



Chambal Fertilisers and Chemicals Limited Q1 FY'22 Earnings Conference Call Transcript August 05, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'22 Earnings Conference Call of Chambal Fertilisers and Chemicals 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. I would now like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you.

Rishab Barar: Thank you. Good day, everyone and thank you for joining us on Chambal Fertilisers and Chemicals Q1 FY'22 Earnings Call. We have with us today, Mr. Gaurav Mathur, Managing Director; Mr. Abhay Bajjal, Chief Financial Officer; Mr. Rajveer Singh, Vice President - Legal & Company Secretary; Mr. Anuj Jain, Assistant Vice President- Finance and Mr. Ashish Srivastava, AVP - Marketing.

Before we get started, I would like to point out that some statements made or discussed on the conference call today may be forward-looking in nature and must be viewed in conjunction with the risks the Company faces. Chambal Fertilisers and Chemicals does not undertake to update them. The statement in this regard is available for reference in the presentation.

We will begin the call with Opening Remarks from Mr. Mathur. I would now like to invite Mr. Mathur to share his views. Over to you, sir.

Gaurav Mathur: Thank you, Rishab. Good day and a very warm welcome to all of you participating on this call. We are glad that the COVID scenario has eased a little and hopefully continues to improve. In the middle of all this, we sincerely hope that you and your families are all safe.

During the first quarter, the country has faced the second wave of COVID resulting into lockdowns and disruption of normal activities. Despite all this, we were able to run our operations at normal level. The commodity cycle worldwide has also moved in the upward trajectory during the first quarter as prices of all commodities rose substantially. Given the backdrop of these challenges, we are satisfied with our performance during the quarter.

Quickly touching upon the consolidated results, we achieved a total turnover of Rs.3,547 crore during the quarter ended June 30, 2021, as against Rs.3,226 crore during the corresponding quarter of the previous year. The profit after tax stood at Rs.381 crore against Rs.298 crore at the same quarter last year.

Moving on to product wise performance, urea sales stood at just over 8 lakhs MT for the quarter as against 8.9 lakh MT during the corresponding quarter last year. DAP sales of 2.34 lakh MT, MOP of 0.09 lakh MT and NPK sales of 0.43 lakh MT.

We have achieved much better performance in the sales of crop protection products, especially specialty nutrients and NPK fertilizers. The new marketing territories have also started yielding results.

The monsoon was erratic initially, which has impacted demand to some extent. However, the recent rainfall has made up most of the initial deficit and the reservoir levels are higher than the last year level. Additionally, the trade and farmers last year chose to make advanced purchases on the back of pandemic related anxieties. However, this trend was not visible this year.

From an overall macro point of view, this year is very atypical. International prices of agri-inputs and fertilizers have gone up substantially over the last three months to multi-year highs. We have seen a significant rise world over in the price of corn, palm oil and soya. This is particularly so in North America where farmers are striving to increase production and willing to pay higher prices for DAP and complex fertilizers to achieve this. Hence, application levels of phosphatic and complex fertilizers in the international markets are extremely high and we believe it will continue to be so at least in the near-term.

In the backdrop of rising international prices of fertilizers, the industry is working closely with the government to identify the best course of action while keeping in mind the interests of all stakeholders.

The Government of India has increased subsidy on P&K fertilizers to soften the impact of price rise, but further measures may be required to enable a smoother rabi season.

There is much improvement in subsidy payments by the Government of India and market collections also remain healthy, enabling the Company to maintain a strong liquidity position.

Our overall focus continues to be on extending our product portfolio of agri-inputs, micronutrients and crop protection chemicals, besides expanding the contribution of non-urea fertilizers.

With that, we would be happy to now take your questions. Thank you very much.

- Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Amit Doshi from Care PMS. Please go ahead.
- Amit Doshi:** Sir, there is this news about IFFCO starting the production of nano urea and which is probably considered to be far better in terms of absorption, etc., So, anything on that would you want to just throw some light on?
- Gaurav Mathur:** IFFCO has just launched this in the market and we will look at the impact of nano over the next few years. On the whole, given the mass balance that is required and the nitrogen use efficiency, we expect that there might be some reduction in the use of urea, but also considering the fact that almost 25% or so of urea is imported into the country, I don't see any impact on Chambal with regard to urea production or sales.
- Amit Doshi:** So, is this like patented and only IFFCO can do it or it's like an open patent, I mean, that's what the article indicated. So, is it possible that even say for example, in two years hence or one year hence, if the results or production are same or very good, that Chambal could also kind of produce this product?
- Gaurav Mathur:** Yes, my understanding of it is that the patent for nano urea is on the process and not on the product and therefore, any company which is able to develop this, should be able to also market it.

