



Earnings Conference Call for 2nd Quarter and
1st Half of Financial Year 2022-23
November 02, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY23 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rishabh Barar from CDR India. Thank you and over to you, sir.

Rishabh Barar: Thank you. Good day everyone. Thank you for joining us on the Chambal Fertilisers and Chemicals Q2 and H1 FY23 earnings call. We have with us today, Mr. Gaurav Mathur, Managing Director; Mr. Abhay Baijal, CFO; Mr. Rajveer Singh, Vice President- Legal & Company Secretary; Mr. Ashish Srivastava, Vice President- Sales & Marketing; Mr. Anand Agarwal, Vice President- Finance and Mr. Anuj Jain, Assistant Vice President- Finance.

Before we get started, I would like to point out that some statements made or discussed in 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, Rishabh. Good day to everybody and a warm welcome to all of you participating in this call. I'm sure all of you had a chance to go through our presentation on the financial results. We had a challenging first half of the current financial year, which faced a lot of volatility in product prices, with rapid increase in interest rates and depreciation of Indian rupee against the U.S. dollar. All these factors have adversely impacted the financial performance of the company during the quarter and half year ended 30th September, '22.

On the positive side, we have operated our urea plants well and have achieved good efficiency improvements, as well as significantly increased our Crop Protection Chemicals and Specialty Nutrients business. We have substantially increased volumes of bulk fertilizers, especially NPK fertilizers, which has added to the revenue of the company. As mentioned in the presentation, we have to take a one-time hit in the P&K business on account of substantial increase in prices of imported fertilizers, adverse movement in USD-INR exchange rate and unanticipated losses on account of lower subsidy on DAP stock carried forward from last year. If we set this aside, the profit for the quarter ended September 30th is comparable with the corresponding quarter of the previous year. The elevated prices of P&K fertilizers have dampened demand in the international market, which has had a softening effect on the prices of these fertilizers, and as of now, the prices remain stable. The import price of DAP has declined by more than 20% from the peak levels during the second quarter of the current financial year and there was a declining trend in the prices of NPK fertilizers also.

As regards subsidy, payments were delayed resulting in higher working capital borrowings which is one of the key reasons for increase in finance costs apart from the higher interest rates. However, there is an improvement in the subsidy payments after, there was an additional amount of more than INR 80,000 crore of additional subsidy by the Government of India and we are hopeful that the substantial portion of subsidy outstanding will be released by the Government of India.

We are very happy with the progress of our Seed to Harvest Program. It has significantly enhanced the connect with the farmers across our core markets and helped us in achieving better performance in Crop Protection Chemicals and Specialty Nutrients apart from increased

volumes of non-urea fertilizers. Our endeavor to enter new geographies is also showing good results having a few very encouraging responses.

The Board has approved the revised capacity and capital cost of our Technical Ammonium Nitrate project. The increased cost is partly attributable to increase in capacity and partly to increase in capital expenditure due to factors such as the geopolitical situation, depreciation of rupee and elevated interest rates. The robust demand and high prices of the product give us a lot of confidence about the benefits of this project to the company and we remain very positive about this investment, which we plan to complete over the next 34 months or so.

So overall, we believe that the worst is behind us and that is the key message I would like to give and with that, we would be happy to take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prashant Biyani from Elara Capital. Please go ahead.

Prashant Biyani: Yes. Thanks for the opportunity. Sir, apart from this cost escalation in capex, there has also been around a year's delay in commercialization of the plant. What would be the reason for that, sir?

Gaurav Mathur: Well, if you're talking about the Ammonium Nitrate plant, the delay is not exactly a year, it is more in the range of six months. And the reason is that when we started the project, thereafter, the entire Russian conflict situation emerged. So, the vendors whom we are working with, also had to take that into account, that's one.

Second is, we were also examining whether we could further increase the capacity based on increased availability of raw materials. And looking at both of those things, we felt that it is better to approach the project with a revised number than necessarily go with what we have done earlier.

Prashant Biyani: Sir, this point on geopolitical situation, most of the tech providers are either from Germany, Italy or U.S. So, how could this geopolitical situation delay the commercialization?

