

Q3 & Nine Months FY22 Earnings Conference Call Transcript
January 31, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and nine months FY '22 Earnings Conference Call of Chambal Fertilisers and Chemicals. 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.

I now 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 the Chambal Fertilisers and Chemicals, Q3 and nine-month FY '22 earnings call. We have with us today Mr. Gaurav Mathur, Managing Director, Mr. Abhay Bajjal - CFO, Mr. Rajveer Singh, Vice President - Legal & Company Secretary, Mr. Anuj Jain, Assistant Vice President - Finance and Mr. Ashish Srivastava, Assistant Vice President - 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. As we see, the COVID scenario continues to improve and we hope that you and your families are all safe. Thankfully, this wave has been a much milder version compared to the past.

The last quarter was challenging in terms of huge upswing in prices of fertilisers in the international market, which led to changes in trade flows and supply constraints. This has adversely impacted sales volumes of DAP and MOP fertilizers and the margins on DAP were also impacted due to this reason.

On the other hand, our new territories in west and south of India have enabled us to achieve better sales volumes in NPK Fertilisers. The performance of crop protection chemicals and speciality nutrients has also been very encouraging as we have been focusing on it, like I've mentioned in our past calls.

The Government of India has supported the industry by revising the subsidy during the last quarter, but overall imports remain low. The supply constraints have impacted the overall stocks of P&K fertilizers in the country, which were very low at the end of the last quarter. The overall demand of these fertilisers in other markets is seemed to be tapering off a little leading to better availability of these fertilisers in the international market.

As you know, we have announced implementation of technical ammonium nitrate project at an estimated cost of INR 1,170 crores. We have excess ammonia available at our Gadepan facility. This is a technical excess ammonia, which will be sufficient for manufacture of the full capacity of ammonium nitrate that we have planned to put in place.

Considering the time taken mainly in statutory approvals, the project is estimated to be completed within 36 months. The project will enable to do value addition to the ammonia we are selling in the market, hence, better margins will be available. The gap between domestic supplies and demand and infrastructure limitation continues to pose a challenge to imports and we are very excited about the potential of this project even bearing in mind other proposed capacities by players in the market.

The financial performance has already been explained in the presentation we have shared with the stock exchanges. Hence, I'm not mentioning all the numbers. I'm sure you've had a look at those. Considering the nine months performance, the Board of Directors declared an interim dividend of Rs. 4.50 per equity share of the company.

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. Anyone who wishes to ask a question, may please press '*' then '1' on the touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' then '2'. Participants are requested to use handsets while asking a question. Anyone who wishes to ask questions please press '*' then '1'. The first question is from the line of Pratik Tholiya from Systematics. Please go ahead.

Pratik Tholiya:

Hi, sir. Thanks for the opportunity. Sir, just wanted to understand more on this project. Firstly, you have a very strong...

Rajveer Singh:

It is not clear, I think, some noise in the background if you can...

Pratik Tholiya:

Okay, is it better?

Rajveer Singh:

Some noise in the background actually.

Pratik Tholiya:

Just a second. Yes is it better now?

Gaurav Mathur:

Please go ahead.

Pratik Tholiya: Sir just wanted to understand, why have we chosen to get into chemicals in the first place since you already have a very strong hold in the agri space? So why did not we choose to get into say something like DAP or complex fertiliser or even agro chemicals, technical manufacturing versus chemical? That's my first question.

Gaurav Mathur: Okay. Thanks, Pratik. So, when we look at, we generate excess ammonia because of technical reasons in the plants. We have been selling this excess ammonia. However, we were evaluating, as I mentioned in my previous investor calls also, we've been evaluating options to better monetize this excess ammonia and looking for value added products. Towards that, we had evaluated various opportunities and come to the conclusion that technical ammonium nitrate would be the best option.

As regards why not DAP and complex fertilisers, we keep evaluating that and at this point in time, we believe that our import and trading model is most appropriate that it does not necessarily mean that we will not continue to evaluate that going forward.

Pratik Tholiya: Sure Sir. And just on this ammonia bit, just wanted to understand how are we generating excess ammonia and are we able to use this excess ammonia for chemical business, because I think the gas that we get is the pooled gas which is meant only for fertilisers. So, how are we going to source ammonia for the plant?