- Amit Doshi:** Second, of course, it's good to see that we are growing in more states and we are becoming more nationwide player. So, as far as urea is concerned, I think our production is limited, how do we plan to cater to this additional jurisdiction? So, will we be doing more of trading in that space like we do in the non-urea space?
- Gaurav Mathur:** As of now, we have no intention of trading in urea. And, if you see, a number of plants are coming up in eastern part of India, and as and when they come up, it is likely that the Department of Fertilizers, Movement Division, which allocates urea to states, will reduce our allocation to the eastern part and some of that we will be able to use in other states. Now, having said that, there is also a distance which is allowed for movement of Urea and therefore, we will stay within that given our plant location. The third part is that we believe that to succeed in some of the new territories, it is not essential that we have urea and our brand and our market practices, etc., will enable us to make roads into the NPK market in those areas even without urea.
- Amit Doshi:** What do you foresee a mix of sales in terms of NPK and Urea going forward, say two years down the line?
- Gaurav Mathur:** For Chambal, specifically so, as we said, the Urea production and sales is sort of a fixed number, and we intend to grow our NPK portfolio.
- Moderator:** The next question is from the line of Deepak Chitroda from PhillipCapital. Please go ahead.
- Deepak Chitroda:** My first question is, in the last conference call, you talked about our expansion plan, whether it is organically or inorganically, so any thought process, because last time you indicated about six months to eight months, where basically our strategy team are working on it, so basically, we are thinking about in terms of non-urea side or non-DAP side. So any further progress on that side, if you can throw some light on that?
- Gaurav Mathur:** Work is in progress on that front and, like I've indicated previously, we have three areas that we are exploring; one is phosphatics, other is agro, the crop protection domain, and the third is, we have some, let's say, ammonia available at our facility in Gadepan and we can use that to make something. So, those are the areas that we are exploring. As and when we have something concrete, we shall definitely inform.
- Deepak Chitroda:** So, any timeline to that, maybe about again, six months or maybe one or two quarters, something we can finalize that thing?.
- Gaurav Mathur:** Let's say about two to three quarters. When we are doing, obviously, as you can imagine, these are strategic issues, so we want to make sure that we do our homework well.
- Deepak Chitroda:** My second question, as you also highlighted some part of it in your opening remarks about the non-urea business, as you highlighted, considering the kind of support which government has already given, but with current rise in the international prices, probably industry might require additional support. So, do you think that with the starting of the rabi season, probably government might think about the additional subsidy support or if it is not there, then probably might also increase MRPs?
- Gaurav Mathur:** Deepak, I think this discussion is happening through the Fertilizer Association of India with the government and as and when the government decides on some course of action, I'm sure, we will all hear about it.

- Deepak Chitroda:** My last question is if you can give some sense in terms of numbers for non-area business, how agrochemical growth we have seen for the quarter and what targets we have in mind in terms of the agrochemicals and micronutrients which we have?
- Gaurav Mathur:** So, like we said in the previous call also, we are focusing on this area, and I've mentioned in my opening statement, so, I won't give you specific numbers, but as such we have seen high double-digit growth in crop protection and specialty nutrient areas and we hope that we will be able to continue that for the rest of the year.
- Deepak Chitroda:** If I look at the presentation, we have highlighted about six products. So, those are our trading products or we have just launched a new branded product which we have launched for the quarter?
- Gaurav Mathur:** As we don't have any manufacturing of our own, essentially our portfolio of crop protection and specialty nutrients is traded and we have various kinds of arrangements with companies on those products.
- Moderator:** The next question is from the line of Pratik Tholiya from Elara Capital. Please go ahead.
- Pratik Tholiya:** Firstly, just again on this agrochemical bit, you highlighted six new products. If you could just talk us about a little bit about your product pipeline? And what more can we expect during this year and maybe over the next two years on the product side? And also, what sort of margins are we looking at in the agrochemical business? Will it be in line with what we are doing already in urea or it could be even higher than that?
- Gaurav Mathur:** In terms of other products, maybe Ashish, who's our head of sales, can add some thoughts over there. And as regards margin, I don't think it would be fair of me to share that on this call right now. But yes, we do work with products which have a reasonably good margin. So, Ashish, would you like to comment on your pipeline of products and our approach on that?
- Ashish Srivastava:** So, these six new products which you have mentioned in the presentation, they are all the products which are new age chemistries, some of the products were launched in the country by MNCs, and these research molecules have come from Mitsui, from Nippon and they've been launched in India by companies like Bayer, FMC, Syngenta. So, we have got the technical material from them to launch it in our brand. The total market size of these six products in India currently is around Rs.650 crore and they are growing molecules and new age chemistry. So, we hope to gain some foothold in these new molecules going forward and we look forward to launching in this year and making significant contributions from this.
- Pratik Tholiya:** How many products are we targeting in this current financial year, any new products you're expecting, and even over the period of next two years, what is the pipeline that we have?
- Gaurav Mathur:** That is something that we are now working on further. But for sure, as we see the new chemistries come in, which are both more effective and have a much better sustainability footprint, we will continue to do so. But, as of now, we don't have a specific number of products lined up for the next two to three years. But that we will evolve, I suppose, as we work on our agrochemical strategy that I've mentioned.
- Pratik Tholiya:** Over a period of next two years, what would be your sort of internal target in terms of the contribution of agrochemicals towards overall sales for our company, it could be in the high teens or would still remain some sort of single digit considering you would also grow in the subsidy business?