Gaurav Mathur: Well, they need to take into account various aspects like their cost of production, availability of their raw materials for making the equipment, etc. For example, steel, gas cost and availability, power, the currency fluctuations that are happening. So, there are a number of factors which anybody who's a supplier of equipment and is going to carry out a project will need to consider.

Prashant Biyani: Sure. And sir, for now, now that we are expanding it to 2,40,000, we would be needing around 1,06,000 tonnes of ammonia. So, how much ammonia are we currently generating as surplus, and if it is not to the extent of 1,05,000 then by when are we going to achieve the 1,05,000 - 1,06,000 number?

Gaurav Mathur: So, currently we are generating about 85% to 90% of the ammonia required and we have very clear plans in place to generate the balance quantity also through improvement initiatives which would not only generate this extra ammonia but also improve the efficiency of our ammonia plant.

Prakash Biyani: Sir, any timelines by when we can achieve this 1,06,000 number? That may also benefit us by way of surplus sale. So, if any timeline is there, it will be helpful if you can share it?

Gaurav Mathur: This would happen well within the timeline for the project, and I would expect in approximately within 24 months.

Prashant Biyani: Till then, we should have between 95,000 tonnes of surplus ammonia?

Gaurav Mathur: Yes. I mean, just bear in mind that the surplus ammonia generation also depends on a number of other factors like the quality of gas and so on and so forth. But yes, on an average, we should have somewhere in the range of 90,000 tonnes of ammonia per annum.

Prashant Biyani: Sir, we would have also budgeted certain IRR while deciding on this INR 1,200 crore of investment earlier that we had finalized? With this additional 40% increase in investment, won't our returns on investment of TAN be impacted?

Gaurav Mathur: Actually, that's a very interesting thing. On the one hand while we've had an increase in our capital cost, but there are positive factors which have also contributed, which have essentially kept our IRR in the same range as it was earlier, which is a healthy double-digit number. And some of these factors are that we've obviously increased the capacity of the plant. The other aspect is that, as we look ahead, we see that gas prices will also remain well, not as high as

they are right now possibly, but they will certainly not go back to the USD10 – USD 11 which existed earlier. So, we expect gas prices to remain probably USD 15 or higher, which also then contributes to the profitability. So, there are a number of positive factors also that have come into play.

I would also add that we are the most efficient manufacturer of ammonia as an entire complex in the country. So, and as we are implementing further energy efficiency projects, the efficiency of our ammonia production and cost is becoming better. We would also have possibly a competitive advantage against other players who may still need to import ammonia.

- Moderator:** The next question is from the line of Shalini Vasanta from DSP Mutual Fund. Please go ahead.
- Vivek Ramakrishnan:** Hi. This is Vivek Ramakrishnan. My question is on the subsidy debtors. Even if you take into account the INR 1,800 crore that you have got, it is still double, almost double year-on-year. Sir, is there any rethink in terms of the government payments, because they were very prompt for the last couple of years and do you see any such delays going forward?
- Gaurav Mathur:** So, what has happened is, that the government had provided an initial budgetary estimate of the subsidy. But if you see what has been stated in by the Honourable Finance Minister or the Honourable Minister of Chemicals and Fertilizers over the last 3-4 months, that the total outlay that they were talking of for the full year was more in the range of INR 2,25,000 crore - INR 2,50,000 crore and this is the number, I'm saying which was quoted by the Honourable Ministers. Now, what has happened is that because of the rapid escalation of gas prices and prices of imported fertilizers, the original subsidy allocation got consumed rather quickly, and there was a very small gap that came up for about four to six weeks before the department managed to get another more than INR 80,000 crore of subsidy allocated and the disbursement of which has started rapidly.
- So, looking at that, our view is that the government appears to be very sort of positive in that sense to make an appropriate subsidy allocation to cover the entire requirement of the industry.
- Vivek Ramakrishnan:** Sir, then would it be fair to say that with the current allocation by the government, by March everything will get regularized, if the prices remain where they are?
- Gaurav Mathur:** See, like I said, the government is talking of total subsidy outlay of INR 2,25,000 crore or INR 2,50,000 crore. So, right now they've got an immediate INR 80,000 crore but we expect that in the winter session of the budget, they may probably take approval for the entire amount required for this financial year, as they have been doing over the last two years.
- Moderator:** Thank you. The next question is from the line of Pratik Tholiya from Systematix. Please go ahead.
- Pratik Tholiya:** Yes. Thanks for the opportunity. My first question is basically for this INR 240 odd crore of one time hit that you have taken. Against that what is the volumes that were, the opening volume that you've sold, for which you have taken this hit?
- Gaurav Mathur:** Your line is not very clear. You're asking about the volume, which we had at opening in April?
- Pratik Tholiya:** Yes. Exactly. So, what is the volume that you had sold against which this INR 230 odd crores hit we have taken?
- Gaurav Mathur:** See, we had on the 1st of April, an opening stock of DAP of about 3.1 lakh metric tonnes, which the government paid a lower subsidy on, if that is your question.
- Pratik Tholiya:** Okay. Sir, is this understanding correct that for this 3,00,000 tonnes of inventory that you are holding, you booked a subsidy at INR 50,000 per tonne in Q1 but since you did not get that and you must have got somewhere around INR 32,000 to INR 33,000 per tonne subsidy. So, that why you reversed that entry in this quarter?
- Gaurav Mathur:** Yes. So, what the government had done is they applied the INR 33,000 like you rightly say on this 3.1 but then they had added INR 8,000 for that period for the entire 5,00,000 tonnes of the October to March period. So, it was a involved calculations, which was carried out, which the net result was the loss that we mentioned.
- Pratik Tholiya:** Okay. Understood. And just one smaller question on the current gas prices. What is the current prices for us?
- Gaurav Mathur:** The current gas price is approximately USD 28 per MMBtu on NCV basis.