Gaurav Mathur: So essentially, the generation of this ammonia happens because of the inherent design of the plant and that is why it's called technical ammonia. In terms of the gas and pooled gas, etc., those are all part of the government's policy and we have taken that into consideration, while we have decided to put up this ammonium nitrate plant. We believe that whatever be the policy, this still makes a lot of sense.

Pratik Tholiya: Okay. What sort of IRR that we're looking at from this plant? And on the cost side also, because, if you see we are at the west part of the country and most of the mining activities happen in the central and east. So, most of the end users prefer buying from China because imports are much cheaper. So, because logistically speaking it might just end up being a little more costly to transport from Rajasthan to the East Coast. So, what is the cost dynamics and how is the IRR going to be in this project?

Gaurav Mathur: So, Pratik, I can't share with you the specific IRR number but suffice is to say that when we look at new projects, we keep in mind the investment that we made in Gadepan-III and that our IRR and returns are commensurate and benchmarked to that. So, it's a decent number which is why we decided to go ahead with it. As regards your question about the market and its availability and imports from China, there are two points I would like to make.

We have looked at the markets and done an extensive exercise to understand where the market is, where the higher growth will happen and we believe that we will have a very competitive cost to serve the market that we would like to access. I think we must bear in mind that this ammonium nitrate demand is growing at a very healthy

CAGR, which we've mentioned in our investor presentation also of 5% to 6%. So, that is definitely creating a lot of demand. And we believe that we will be able to service that in the markets.

And if you will look at the geography, I'm sure you can see where other plants are located. You will see that our Gadepan location is by no means adverse, it is a very good location. As regards imports, imports is a very very challenging situation after the ammonium nitrate rules of 2012 and then recently, the blast which happened at Beirut port, it's a very challenging situation on imports. And we've referred it to in our investor presentation also. There are very strict safety requirements. Permission is only available to users and not to any traders and there are port limitations. So, as of now, only Vizag port is authorized to import ammonium nitrate. So, all of these put together gave us good confidence that we will be competitive suppliers, as well as, we will also be able to do import substitution to a good extent.

Pratik Tholiya: Sure. Also that's very helpful. I'll get back in the queue. Thanks a lot and wish you all the very best.

Gaurav Mathur: Thank you.

Moderator: Thank you. The next question is from the line of Madhav Mardha from FIL. Please go ahead.

Madhav Mardha: Yes, hi, sir. Good afternoon. Thanks again, for your time. I had two questions. The first one was on the technical ammonium nitrate project. So, given that there are a couple of new capacities coming up in India in the next two or three years, would it be possible for these new capacities to successfully replace the very large imports, which happen, because of the reasons that you already stated? So, do you think there's a reasonably good chance that imports probably go close to zero once India has enough domestic production of TAN?

Gaurav Mathur: Yes, Madhav. As I mentioned in response to the earlier question, there you know import is not very high. Even now, with lower capacities, the import is not very high. That's one. Second, there's a huge challenge on imports. Third, as I mentioned that this ammonium nitrate growth is seem to be in the 5% to 6% range. So, the current market size is approximately a million tons. So, with a 6% growth, you can say every three years about 200,000 tons of demand is coming into play. So, I think that probably gives you a good sense of demand-supply-imports situation and why we feel confident that this is a good project to go ahead with.

Madhav Mardha: Understood and the second question was our DAP volumes and not just for us, for the industry as a whole, has been quite weak this year and then there's been a big inventory destocking also, which has played out. So, as we head into FY '23, is it only just logical to expect that volume growth should be really strong if the global sort of supply constraints ease just led by inventory sort of getting replenished in the channel?

Gaurav Mathur: Yes. So, Madhav this year, like you rightly said, the DAP volumes for the entire country have been substantially lower and even, as we had begun this year, the opening inventories at April '21 were also quite low compared to previous years. So right now, the channel in India is almost empty. That's one. Second is, as I mentioned in my opening remarks, we see a slight tapering of demand already starting to happen in other key markets outside India and therefore, we expect that the DAP requirement and availability both will be better in the coming year.

Madhav Mardha: Understood. All right, sir. Thank you so much.

Gaurav Mathur: Thank you.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in this conference call, please limit your questions to two per participant. For any further questions, you may come back for a follow-up. The next question is from the line of Trilok from ABSLI. Please go ahead.

Trilok: Hi, good afternoon, sir. Thanks for the opportunity. Just want to check beyond this project that you've already announced, what sort of investments are we envisaging and how much time do we expect, will you guys can share with us?