Gaurav Mathur: Like I said, we are growing at a significant double-digit this year, and we hope to replicate that every year. So, on its own, we expect to, let's say, double our contribution. Now, what percentage that turns out to be of our overall portfolio will also depend on how much growth we will do on others. So, I think that is in my view a little less relevant. What is more important is also how fast we are able to grow our agrochemicals and nutrients business.

Pratik Tholiya: Lastly, Abhay sir, can you just help me with the landed gas cost for the quarter?

Abhay Baijal: On a ballpark, I can say it is between \$10.5-12. On an average, I can give you offline. The last number that I've seen is \$11.99.

Rajveer Singh: Average pool gas price is around \$10.3 or so for the quarter, that is per MMBTU on GCV basis.

Abhay Baijal: It was about \$11.3 to \$11.4 or so on a NCV basis.

Moderator: Next question is from the line of Rohan from Edelweiss. Please go ahead.

Rohan: Couple of questions from my side. First is on, we have gained market share in DAP though the industry has declined, but we have been able to increase our market share. Just wanted to understand that it is basically coming from the other people's inability to secure more DAP or it's a basically expanding market or going into more regions that is helping us in gaining market share?

Gaurav Mathur: At this point in time, the share is more because there is an overall challenge as you would know from public data, that overall, DAP sales this year are lower compared to last year. So, our market share is in that context that we have sustained and grown our market share.

Rohan: Sir, if you can just give some color on that, because Phos-Acid prices have gone up further and has been constantly rising. Can you give some sense that how is that DAP prices and at what level and what prices we are negotiating DAP in the current quarter and how is the availability and how much rise it has been in the DAP prices versus last quarter, can you give some color on that?

Gaurav Mathur: I don't want to comment on this quarter per se. But as such, as we know the prices have risen, which I mentioned in my opening remarks also. As these are all linked to global demand and supply, it becomes quite difficult to predict exactly what's going to happen. We are hopeful that in the coming months, we should see some downward trend, but at the same time if the demand from Brazil, America continues to be very strong, it may not. So, as an industry, I think, like I said in my opening remarks, it's a very, very atypical year, and therefore making predictions is very hazardous in the current climate.

Rohan: Okay, last time when the prices has gone up, government said that we need to keep the DAP prices at the March level and be compensated with the higher subsidies. And I think that our DAP prices in the market was closer to Rs. 1,200 per bag if I'm not wrong. The DAP and Phos Acid both has gone up now. Just wanted to understand for more clarity, what is the DAP prices right now we have in the market for our customers? And second, is there any indication that we can get the higher subsidy from the government? And if not then, will we be in a position to raise the prices in the market? We are already right now in August, so I think that the current season is very critical and the demand would be bumped up probably in July and August and current season is most important season, so what is happening on the ground if you can give some sense?

