our chika level at our chika plant. So that will be fruitful for the H2,

Saket Kapoor - Analyst, Kapoor & Company
I What kind of incremental margin can we expect because of just of the efficiencies which you have just spoken?

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
No, the subsidy is very important because whatever margins are coming, it is from subsidy. If the subsidy goes out, then there is no margin in any of the fertilizers. So subsidy rates are very important for us, even whatever the current level or whatever the increased level. So until unless we come to know what is the levels of the NPK grade they are giving up. It is very difficult that what percentage of margin we will be having. But as far as DAP is concerned, you know that it is fully compensated by Government of India by way of advantage-disadvantage regulations.

And in DAP, we are getting 4% margin. In urea, hardly there is any margin of around 3-4%. So NPK grade of fertilizer, only the margins can be determined after receiving the NPK and S grade of subsidy rates effective from first of first of October, and based on that we will calculate the margin.

Saket Kapoor - Analyst, Kapoor & Company
No sir, I was just looking at the efficiency part which you are mentioning that that will come into play for H2. so have you quantify the same? I

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
Got your point mostly power purchased from the electricity boards. So that will increase as a unit as a whole, not as a particular product, because whatever DAP, NPK grades, or ammonium phosphate, sulphate, whatever we are producing at HX, it will be distributed among all products. So it will be difficult how percentage will be impacted, but we can quantify as the amount comes that around 20 to 25 crores per quarter we can gain out of

Saket Kapoor - Analyst, Kapoor & Company
it. Right, [Foreign Speech] All the best and should be public in the team. I am just listening to other

party. I

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
Am wish happy Diwali.

Saket Kapoor - Analyst, Kapoor & Company
[Foreign Speech]

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
[Foreign Speech]

Saket Kapoor - Analyst, Kapoor & Company
Pakeji. Thank

Operator
You. The next question is from the line of Bruhanuddin Solanki, an individual investor. Please go

Bruhanuddin Solanki - Individual Investor
ahead. Hello [Foreign Speech]

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
Yeah Yes sir. Go on device. Yeah please.

Bruhanuddin Solanki - Individual Investor
Yes sir. So my first question was on the distribution strategy. What will be our distribution strategy over long term pan India?

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
So as far as distribution of fertilizer is concerned, this is decided by the government, urea and other fertilizers. so we have hardly any role to play in the distribution thing. very word the requirement of the fertilizer is there and it is inspected by government, of moment division of the department of fertilizer. accordingly we have to supply the materials pan India. But it depends from where the market demand is there. So we have the regular customers, whoever comes, we sell to pan-India level.

Bruhanuddin Solanki - Individual Investor
Okay, sir. And my second question is on, uh, yeah, industrial segment

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
Performed very well this quarter. Around 30% sales growth is there and EBITDA is also increased. So now the chemical sector, as far as the input of fertilizer is there, no, whatever increase is there, the chemical sector has also the pain due to this geopolitical situation and the pricing of the chemical is also increased. So wherever we have the margin by using our own captive, uh, consumption of the raw materials and the product mix, then we have a better margin in fact in the

chemical side because there is no control in the MRP or something like that as in case of the fertilizers.

So we certainly have a better prospects in the IP segment henceforth also.

Bruhanuddin Solanki - Individual Investor
Okay, that's it from my side. Thank you.

Operator
[Operator Instructions] As there are no further questions from the participants I now hand the conference over to Mr S.K. Bajpai from GSFC Limited for closing comments.

S.K. Bajpai - Senior Vice President, Finance and Legal and Chief Financial Officer, Gujarat State Fertilizers & Chemicals Limited
Yeah, thank you for all participants joining and asking the questions. And happy Diwali to all of the, uh, our customers and investors. And I, I hope that the next quarter and the H1 of the next financial year will be good for not only for the company but for all the investors. And thank you for the patient hearing. Thank you.

Operator
[Operator Closing Remarks]