Gaurav Mathur: Hi Trilok, good afternoon. See, like I mentioned in our previous calls, we are looking at various opportunities and this is the first one that we have zeroed into. As we see more opportunities coming to a fruition, we will then make those announcements. We, as you can see, have a very strong balance sheet and therefore, as we go ahead, we will bring in more projects. At this point in time, I think it would be inappropriate for me to share things, which are work-in-progress.

Trilok: No, we appreciate that, but just wanted to get some you know so last time also you guys alluded to by the end. So any timelines will be appreciable because, I agree that at any way, at any given point in time, you will be obviously evaluating for multiple opportunities. But we thought if we can get some timeline, that'll be helpful, that's the only request. And also with regards to the first question one of the participants asked about the IRR, what sort of pricing are you considering for ammonium nitrate? That'll be helpful, if you can just share some figure on that? Thank you.

Gaurav Mathur: Yes, Trilok I think to share the pricing that we have considered is probably not appropriate on an investor call. These are all competitive aspects. One second, we are still three years out, but what we have done is we've done a thorough due diligence to understand the dynamics of this market and what would be the cost to serve for us, what would be the potential cost to serve for competition. The fact that we have one of the lowest cost ammonia which is the primary raw material available. So, therefore, the pricing is in the context of margin. So, we are quite confident that we will be able to make at least the same if not better margins than the industry as a whole.

Trilok: Sure, got it. Lastly, if you could just comment on the timeline that'll be helpful? That's the last question. Thank you.

Gaurav Mathur: Thank you.

Moderator: Thank you. The next question is from the line of Deepak Chitroda from PhillipCapital. Please go ahead.

Deepak Chitroda: Thank you for the opportunity. My first question is about on the time difference itself. So, first of all, sir, just want to understand, as you highlighted in the previous participant answer, what would be the market size for TAN here in India, because as I understand one of the competitors, they claim almost kind of a 40%, 45% kind of a market share. So, if I understand correctly, the domestic market size could be around 1.5 million ton or so. So, I think the expansion which we have announced of around 0.2 million ton, do you think that can be easily absorbed and we can have a good kind of a market share going forward?

Gaurav Mathur: Yes, thank you Deepak. So, the market size of TAN currently is approximately a million tons, is growing at 5% to 6% per annum. So, every three years you add approximately 200,000 tons. We are putting up a plant of 220,000 tons. So, you can estimate that and it takes three years for a plant to come up. So, by that time the market would have grown by another 200,000 tons.

We believe that in spite of the strong player having your market share there is sufficient opportunity for us and as I mentioned, we would have a cost competitive product because of the ammonia available and our location.

Deepak Chitroda: Okay. And just in addition to the same question, last time you mentioned that we had additional or excess ammonia of roughly around 60,000 - 70,000 tons per year. But as I understand, I think, 0.2 million tons of capacity for TAN probably we might need around 90,000 tons. So, do you think the technical ammonia, which we'll be having could be reached to that level, probably once our TAN plant is ready?

Gaurav Mathur: That's right. That's a very good technical question, Deepak, and you've spotted the number we said last time and this time, so, kudos to you and we have looked at it. So, we have certain small modifications that can be done by which we will be able to easily meet the total requirement of ammonia going forward.

Deepak Chitroda: Okay. And just to add to that, like, as you said, we need almost, 90,000 tonnes of ammonia. So, are we planning to add any further capacity after that, because after that probably we need to have additional ammonia, probably, then we need to buy it from the market, just like one of the competitors is doing?

Gaurav Mathur: I think let's first put up this plant and then we will see. But the thing is, we will keep assessing it, but at the first, we will consume what we have. And then we will see what's the situation at that point in time, there are so many moving parts. And we will reassess the situation as we move along.

Deepak Chitroda: Okay. So just to add on that as well, I mean, in terms of the pricing side. So I understand there is a wide gap between international prices and the domestic prices. So, how the pricing mechanism work in the TAN business that is basically based on the individual customer-to-customer prices.

Gaurav Mathur: See, the pricing mechanism will work on the landed cost to the customer, right? So, whether it's import, whether it is from us, whether it is from competition, ultimately, it will depend on who can supply it at the best possible price. And that's why I come back we've looked at international prices, we've looked at what kind of cost to serve exists for various players. And we believe we can price and get the margin which is appropriate to give us a decent return.