- Gaurav Mathur:** So, the DAP prices, Rohan, currently are Rs.24,000 a ton, which is essentially, that's the market price for all entire industry. And what was the second part of your question?
- Rohan:** Sir, DAP at Rs.1,200 which was basically at the March level we had bought, but cost has gone up further. So, my question is that will we be able to increase the prices further to the customer or government is going to intervene or going to compensate with the higher subsidy, what is the current scenario?
- Gaurav Mathur:** That's the discussion, Rohan, which is happening with the government through the Fertilizer Association of India and I think maybe we will see some outcome of that in the next couple of weeks' time.
- Rohan:** But as of now, when we stand on 5th of August, we are still selling DAP at Rs.1,200 per bag, while the cost has significantly gone up what it was in month of April and May, right?
- Gaurav Mathur:** As of now, the prices remain Rs.24,000 a ton or Rs.1,200 a bag.
- Moderator:** The next question is from the line of Amish Kanani from JM Financial. Please go ahead.
- Amish Kanani:** Two questions from my side. So, we are expanding our regional offices as has been shown in slide #14. So, if you can give us some sense of where we are in terms of adding say dealers and retailers in that context? So, are we also simultaneously adding and the numbers that are being mentioned is the increased one or it will be a phased expansion beyond that? And in that context, sir, increasing our market share in non-urea was also quite heartening and commendable. So, we wanted to understand what kind of arrangements are we doing in terms of long term sourcing arrangement, which makes us comfortable that we will have these kind of market share, because, as what you said, that there's a global shortage of all these materials, how do we ensure that we get the material and we make a distribution margin in that context?
- Gaurav Mathur:** So, Amish, thank you for your question. For the first part, in terms of our network, I think we had quite sort of positive experience in the new territories and the number of dealers that we had targeted to sign in this first year, we are well on track on that. As regards the second part in terms of sourcing, this is one of the key focus areas for us where we are working on a number of options, which is also part of our strategic outlook. As and when we have something substantive, we will definitely come back, but on the plate are all possible options as we look to secure long-term sourcing on DAP and NPK.
- Amish Kanani:** In that context, two related questions; one, is it possible to give us some sense of how much of this quarter's gain was say sort of inventory/trading versus how much is distribution margin, because we would understand that distribution margin will be much more sustainable, so if you can give us some split or directionally some sense? And two sir, is the inorganic strategy, part of plan strategy that you would consider in any of these areas where we want to expand?
- Gaurav Mathur:** I'll answer the second and the first one, Abhay can answer. The second is that as part of our overall growth plan, all options are on the table.
- Abhay Baijal:** There was definitely carry forward inventory, etc., which is there on March 31 and we had a discussion last time we had said that we have the low cost inventory. So, that gain has definitely filtered through. But I will say this is sort of normal plus and minus that is going on every quarter. So, it won't be prudent to sort of reveal the extent of that, but suffice to say that these are normal pluses and minuses that

happen, they are not all that significant in the total context of the distribution margin. As you said, that is definitely also there, because the prices also went up, overall contribution went up because of the increase in subsidy. I would say that it is there, I'm not saying that is not there, but it is not all that relevant in the context.

- Amish Kanani:** One last question is about the dividend that we have received from our JV or subsidiary. I understand that we received a good dividend this quarter, which we had received last year also but this year it's good. So, any pattern there, I understand their board will decide what kind of distribution we will give but if you can give some underlying profitability, which gives us some sense of whether the dividend is one time or slightly more sustainable?
- Gaurav Mathur:** I guess you can see from the consolidated results how it has performed and with the Phos-Acid prices high, you can make your own conclusions.
- Abhay Baijal:** I will just add that you know what the Phos-Acid prices are. I think anybody can make a reasonable conclusion of what's going to happen.
- Moderator:** Next question is from the line of Vidit Shah from IIFL Capital. Please go ahead.
- Vidit Shah:** My first question is just a continuation of the previous participant's question on the profitability at IMACID. Just wanted to understand your personal views on whether you see this bull run of Phos-Acid continuing and for how long do you expect these prices to correct in the near or medium term?
- Gaurav Mathur:** Let me give you a perspective. We have a joint venture with IMACID and we are 1/3rd partner. OCP of Morocco and Tata Chemicals are the two other partners, so there are three partners. We do not have any say in the marketing or sale of Phos-Acid and that is entirely dependent on OCP. So, therefore, from an overall industry perspective, what I can say is that demand for phosphates continues to be high across the world on the back of high commodity demand and prices like I mentioned in my opening statement. Beyond that, how the commercial aspects of Phos-Acid pan out is OCPs decision and is not where Chambal has a say in it.
- Vidit Shah:** Secondly, so we've seen revenue growth pretty significantly this quarter. So, what would you say the biggest drivers of the growth? Is it just high subsidies that have been announced or is there any bit of ammonia sales whose prices are through the roof as well?
- Abhay Baijal:** In the presentation you will see that generally sales are a little down, mostly because of price inflation. Somebody clearly asked and understood that gas prices are on the rise and the gas cost is a pass through so that reflects back into the revenue. As also the sales that we have made on DAP and NPKs and even ammonia as you rightly said, there also the prices have risen. So, quite a bit of it is price effect.
- Vidit Shah:** Okay. Understood. And just one clarification I needed was, these new revised subsidies for phosphatics that were announced by the government, are they applicable only from the end of May when they were announced or are they applicable for the entire quarter?
- Gaurav Mathur:** So, the subsidy revision was announced on the 19th and its applicable from 20th of May till 31st October. That is the current announcement of the Government. The fertilizer association is in discussion with the Government on the way forward.
- Moderator:** Thank you. Next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: I have a couple of questions. So, the first one is on the price increase in DAP which has happened, post the announcement in May. I presume that you might already have inventory for some more months, so by what time do you think government needs to come out with the revised subsidy amount beyond which industry may start making losses? Generally I am saying, because different companies will have different inventory timelines. Something you can share your thoughts on that.