Moderator: We'll take the next question from the line of Sanjay Agarwal from Nirmal Bang Equities. Please go ahead.

Sanjay Agarwal: Thank you for the opportunity. How do you see the volume growth in Fertilizer and Crop Protection Chemicals in rabi in third quarter and fourth quarter?

Gaurav Mathur: In terms of Bulk Fertilizers, the overall demand of the country right now is relatively stable. So, we will end up with a share of the total, which has been in the past for our Bulk Fertilizer business. As regards the Crop Protection business, obviously, as you've seen from the results, we've seen very strong growth, and we hope to continue with that. However, you must bear in mind that the quantity of Crop Protection Chemicals consumed in the second half of the year is not similar to what is in the first half of the year. So, the numbers are not necessarily extrapolatable.

Sanjay Agarwal: Okay. And sir, my second question would be, was the loss on imported fertilizers, you were stocking up at March prices as per the Government's directive, or was it because like sales of the DAP and NPK did not pick up as much as we expected?

Gaurav Mathur: Are you talking about building stock for March '23?

Sanjay Agarwal: Yes sir. I am talking about the losses that we have incurred on like imported fertilizers. Was the loss on imported fertilizers due to stocking up at March price as per the government directive? Or was it because of the volumes and sales drop in DAP and NPK?

Gaurav Mathur: So, like we have mentioned in my opening remarks as well as in the investor presentation also, it was a combination of the opening stock on which a lower subsidy was paid and thereafter, while the full subsidy was paid, the procurement price was high. The dollar had appreciated versus the rupee and we were not able to pass on that price increase to the market because of the overall MRP pricing situation that existed.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Hi. Good afternoon and thank you for the opportunity. Just a quick question on Crop Protection, right. I think the business has done phenomenally, even though it's on a low base, but nonetheless, INR 500 crore of revenue odd in H1. If you could just throw some light in terms of what's happening here, and do you anticipate this kind of traction even going forward? And if so, would it be on account of you've been underpenetrated right now? I mean, I'm just curious in terms of understanding what's driving this business at the speed at which it is?

Gaurav Mathur: Okay. Thank you. I'll request Ashish, our Head of Sales & Marketing to may be provide you with some insights.

Ashish Srivastava: Okay. Thank you. This is Ashish here. You rightly said that the growth numbers look higher because of the lower base. But, as we have mentioned earlier also, as Gaurav also mentioned in his opening remarks, the Seed to Harvest project which we carried out in some selected geographies and there was a concentrated effort upon building up a proper product portfolio, so that both things put together are giving good results. So, the Crop Protection portfolio in the existing geographies takes care of every single crop and every single pest, weed and fungus. So, I think that is growing in that segment.