Deepak Chitroda: Sure sir. And my second question on the fertiliser business. So first of all, if you can give the break-up for the urea for Gadepan I and II and for III, the urea sales volume?

Gaurav Mathur: Anuj can you give breakup of Gadepan I, II and III for urea sales volume. One second, maybe I'll ask Anuj to take that number out.

Deepak Chitroda: Okay. Sure. So, in the meanwhile, if I can ask about as you mentioned about the incremental costs, which has increased since October, since the subsidy has been given by the government, but what is your sense, is government planning to give additional subsidy probably they might announce tomorrow or so? So, what is your sense in that side?

Gaurav Mathur: See, as we have also indicated in our presentation, the government till now, from April to now, has twice increased the subsidy. The entire industry in its interaction with the Department of Fertiliser believe that the government is seized of the fact that they will need to manage the subsidy and therefore, its subsequent impact on the MRP of the product to the farmers. So, like they have shown, we believe the government is flexible to look at the international procurement price and accordingly provide the subsidy, so, the industry is making a reasonable margin.

Deepak Chitroda: Okay, so do you think that it, can be possible, I mean, it depends on how the cost has been calculated by them?

Gaurav Mathur: That's right, because I think the government is fully cognizant of the fact that no industry will either produce or import, no company will either produce or import, if it's not going to make some reasonable profit. So, the government like they've shown this year, will probably act accordingly.

Once the subsidy announcement happens only then we will come to know.

Deepak Chitroda: Sure sir sure. If you can please lastly, share the volume of urea?

Gaurav Mathur: Yes, so Anuj just share the volume.

Anuj Jain: G-I, G-II this quarter, we have sold 5.6 lakh tons and G-III it is 3.39 lakh tons.

Deepak Chitroda: Okay, thank you, sir.

Gaurav Mathur: Okay. Thank you, Deepak.

Moderator: Thank You. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Sir, good afternoon and congratulations on such a strong set of numbers. Sir, sorry, but on TAN only that I just wanted to get some more sense, as the entire advantage is more on the ammonia cost of production and in the manufacturing of that with the efficient costing, which we have. Why not we have contemplated on only selling ammonia in open market and there are increasing use of ammonia, which is coming in the country because not any player is putting an ammonia plant and rather than getting into TAN? And also, second, that we don't have any expertise in manufacturing of acids, that nitric acid and all and even TAN itself in terms of customers' profile, and it's a quite regulatory product as you already mentioned, even the customer acceptance may take some more time apart from putting a plant. So, we are probably getting into that business where the customer acceptance and all those things will be pretty may have a long gestation period. So, just wanted to understand, sir, I mean, the logic of almost INR 1,100 crore being put in a TAN plant and if we wanted to get only in some chemicals, have we evaluated any more chemicals or it's just only because of the ammonia where we are just putting a TAN plant?

Gaurav Mathur: Okay, thanks, Rohan. You've asked three questions. So first of all, we currently sell ammonia, right. We currently already generate excess ammonia due to technical reasons and we sell it. When we convert it to ammonium nitrate, we are adding value, therefore, the margin that we will get is far more than selling ammonia. Okay, so that's the rationale. We evaluated various other options where this ammonia could be used and ammonium nitrate is the best option.

Yes, so I'll just restart from Rohan's first question. So, we do sell technical ammonia, technical excess ammonia currently and the rationale for converting it into ammonium nitrate is that it will give value addition and therefore better margins. We did look at other chemicals starting from ammonia and this was the one that made the most sense.

In terms of manufacturing expertise etc., look, we operate very, very complex ammonia and urea plants and compare to that a weak nitric acid plant and an ammonium nitrate plant is very, very simple and we have full confidence that there is no issue. Also, we will be putting up plants with the latest technology, automation etc. So, these are all sort of computer controlled, highly automated plants and we are very confident of being able to operate them.

In terms of customer profile, we are as I said, going for the best global technology available. So, the product that we will get is very, very sure. I'm very sure that will be great product and I must add that I began my career with the explosive business of ICI, which is now called Akzo Nobel, quite three decades ago. So, I personally have a fair understanding of ammonium nitrate, its usages, etc. and I'm confident that we will be able to access the customers for this.