Gaurav Mathur: Resham, thanks. First of all, I cannot say what action the government will take, whether they will come up with higher subsidy or our prices will increase, I cannot say that but what I can say is that I think the government is apprised of the situation to take some decisions on it very, very soon, I would say, in the next one week, two weeks maximum.

Resham Jain: And on the current inventory which we are holding and with the current prices, is it fair to assume that we might be making decent ROEs on that? Decent in the sense, at least more than cost of capital?

Gaurav Mathur: So, I think we also have to look at averaging and so on and so forth. So, I mean, we will be making margins, now exactly that has to be, that will pan out as we see what action the government takes further.

Resham Jain: Okay. Got it. And lastly on the chemical business which you have talked about, ammonia plus kind of chemicals which you are looking at, generally, I was just thinking, wherever you are going to put up this new CAPEX and all, what will be the key financial metrics you will look at and what kind of attributes you will look for an investment? What are the things we will be looking for?

Gaurav Mathur: So, we obviously want to look at an investment which serves us for long term, has a good enough IRR and return on capital.

Resham Jain: Okay. Any threshold which you have?

Gaurav Mathur: I suppose you would understand that the exact IRR also depends on the strategic perspective. So, clearly if it's a low number, then it's not going to be worth doing it. So, yes, we would look at in the 12-15% range as a minimum.

Resham Jain: Okay. And just one book keeping question here, what is the CAPEX plan for FY 2022?

Abhay Baijal: We have a normal CAPEX plan, apart from efficiency into the project, of the order of between Rs. 110 crore to Rs. 140 crore in the year. These are also replacements which are normal because the plants are getting old. And apart from that, we have a phase wise efficiency improvement program which we are going to execute on or rather we have started executing on, one of them is worth about Rs. 55 crore to Rs. 60 crore, and that is due for completion sometime next year first quarter.

Moderator: Thank you. The next question is from the line of Dhwanil Shah from I-Wealth Management. Please go ahead.

Dhwanil Shah: Sir, a couple of questions, first was on the new export ban which has come in China. So, just wanted to check, because we are at optimum utilization of close to 100%, 102%, so is there any scope for utilization to increase from here on?

Gaurav Mathur: You are asking with regards to urea?

Dhwanil Shah: Yes, sir.

Gaurav Mathur: See, urea we are producing whatever we can to the maximum effect. And as you are aware, in Gadepan III, we are, as per policy, limited to a certain number, 12.7 lakh metric tons. We can produce more if the government makes the policy change and maybe produce 1 lakh to 1.2 lakh tons more. But that's the policy matter of the