Tarang Agrawal: And, I mean, how do you, what's your outlook for this business? I mean, without getting into specific numbers, do you believe in terms of purely in terms of completeness of coverage, is there scope for you to increase coverage or there isn't any scope? You have practically may be covered the anticipated area and from here on, you'll probably see growth on same stores or same distributor, same channel growth? Or there's a scope to expand your channel further?

Gaurav Mathur: Yes, actually there is. We absolutely see scope to expand our width and depth of the channel in our core geographies, as well as a large part of these results do not include some of the new geographies which had come in because those were, by the time we got our registrations, etc., we've not had a very significant sale over there, but we expect that to start picking up as we progress. So, for sure, there is a lot more that we have to go ahead with, both, in our existing core earlier geographies more in the north, as well as in the south and west geographies.

Tarang Agrawal: Okay. And just a question on the interest cost. So, there are three elements to it, right, Quantum of debt, cost of debt and the duration for which the working capital debt must have been taken. I think you've explained the duration piece in your earlier comments. So, just wanted to understand the bump on year-on-year basis has been significant. So, between these three elements, where would you probably attribute the majority of the bump?

Gaurav Mathur: I will ask Anuj Jain, our Assistant Vice President - Finance to respond to you.

Anuj Jain: It is majorly because of the average higher borrowings. Though the rate of interests have also increased but that is not having a major effect. The major effect is because of the higher borrowing by about INR 3,000 crore.

Tarang Agrawal: Okay. And as the allocation situation improves, we should probably see this relaxing as we move forward?

Gaurav Mathur: Yes. That is what we foresee.

Moderator: Thank you. We'll take the next question from the line of Arjun Khanna from Kotak Mahindra Asset Management. Please go ahead.

Arjun Khanna: Sure. Thank you for taking my question. My first one is in terms of the subsidy for P&K. Just wanted to understand, because we were of the understanding that the subsidy is payable on the point of sale on the POS machine. You seem to be indicating in terms of the one-time loss, that government is actually looking at in terms of imports, and stockholding. If you could help us understand this?

Gaurav Mathur: Yes. You're absolutely right. The NBS policy is applicable and the subsidies are paid on the basis of material going out of the point of sale. However, last year, the government had, in order to obtain material, DAP especially, for the country, the government had said that even though the subsidy was less, please go ahead and produce material for the manufacturers, and to the importers to import material, and we will make sure that there is no profit, no loss. Unfortunately, what has happened is, when the calculations have been done, it has resulted in a loss for us and I think quite a lot of the industry. So yes, it was a move away from the NBS policy, where we believe that a special approval was taken from the Cabinet to carry this out. Abhay wants to add something.

Abhay Bajjal: See, jocularly as they say, sometimes the road to hell is paved with good intentions. The intentions were good, but the way the calculations were done, there was a little, lot to be desired. So, this is a discussion which is ongoing with the government. I don't know how soon or quickly we will have resolution, but it is not a dead matter as yet.

Gaurav Mathur: So, we continue to pursue this because the commitment that was given to us was that it will be on no-loss basis. So, we continue to pursue this with the department.

Arjun Khanna: Sure. Thanks. That well explained it. Sir, the first part of that one-time loss, you talked about, substantial increase in imported fertilizers and adverse movement. Obviously, the MRP is what it is in the market, given that there are number of players. Given that we are in a declining phos acid environment, just wanted your view, how do we look at this DAP trading business, given that incrementally prices are falling, and potentially, we could again take a hit in the future if stocks aren't liquidated as soon as they come in, given that the trajectory of DAP globally is on the way down?

Gaurav Mathur: So, based on the declining trend of the prices and the contracts that we've made, we do not expect to make losses in the balance of the financial year as it stands today. However, of course, it is all subject to the subsidy that the government declares from the 1st of October. Based on the discussions of the industry with the government, the industry does not anticipate any significant reduction in the subsidy. So, we expect it to remain around the mark where it is today. May be slight reduction or not, we don't know for sure.

And then of course, on the pricing part, there's an informal price cap that remains, is to make sure that fertilizer is available to the farmers at an affordable price. And specially, given what's happened on the monsoon front etc., there is a lot of optimism on the Rabi crop going forward.