Rohan Gupta:

Okay, sir, it's helpful. Sir, second question is that definitely we were also contemplating other investment opportunities within fertilisers also with putting even a backward plant for probably Phos-Acid. Just some more light on that as this is only INR 1,100 crore kind of CapEx, which we have announced while our cash flow generation still remains very solid. So, on those plans, you are still on and over next two years, do you see that we are going to see some more investment in a backward integration as far as the Phos-Acid and all are concerned or we are contemplating more investments towards non-fertiliser business like chemicals?

Gaurav Mathur:

So, our focus remains the fertiliser business, right. And as regards specific questions on phosphoric acid etc., we are evaluating it, though, I must say that putting up a phosphoric acid plant in India is a very challenging, difficult situation because of various reasons, both in terms of the financials as well as the environmental aspects of phosphoric acid, right. So, that's not necessarily something which is on the top of our priority but there could be other things in the fertilizer business that we could be looking to invest into.

Rohan Gupta:

So, probably that we're also contemplating more chemicals and more projects towards that, if it's probably fertiliser is and putting a Phos-Acid plant in India is not working in a current scenario. So, can we expect that internal cash flow generation over next couple of years can go more towards the chemicals?

Gaurav Mathur:

At this point of time, we are not looking at any other chemicals.

Rohan Gupta:

Okay. That's it. Sir, thank you very much.

Gaurav Mathur:

Thank you.

Moderator:

Thank you. The next question is from the line of Prashant Biyani from Elara Capital. Please go ahead.

Prashant Biyani:

Yes, thanks for the opportunity. Sir, how much of the TAN market is currently served by imports?

Gaurav Mathur:

Approximately 25%. That's the average over the last three years. Sorry. Yes, that's right. The average over last three year is approximately 25%.

Prashant Biyani:

And how much could be the realization per unit for TAN and weak nitric acid currently for the domestic market?

Gaurav Mathur: Look, Prashant that current number is not necessarily the right index because currently, as you know, the price of gas, the price of ammonia so for example, the price of ammonia internationally and what is imported into India is about 2.5 to 3 times what it has been in the past. Right. So, when we have looked at our financials, we have not based it on just this year's current number. We have looked at it over the last three years and understood and then taken a margin which is more sensible. The margins may be very high currently. I don't know because of the high price and high selling price. So, that's not what we've taken. And I can't share with you the exact number, the margin that we have taken into consideration, but what I can share is that we have benchmarked it, we have looked at the cost to serve, what we expect from other players in the market and taken that into consideration.

Prashant Biyani: Sir, if I can put it the other way, how much could be the asset turns if you can share some colour on that?

Gaurav Mathur: Sorry can you repeat your question?

Prashant Biyani: The asset turns from the investment that we are putting in.

Abhay Bajjal Asset turns, are you saying revenue to asset wins?

Prashant Biyani: Yes.

Gaurav Mathur: So, we expected in the range of may be 50% to 60% of the investment.

Prashant Biyani: Okay. And sir, the returns should be in line with the existing business margin for us or should be better than that?

Gaurav Mathur: Like I mentioned at the start, when we look at the returns, we are sort of benchmarking it to the kind of returns we are getting on the Gadepan-III plant. So, it's in the good teens let us say.

Prashant Biyani: And lastly sir, what is the gas price for Q3?

Gaurav Mathur: Gas price for Q3. One second.

Anuj Jain: Gas price for Q3 is \$16.47.

Gaurav Mathur: About \$16.5 per MMBTU at NCV basis.

Prashant Biyani: Thank you, sir. That's it from my side.

Gaurav Mathur: Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Akela from IIFL Securities. Please go ahead.

Abhijit Akela: Thank you, sir. First of all, just to clarify on the gas question that you just answered. This \$16.5 is only on the imported gas or this is the blended pooled gas cost for us?

Rajveer Singh: This is pool gas price.

Abhijit Akela: Okay. And so, this is what is going into our urea production, and then it's being subsidized by the government. That's how it is?

Gaurav Mathur: That's right. Go ahead please.

Abhijit Akela: Okay. Yes. And just wanted to ask one about the non-urea business. Any outlook you could share for the upcoming years of fiscal '23? So, I know you mentioned that availability should gradually improve as prices correct worldwide, but can we expect fiscal '23 to be a more normal year in terms of volumes and margins for the non-urea business relative to the pressure that we've seen so far this year?

Gaurav Mathur: Abhijit, it's a very difficult question to answer because what has happened is this year has proven everybody in the fertiliser industry to be wrong, nobody expected the international market to climb the way and the demand to climb the way it has climbed and the prices to climb, the way they have climbed. This has happened after almost 10-12 years. Now, coming back to your question, there is, like I said, a slight reduction in demand that we see in international market and therefore, that should start to impact the prices at some point of time in the coming months.