- government and I am sure they will look at it in conjunction with all the new plants that are coming up.
- Dhwanil Shah:** So, currently, we are at optimum, we cannot produce more than this?
- Gaurav Mathur:** No, no, we run our plants to very high utilization level, which also helps us to keep our energy usage at a good number.
- Dhwanil Shah:** Okay. And with the overall imports also increasing in urea, and even with the end prices going up, are you all seeing any opportunity to put up more CAPEX in this? Because historically we have been doing that and now you are indicating more on the non-urea side. So, just wanted to understand why we are not going in the urea where India is net importer.
- Gaurav Mathur:** I think if you look at the overall balance, with the new plants coming up, and I think in total, including us, there are six, so the import requirement will come down quite significantly. And as we are also driving balanced nutrition between N, P, K, S, so all of that will mean that over a period of time the import will probably become reasonably less. Therefore, as of now, we don't see any reason to evaluate putting up another plant.
- Dhwanil Shah:** And how much will be the new capacity coming in next two years, roughly?
- Gaurav Mathur:** So, in total, including ours, there are six plants, and each plant is 12.7 lakh tons, so that's about close to just short of 8 million tons.
- Dhwanil Shah:** And then the new capacity which will be coming in, which you highlighted, on the East side you are saying new capacities which are coming?
- Gaurav Mathur:** So, there are plants of HURL that are coming in and others, you got Matix and so on. So, these are all available in the public domain.
- Dhwanil Shah:** Okay. And just the last question was on non-urea side of the business. With the prices rising from here on, how will that impact us going ahead?
- Gaurav Mathur:** Like I have answered in responses to the other questions, so the Fertilizer Association of India, which is the industry body, is in discussion with the government and we hope that we will see some outcome of that in the coming week or two.
- Moderator:** Thank you. The next question is from the line of Ravi, an individual investor. Please go ahead.
- Ravi:** So, government has been pushing and promoting actually this nano fertilizer, which was developed by IFFCO, and they have been claiming that they are around 25%-30% cheaper and give around 30% to 35% higher yield. But I think, if I am not wrong, it is a patented technology. Is there any visibility whether they want to do the technology transfer so that it can be produced at a larger scale and share with other companies in the sector?
- Gaurav Mathur:** Ravi, like I mentioned earlier, my understanding is that the patent on this is on the process, that means on how you make the nano urea, and it is not on the product itself. So, that is one part of it, which in effect means that other companies can also develop it. The second part is that, as we progress over the years, I think it will take, in my opinion, two to three years to exactly understand the full impact of nano urea. But overall, given the manufacturing capacity in the country and the imports etc, like I mentioned, we do not foresee any impact on our urea.
- Moderator:** Thank you. The next question is from the line of Rohan from Edelweiss. Please go ahead.

Rohan: Sir, a couple of questions once again, first is on the strong cash flow generation which we are having in this year. We are already had almost Rs. 500 crore in cash flow in the first quarter, I expect that almost for the year, we are going to have Rs. 1800-2000 crore. Sir, now we don't have any short-term loan also, we are only having a long-term debt, where I don't think that management has any reason of repaying them earlier. So, just wanted to understand the cash flow generation, as you already mentioned the perennial CAPEX is only Rs. 120 crore to Rs. 130 crore, so this cash we will be keeping in liquid assets or any plans that may come up to utilize this cash?

Gaurav Mathur: So, as such, like I said, we are developing the strategy, so we don't have any specific thing in the immediate term to invest this cash. But on a short term basis that is being put into the appropriate instruments, and as we progress, we will then see how to use this cash. Abhay, you want to add something?

Abhay Baijal: I think Mr. Mathur has mentioned about three verticals on phosphate side, on agrochemicals side and also on the ammonia and carbon dioxide and hydrogen which we have in the plant, to monetize that. Now, all these projects typically of the quantum and other things that we will require are about one to two years process. I would say in terms of not only developing and conceptualizing, but also developing and taking it forward. And therefore, my own conclusion is that we will have accumulated cash, in one and a half years kind of timeframe and then our powder is dry. Somebody questioned us about inorganic acquisitions and all that, we are well positioned and poised to take care of such options or opportunities that may come our way. We feel that it is a good position to be in. We will be getting off the commodity cycle, I think, in about six to eight months' time and then we have the opportunity to fish for assets. It is good to keep the powder dry at this point of time.

Rohan: Okay. But we will not reduce the long-term debt, right, that is roughly Rs. 3700 crore right now?

Abhay Baijal: I would say that the long-term debt is at the moment at very attractive rate. Correct me if I am wrong, maybe close to 2%, so it doesn't make any difference to us. So, at the moment, I don't think it is opportune but if tomorrow we feel that it is better pay off the debt, we can, we have all kinds of options.

Rohan: Right. Sir, how much is the repayment for the current year and next year?

Abhay Baijal: I think we are running at the moment at around \$106 million a year. One good thing that we have done is that instead of paying it half yearly, we have now moved the repayment cycle to quarterly that also improves a little bit on the duration and based on the interest a little bit and makes sense.

Rohan: \$100 million per year you are saying, right?

Abhay Baijal: Yes, for the next three years if I am not wrong. Correct me if I am wrong, Anuj, it's about \$106 million, \$106 million, \$106 million and then it drops off.