Arjun Khanna: Sure. Very helpful, sir. If I could just ask one last question in terms of the Ammonium Nitrate project. Given that there is a project cost escalation, could you help us in terms of how do you all look at the payback period, the breakeven period given that the output increase in terms of tonnage is not commensurate with increase in the costing. So how do you all look at it in terms of breakeven and payback period? Thank you.

Gaurav Mathur: Yes. So, like I have mentioned earlier, our IRR, breakeven, payback, return on capital employed, all those numbers are very much comparable. Maybe in some cases better than our, when we had looked at the original project and I don't want to obviously get into the specifics of that. And as mentioned, those are driven not just by the increase in capacity, but what is happening on the gas price and that, if the gas price goes higher, there's opportunity for better absolute margins. That's one.

The second thing which we have not as yet factored in into our numbers, but which is a very positive development which has happened only in the third week of October is that Rajasthan has come out with a Rajasthan Investment Policy, which provides a substantial capital subsidy payable over 10 years on the total cost of the project without the duties and taxes, of course. So, that in itself will further boost the financials of the project as we go ahead.

- Moderator:** The next question is from the line of Vidit Shah from IIFL Securities. Please go ahead.
- Vidit Shah:** Hi. Thanks for taking my question. Just to take the point on the falling prices forward, what would be, as you said you do not expect a meaningful reduction in subsidies in Rabi, but like, let's say, if that were to happen, and subsidies go down with phos acid prices to the extent of 15 to 20% from here, what would be the impact? Would the current inventories that you have still fetch the INR 50,000 of DAP subsidy that it fetched last year, similar to what the government policy was in Kharif or then would we be facing some inventory losses in the second quarter?
- Gaurav Mathur:** Vidit, I mean, that's a very hypothetical question, I'm afraid, because we don't know what number the government will come out with from the 1st of October. So, there's no way I can give any number or any sense on that, honestly. Once the subsidy is announced, then we will probably have an idea.
- Vidit Shah:** But should there be a reduction in subsidy, would there be inventory losses? Or would the losses not be very meaningful?
- Gaurav Mathur:** There would be losses if there is a reduction in subsidy. It will depend on what is the extent of the reduction. And on the other hand, because what we will sell now, from now onwards, was procured at a lower price when the prices has started to come down, there is a positive side to that.
- Vidit Shah:** Got it. Also, in terms of the P&K fertilizers, we've seen a healthy shift towards more NPKs being sold this quarter versus what we've seen in the past. So, is there like a change in strategy where we're moving more towards NPK versus DAP or it was just a one-off season this time around?
- Gaurav Mathur:** This is very much part of our strategy. So, when we have expanded into the five states early part of this year, late last year, Maharashtra, West Bengal, Andhra Pradesh, Telangana and Gujarat, those states sell a lot of NPK also. If you look at how the DAP and NPK market is placed, the DAP market is predominantly in the northern states. When you talk of Punjab, Haryana, M.P, Rajasthan, U.P, these are the predominant markets of DAP which would account for 60 to 70% of the total DAP in the country. The NPK market is a little bit of the reverse. The southern states, Andhra, Telangana, Maharashtra, they use a lot more of NPK. So, as part of our strategy, we are getting a lot more into NPK. And we are also using this opportunity to introduce NPK in our existing territory.
- Vidit Shah:** Okay. So, in the northern states as well?
- Gaurav Mathur:** Yes. Please go ahead.
- Vidit Shah:** Sorry, I was asking the margins that you make on trading NPK is significantly different than the DAP margins?
- Gaurav Mathur:** The margins, the DAP and NPK prices, because quite a few of their raw materials and inputs are common. So, in a sense the differentials on the prices etc., move in a similar manner. Now of course, there was the informal price cap which differed between DAP and the NPK, which then impacts the margin. And we are at a stage where we are also looking at making sure that we penetrate these markets, right. So as an entry strategy, while of course, we want to make good margins, but we are also okay if we make reasonable margins.
- Moderator:** The next question is from the line of Rohan Gupta from Nuama. Please go ahead.
- Rohan Gupta:** Hi, sir. Good afternoon. Thanks for the opportunity. Sir, couple of questions. The first is on some clarifications on this unexpected losses which we have borne on the complex fertilizer. Sir, time to time, we have seen that, in trading businesses we have occurred this kind of losses because of a change in government policies or probably not the right calculation of the subsidies. So, I think that has been quite disturbing, historically, as well. Sir, in this case, I mean, it's just surprising to see that the government has announced a subsidy rate in the month of April itself and DAP and NPK are still open in terms of the no-price control from the government, and we can take the sufficient price increase if we are seeing that the currency depreciation is impacting our imported costs. Just wanted to understand that why the industry would not have reacted and sold the DAP still under the old price at INR 1,200 per bag maybe,