Now, a lot of it also depends on how soon China enters the market again. In this last quarter, as you all probably know, China had stopped exports all over not just to India. But they have restarted now to some extent. Normally China comes back into the market around April-May time. As of now, the indications are that by the time we come to those months, probably China will be back into the market. So, if that happens, international demand slightly tapers off, we will then expect the prices also to slightly start coming down.

And then on the demand side, the demand as we know remains of the order of 10 million tons. The Government of India is very keen to ensure that there is sufficient stock of DAP, NPK available at the start of the Kharif season. So, if we put all of these things together, we should expect that in terms of volume, '22-'23 should be closer to normal than what has happened this year.

Abhijit Akela: Thank you, sir. So that's really helpful. Yes, just one last question on the TAN business itself. So, can we expect full capacity utilization within the first year of commissioning? That was one. Also, just to ask about the nitric acid capacity that's been set up there, if I'm not mistaken, it's 1.8 lakh tons per year. Is that entirely intended for captive use for TAN or will anything be sold outside? And one last thing is the pool gas cost that you just mentioned the \$16.5, will it be the same kind of costing that we used for the TAN business also for the ammonia that's being produced there?

Gaurav Mathur: So, in terms of the capacity utilization, we strongly believe that the plants will be able to operate at full capacity very soon after start-up. Like I said, these are not very complicated plants compared to the ammonia and urea plants that we operate. So, we have a strong technical base. So, in terms of plant operations, we will be able to

operate them fully. For the purpose of our financials, we have sort of to be prudent, we've not considered that we will sell 100% of our capacity in our first year. So, I'm sure like you guys would well understand like any other prudent management team, we've also taken that we will be less than 100% and then we'll ramp it up in a couple of years to 100%. That's I think the first question.

In terms of nitric acid, out of the 1.8 lakh tons, the majority would be used in ammonium nitrate process, but we will have some surplus available and we will look at what other options are available to utilize that surplus.

The third part is the gas cost. So, the gas cost we have currently considered the policy that exists. And under that policy, there are certain different ways of the government considering how you use that ammonia? So, we have taken that into consideration and built it into our financial calculations.

Abhijit Akela: Got it. Thank you so much. Really appreciate all the clarification, sir. Wish you all the best.

Gaurav Mathur: Thank you very much, Abhijit.

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

Tarang Agarwal: Hello, sir. Good afternoon. Couple of questions from my side. One, what's happening on getting an approval for extra urea production from your G-III capacity?

Gaurav Mathur: So, we are yet to receive the formal approval. However, given the very high price of urea in the international market, we are hopeful that the government will look at the much lower cost that we will produce the extra urea from Gadepan III and give us the approval. Those are the indications we have received, but we await the formal approval.

Tarang Agarwal: Okay. And what kind of utilizations can you probably run your plant once you get these approvals?

Gaurav Mathur: Full utilization.

Tarang Agarwal: Okay. But I guess you're already 13.3 lakh tons, right? That's how much the G-III plant is at and currently it's being run at 12.70 lakh. So, about 60,000 tons of extra urea, would that be accurate?

Gaurav Mathur: Yes, so Tarang, we don't necessarily run the plant at the lower rate, we run the plant at the right rate so that we get the best efficiency of operation. And then till the time so for example, last year, since we did not have approval for extra production, once we reached 12.7 lakh tons, which is what was allowed as per the policy, we stopped

the plant. And so, this year, once we reach that we will continue to operate as we get the permission from the government.

Tarang Agarwal:

Okay, got it. The second question, on the TAN project, how do we see you funding this project? I mean, can we see you taking a decent amount of debt on the books for this one?

Gaurav Mathur:

I'll let Abhay answer this question.

Abhay Bajjal:

We've Tarang not really decided. It is just an option to either have it 1:1 or whatever. But you know that our cash flows are quite adequate to cover such an investment in the timeframe that we are talking about. But this is a call, we will take because if there are other investment options opening out, as Mr. Mathur has said, we will balance the needs according to what we need for this and for others and so on and then decide.

Tarang Agarwal:

Got it. Thank you, sir. All the best.

Gaurav Mathur:

Thank you.