Rohan: Roughly Rs. 700 crore per year for next three years.

Abhay Baijal: Rs. 780 crore.

Rohan: So, that means roughly another Rs. 800 crore, I mean, close to Rs. 2,400 crore anyhow will be reduction in long-term debt?

Abhay Baijal: Yes.

Rohan: Sir, second is on our IMACID. We have seen that a significant amount of increase in profitability of IMACID, because of the rising Phos-Acid prices. So, any sense you can share that how the profitability of IMACID has increased? Or the rock prices have

been renegotiated with the original supplier and there is a limited profitability only in IMACID?

Gaurav Mathur: So, it's not as if the rock prices remain constant. So, rock input prices are also increased for IMACID, but we can see from the results that it still leaves a positive gap between the output price of Phos-Acid and the increase of rock as an input. And that's what has resulted in the better earning from IMACID. Commercial aspect of it is not something in which Chambal has a say, that is entirely managed by OCP.

Abhay Baijal: What I can only add here, Rohan, the quarter that went is that the prices were actually \$998.

Rohan: Yes, but I think that current quarter prices have gone up to \$1160, right?

Abhay Baijal: Yes, we are confident or rather it is my sense that maybe, I don't know what the current rock prices and everything are, sulphur I am told is pretty high, it has gone up to about \$210 and so. But my sense is that maybe it is a similar kind of quarter, provided, of course, they can produce and sell.

Rohan: Sir, what I understand, if the prices of rocks are on arm's length basis, then the profitability of IMACID, because right now there is the highest amount of profitability being made in Phos-Acid conversion. So, if the rock phosphate prices for IMACID is on arm's length basis, then I see, and I expect that there will be significant amount of profitability increase for IMACID should happen. So, that's what I wanted to clarify that?

Abhay Baijal: Your guess is as good as mine. I can only say that \$998 was the previous quarter, this quarter is \$1160. I hesitate to say what will happen in the third quarter. So, we have to see quarter by quarter, we have quite a volatile kind of business, and we have seen that there is large swing between the peak and the median number.

Rohan: And sir, third question, if I am allowed to ask, on your CAPEX plan which you mentioned on ammonia and chemical CAPEX you are looking at. You already mentioned that close to 12% to 15% return profile you are looking at minimum. I believe the company's ability. We have always been as a company you have always raised debt at a very, very lucrative prices globally. So, maybe 12% to 15% ROCE also probably it will be very solid ROE profile for that investment. What I just wanted to understand is, ammonia and other chemicals which you are looking mainly for domestic purposes and investing will be domestically or we are looking at global market and global opportunities or buying assets readily or investing in accretive assets? So, if you can give some sense of that it would be really helpful.

Gaurav Mathur: All I can say is, it is too early for me to give you a sense on the questions that you are asking. But we are exploring full range of the opportunities, so that we take a very considered decision on what we will do.

Rohan: The question which I asked because, if I remember our earlier con-call, just only a quarter back, I think we were more confident about backward integration or getting into Phos-Acid assets globally. But this ammonia and chemical CAPEX you have brought I think in the current quarter. So, I think that there are many investment plans with company is evaluating. Phos acid makes sense because you already have a DAP market readily available, and you could have gone into backward integration by getting into manufacturing of that itself. But what I think that a bit confusing for us is that I think we have now many options, including even ammonia and other chemical complexity which you just mentioned. So, I just wanted to understand that what is the thought process.

Gaurav Mathur: Rohan, these are not either/or options necessarily, right. And our priority does remain the agro sector, as I mentioned earlier. So, at the same time, if we have the opportunity because we generate excess ammonia at our facility in Gadepan, so if

we have the opportunity to monetize it in a better way, then that's the thought over here. So, we already have ammonia at a reasonably low cost and that does not take away on what we will do in the phosphatic or the crop protection segment at all.

Abhay Baijal:

I mean it is not either/or situation.

Moderator:

Thank you. The next question is from the line of Varshit Shah from Veto Capital. Please go ahead.

Varshit Shah:

Congratulations on a great set of numbers. Sir, my first question is on the industry, the demand-supply metrics for phosphatic rock and Phos-Acid. What I understand is there are Belarus related challenges in phosphorus as well as this largely still behind but still the risk remains. But then some of the Canadian mines have increased supply of the rock, so maybe the rock prices might actually normalize, let's say, going forward at least be slightly less volatile. But the ability to process rock and process phosphoric acid capacity is actually largely based out of China and there the exports are coming down out of China. So, is there a situation which could come up in the next six months where the rock availability is still decent but the Phos-Acid supply actually may be difficult because there are no processing capacity, hence Phos-Acid continues to remain elevated? I was asking from a risk perspective, I mean, of course, it would play out by the way, none of us know.