while seeing the currency depreciation will impact the imported costs? So just wanted to understand what the thought process of the industry while the markets are open to increase the prices in the market?

Gaurav Mathur:

So, I think the key focus of the government and to an extent supported by the industry is to ensure that fertilizer is available to the farmers at an affordable price. As you can understand, if the fertilizer price to farmgate price of fertilizer goes up very high, that leads to an increase in his production cost. And then MSPs and food inflation, many things come into play. So that's one aspect of it.

The second is that there was and continues to be an informal cap on the MRP in the market. The third is that the government had and has in the past said to the entire industry, that they will take into account, the cost and the prices and give the industry a reasonable return through the subsidy. So that is what the industry is taking up with the government, that please look at reasonable return, as we have supplied the material, there is an informal cap on MRP and there was a delta therefore on the cost versus the MRP and the realization. So, that is what we are as an industry pursuing with the government.

Rohan Gupta:

Okay. Sir, second question is on our TAN plant. Sir, I understand that we had a surplus ammonia, and that's why the decision was taken to put a TAN plant to have a better utilization of ammonia. We had I think some 80,000 to 90,000 tonnes of surplus ammonia, and we decided to 2.2 lakh tonnes of TAN plants. With just some increasing capacities of proposed TAN plant, are we also going to retrofit our ammonia plant and we'll have a surplus ammonia availability? That is number one.

And second sir, TAN has been a commodity and with the realizations of almost INR 20,000 to INR 25,000 per tonne with a margin even if not more than INR 7,000 to INR 8,000 on a sustainable margin on an average basis. Are we looking at this project and in the current realization and which may be much higher than what the average realization would have been of TAN historically?

And that's where I mean, I do understand and respect that you're not willing to share the IRR calculations and the numbers there, but are we chasing the current market prices of TAN which may impact significantly when the market normalizes? As ammonia prices normalize globally, and the realization will fall into the territory of again INR 20,000 per tonne to INR 25,000 per tonne, margin INR 5,000 per tonne, that can prolong our investment in TAN because you've already increased the capex from INR 53,000 per tonne to INR 68,500 per tonne of TAN capacity. That's a quite significant increase in capital cost also and may not be remunerative if the TAN realizations fall in average. So just your thought process on that, sir.

Gaurav Mathur:

Thank you for the very elaborate analysis, Rohan. Two questions you have asked. One is on ammonia. So, yes, we will be able to increase, like I mentioned earlier, our ammonia production. Now, this is a consequence of energy improvement projects that we will do and upgrades of key equipment which are actually on a standalone basis justifiable on their own with a reasonably good payback. And in addition, we'll produce extra ammonia, which has led to the increase in capacity. So, there's a double benefit to us on how we get this extra ammonia, One.

Second, as regards your question on calculations of margins and prices, well, we can assure you that we don't look at just the current numbers. When we do the projections over a 10 year period, we take into consideration future price of gas, future price of ammonia, demand supply, all those parameters which are essential and then assume a certain margin. We build potential aspects like when we enter this market, we may have, we may not be necessarily able to operate our plant at full capacity in the first year. So, we do then look at how do we build in reasonable assumptions and then do the projects on that basis, as you can well imagine. I think Abhay wants to add something.

Abhay Bajjal:

Rohan, if you do a comparable cost analysis for competitors, we are not very far away from them. See, I will not name the company but they are putting up for 3,76,000 tonnes. They are putting up for INR 2,200 crore. So, they are not very far off. Number one.

Number two. You will appreciate that we have a combined plant for urea and ammonia and many overheads and cost get shared. So, our cost structure is definitely better.

Thirdly, our ammonia itself is made out of a very cheaper, I mean, it is because of a more efficient process. So, definitely, cost per tonne of ammonia itself is lower than many others. As Mr. Mathur has said that it is one of the most efficient complexes for ammonia production

in the country today. So, if you take all of that into account, we have a significant advantage in the market.

And number three, I think Mr. Mathur mentioned in passing that there is some substantial relief through the Rajasthan Investment Promotion Scheme, which will reduce the overall costs. So, all taken together, I think it becomes a very fine project to do.

Moderator: The next question is from the line of Ranjit from IIFL Securities. Please go ahead.

Ranjit Cirumalla: Yes. Hi, sir. Thanks for the opportunity. On this policy front, the experience that we had in the first half, whether it is likely to impact our strategy for the next year at least on the trading of DAP front, or it's likely to remain the same?

Gaurav Mathur: Are you talking of the NBS policy impact for next year I presume?

Ranjit Cirumalla: Yes.

Gaurav Mathur: So, look, I think it is very early to say anything, because there is so much of uncertainty in the global situation and what is happening on the policy front. There is very regular interaction that we and the industry have with the government. So, I don't think anyone, including me, can sort of give any direction as to what will happen next year.

Ranjit Cirumalla: No, sir. My question was largely on the approach that we had taken so far, that we have been doing the trading in DAP and NPK. At the start of the year, we would have been assured that there would be a subsidy and now there has been a bit of shortfall on that front. Such kind of an approach whether it is likely to change the way we do our trading business or we will take this as a one off and we'll continue.

Gaurav Mathur: Yes. So, we will obviously now look for a lot more things on paper and then take our decisions accordingly. So, the portfolio diversification is also one of the things that we are looking at in terms of if you see the NPK business. But broadly speaking in terms of the strategy on trading, we will very closely look at what the government is doing and putting out in writing as with regard to their policies, and then move on it accordingly.

And these are things which have been happening in the past also, to an extent that you have to wait till the new NBS policy comes out to make a decision on how much of opening stock you want to carry into the next year and so on and so forth, which will continue to happen. These, last year and this year, have been exceptionally volatile. So, we can't take them as representative of what's going to happen in the future. We have to keep that in mind that these are years where nobody in the entire industry, even those who spent decades in the industry, could actually predict what's going to happen, not only in India, but globally.

Ranjit Cirumalla: Yes. Could you share the volumes split between the Gadepan III and I and II, if that is possible? Volume split between Gadepan III and Gadepan I and II combined?

Abhay Bajjal: Line is not audible at all.

Moderator: We'll take the next question from the line of Vidit Shah from IIFL Securities. Please go ahead.

Vidit Shah: Hi. I just wanted the split of the volume breakdown between Gadepan III and I and II.

Gaurav Mathur: Anuj will provide that to you.

Anuj Jain: Yes. For the quarter, Gadepan I and II is 5.4 lakh tonnes production and Gadepan III is 3.43 lakh tonnes. Total 8.82 lakh tonnes production for the quarter.

Vidit Shah: Okay. Thank you. And I think there is like a newsflash that the government has decreased DAP subsidies by roughly INR 2,000 for the Rabi season and NPK not much has changed. So, any comment that you would like to make for the sort of revision?

Gaurav Mathur: Actually, we haven't seen that because we're in the call. We haven't seen the subsidy numbers. So, I think we will be only able to comment once we see the numbers.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Yes. Hi. Good afternoon, team. So, my question is on the DAP, NPK business and I think I had asked this question in the past also, given so much of uncertainty related to this business and we have issues in the past also, there are good phases also, which we have seen. But generally, over a cycle, this business seems to be quite unpredictable. And I think in FY20,