Gaurav Mathur:

So, China does not export Phos-Acid, China exports the finished product, DAP. And what we have to see is China is going through a phase where its immediate demand peaked, and they also had a price rise, so they are trying to manage that. And there is a possibility that this may be a short term phenomena which may start to alleviate in the next couple of months' time.

Varshit Shah:

Sure. That's helpful. Second, my question is on, any update on the crop protection side? So, you have a fantastic distribution in place, at least in our current market, and now you are venturing also into other markets within India. So, probably, it makes a lot of sense to expand that crop protection business because now you will become a pan-India player from a distribution network perspective. So, any progress on that? And how do you see that business panning out over the next two to three years perspective? Because I understand you also have a business head in place now to head that business. So, any thoughts around what kind of segments you want to target and molecules you want to target and how you see it shaping up from a two to three year perspective?

Gaurav Mathur:

Varshit, since you joined the call late, we have made very good double digit growth on crop protection in the quarter that has gone by and we expect to continue with that progress going forward. You have rightly mentioned that with the expansion that we have had into the new geographies, our access to a much larger crop protection market has opened up between Andhra, Telangana and Maharashtra. If I am not wrong with my members, it covers 40% or more of the crop protection market that we intend to introduce our products in some of these markets this year itself. As you would know that crop protection requires licensing and so on in every state, sometimes district wise, etc, so all that process is ongoing and we expect to introduce in some of these territories crop protection products also. And over the next few years, we plan to let's say directionally grow our business to twice or more of what it is currently.

Moderator:

Thank you. The next question is from the line of Madhav Marda from Fidelity International. Please go ahead.

Madhav Marda:

I just wanted to understand, when you mentioned about ammonia, would that be possibly making ammonia itself from natural gas or would we be focusing more on ammonia derivatives, maybe if you can clarify on that?

Gaurav Mathur: Ammonia, we already make through natural gas, which is then converted to urea, most of it. But because of the mass balance and we generate a little bit of excess ammonia for technical reasons and that is what we plan to utilize if it makes sense for downstream chemicals. Today we sell ammonia.

Madhav Marda: Okay. So, the plan in ammonia is to make ammonia derivatives from the already excess ammonia available? We are not planning to expand capacity on that side basically, that's what the idea is?

Gaurav Mathur: That's right. Today we sell ammonia, but if we are able to find options which allow us to add more value than just selling ammonia, then that's what we are looking at.

Moderator: Thank you. The next question is from the line of Rajesh from Fiducia Capital. Please go ahead.

Rajesh: My question was basically two fold. One was that I have been seeing fantastic improvement in the operating structure of the business, wherein the operating margin have kind of moved closer to double digit in the last couple of years. My question is also on a little long term, as to where you see the margins going forward? And what have brought up this fantastic improvement that has happened, your comment would be very welcome on this.

Gaurav Mathur: I think Abhay, who's been part of this story, it would be best, maybe you can take this question.

Abhay Baijal: Rajesh, you see, we have added the plant three, which was there in the work from 2016 onwards, it took three years i.e. 32 months plus to build up this plant. And there is a policy in the Government of India to compensate new plants as per the new Investment Policy 2012. We saw the opportunity that this could significantly improve the Company's operating margin, and we took the large project of Rs. 6,000 crore, which has been successfully completed. Now, part of the policy parameters allow us to operate at a return of capital etc, which is significantly better, so that is one. Secondly, we have been improving or increasing our portfolio of traded products, and they are adding to EBITDA without significantly adding to assets, except working capital assets. And as you know, last year, we have had also a very significant reduction of investment in working capital because the government cleared a very large portion of outstanding subsidy. So, with reduction in capital employed and addition to EBITDA, and the new project with new efficiency and so on, albeit at a high capital investment of Rs. 6,000 crores, I think these are the three drivers how the company has been able to improve its operating ratio as you rightly put it.

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

Gaurav Mathur: So, gentlemen, thank you very much for participating in this call and for your very good questions, very incisive questions, and we appreciate that. I hope you have got all the answers as best as we could provide them to you and hope that you continue to be safe in this situation, and all the best. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Chambal Fertilisers and Chemicals Limited, that concludes this conference. We thank you all for joining us. And you may now disconnect your lines.