- you lost market share as well. So, from the thought process perspective, how would you take this business going forward? Will it remain like a trading business only because then lot of levers which other manufacturing companies have, you don't have that kind of levers? So how should you be thinking about this business?
- Gaurav Mathur:** So, I'm not sure I agree with you that this business is uncertain. Actually, the uncertainty, if you look at, barring last year and this year which was a very, very different situation in the world starting off with the demand supply becoming unbalanced last year to the Russian conflict this year. If you take out this 1.5 year period that has elapsed, it's been a pretty steady business. So, we have no doubt about that at all. And the volatility is only just because what's happening now.
- Resham Jain:** So, will this business remain like a trading business only or will you ever think about doing some backward integration to at least have kind of some security in terms of margin levers at least on the backward integration side?
- Gaurav Mathur:** So, look, we keep examining it, but at the end of the day, if you have to have any backward integration, i.e., manufacturing, etc., then we need to be able to have a business case for it. So, for example, if the government comes out with the PLI scheme, then we would be very much interested. But as of now, it looks unlikely that we could get acceptable returns on an investment in manufacturing in this area.
- And just to give you a sense, 55% to 60% of DAP is imported, and that is not going to change anytime soon because none of the manufacturers have the capacity to increase that substantially and if they increase that, then NPK will reduce. So, it will continue, a substantial part of the DAP, 55% - 60% will continue to be imported and traded.
- Resham Jain:** Okay. And just a request, if it is possible, If as an investor, if you want to evaluate how the trading business has done over the last, let's say, 5-7 years, any number if you can give in terms of return on investment, given good amount of working capital also is going into this? So that would be helpful for us just to evaluate how this business returns are over a cycle, over a period of time.
- Gaurav Mathur:** I don't think I have any number. If Abhay wants to add anything.
- Abhay Bajjal:** I have just slight anecdotal evidence. From 2014-'15 to about 2019-'20, we set up the Gadepan III plant through the equity generated by this trading. So, you can understand what it has generated for us.
- Gaurav Mathur:** That's only anecdotal.
- Moderator:** Thank you. The next question is from the line of Marshal, an individual investor. Please go ahead. As there is no response from the current participant, we'll move on to the next question from the line of Rohan Gupta from Nuama. Please go ahead.
- Rohan Gupta:** Hi, sir. Thanks for the follow up. Sir, the question is on IMACID. There has been pressure on the profitability in IMACID also in the current quarter, while we see that phos acid prices still remains much lucrative compared to historical average, there should have been decent profitability in IMACID as well. Can you just explain that the contractual arrangement which we have from the IMACID for the rock phosphate and how the value is derived and what kind of margins IMACID is allowed to make?
- Abhay Bajjal:** See, Rohan, that's an involved question. I'm not really authorized to comment too much on IMACID, but I can tell you only this, that the plant was shut twice. Once, of course, for ATR, a turnaround which took some extra days and then secondly, because of contractual non-assurances, let us say on the offtake side due to price differentials and so on. That has been since corrected. And I think this last quarter of theirs, which is our third quarter, and their fourth quarter, they are going to do reasonable volumes. Now how much that will result in terms of the profitability, I can't really make any comments. But I would say that they are more or less on even keel on this issue. As far as the margins and other things are concerned, it's a rather involved question of the rock price and sulphur price and so on. We can only comment once they publish and we are not privy to day-to-day workings into IMACID because it is a separate company, Joint venture.
- Rohan Gupta:** Okay. Sir, second question is on the, once again, coming on the DAP and how you see that the Rabi pricing will be as you said that government definitely has an indicative pricing of DAP in the market and then industry chose to rest to stick with that, though it may be on the cost of losses to the industry, I don't know why but, somehow industry stick with that. What will be the thought process of you or the Company and also where you see the industry heading in second half in a Rabi crop, in Rabi season, when the DAP prices, probably subsidy rate,

somebody mentioned, is already gone down by INR 2,000 per tonne. So, if the subsidy rates remain there and with the recent currency depreciation, do you see that you will be allowed or you will be taking price increases in the market in DAP to compensate any kind of losses if the subsidy rates are not sufficient enough to meet the minimum profitability? Or as a moral responsibility, the industry will continue to provide the fertilizer at the same price may be even on the cost of the profitability to the industry?

Gaurav Mathur: So Rohan, like I said, there is an informal cap on the MRP in the market. And we, as an industry, don't see that being lifted in the Rabi season, number one. Number two, with the reduction in procurement price of DAP and if the subsidy remains around the earlier level, we expect positive contribution in the Rabi season.

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: Thank you, all of you very much for your very insightful questions. And I hope all of you have a good day and wish you very well for the rest of the festive and winter season. Thank you.

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