Moderator:

Thank you. The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta:

Hello, good afternoon. Sir, I've just two questions, one is on the DAP margins, how much percentage were they lower in Q3 compared to the best that we achieved?

Gaurav Mathur:

That's a very difficult question and not something, which we can answer on the investor call but yes, it was considerably lower because of the overall situation, so it's considerably lower. Yes.

Falguni Dutta:

Okay. And sir what's the subsidy per ton currently in DAP?

Gaurav Mathur:

The current subsidy per ton is INR 33,000 a tonne.

Falguni Dutta:

And the way the current imported prices are, do you think there is a need for a further upward revision in subsidy?

Gaurav Mathur:

Absolutely. The current prices are upwards of \$900 a ton. And I think all the calculations are available, these are transparent ways. So, the government has all the calculations. So, they understand the situation. And, as I mentioned earlier, they have indicated to the fertiliser industry that they will definitely take into consideration the existing international prices, when they are formulating the subsidies for next year.

Falguni Dutta:

Okay, thank you sir. That's all from my side.

Gaurav Mathur:

Thank you, Falguni.

Moderator: Thank you. The next question is from the line of Faisal Hawa from HG Hawa & Company. Please go ahead.

Faisal Hawa: Sir, can we do envisage some situation in which there is actually a shortage of fertilisers in India and there is some kind of farmer agitation or some kind of unrest which actually makes the government show its hand and have some kind of liberalisation in this whole subsidy kind of a situation, which can actually make people raise production in India because apart from yourself, nobody has actually raised fertiliser production significantly over the last almost two decades?

Gaurav Mathur: So, Faisal, I can't answer about the overall how the government will respond, what we can see is that. I'll answer your question in two parts. If you look at it this year also where it was a very, very significant challenge for the country as a whole, given what's happening in the international market. The demand of DAP, NPKs etc., in Brazil and USA just shot through the roof in an unprecedented manner in a very short span of time. And the government and the industry worked together very closely, there were maybe two meetings a month happening to tide over the situation.

So, both the government and the industry is very much aligned that we cannot have a shortage of fertiliser in the country. It's a matter of food security for India, it's a matter for the farmers making sure it's available for them. So that I think is very clear on that front.

As regards capacity, we were definitely the first by a long shot, and especially in the private sector. After that, as you know, there is one more private sector plant that has come up already started, there is another public sector unit that have started, there are three more public sector units which are expected to start between now and the next six months. So, a total of our plant plus five more are already there. And then the government has also announced another plant.

Yes, so as I said, we've not just had our plant, but five other plants out of which two have come online, three are further expected to come online in the next six months or so, and another one which might take a bit longer. So, substantial capacity on urea has been added.

Faisal Hawa: So, I mean, even in your meetings, there is no chance of this getting liberalized or anything so, because overall the trajectory of the government has been clear, moving mobile manufacturing to India, and they are wanting to attack import substitutions first things first in manufacturing.

Gaurav Mathur: Yes, I mean, Faisal, I really can't comment about what the government is thinking. And this is an area also which is a bit different from mobiles. Mobiles is a very consumer product, free market etc. whereas the fertiliser industry is closely linked to the food security, the availability of fertiliser to farmers at an affordable price.

So, the dynamics are very different and therefore it's very difficult to comment on government policy.

Faisal Hawa: Got it. Thank you, sir.

Gaurav Mathur: Thank you.

Moderator: Thank you the next question is from the line of Rushabh Shah from Anubhuti Advisors. Please go ahead.

Rushabh Shah: Yes, so thanks for giving this opportunity. Just wanted to know what is the capacity utilization of Gadepan I, II and III for the current quarter and nine months of this year?

Gaurav Mathur: Can you repeat which plant you're looking at?

Rushabh Shah: Gadepan I, II and III.

Gaurav Mathur: Gadepan I, II and III capacity utilization. In this quarter, the capacity utilization for Gadepan III was 100% and I and II was also more than 100% for both of those based on the reassessed capacity. So, I mean, if we've roughly produced if I remember 9 lakh tons total production this quarter. So, we've totally produced 9 lakh tons in this last quarter and that is 3 lakhs tons per month, which is roughly the full capacity.

Rushabh Shah: And what is for nine months this year?

Gaurav Mathur: For nine months, we produced 25 lakh tonnes and our capacity utilization would be to the order of about 99%.

Rushabh Shah: This 25 lakh is for all the three plants combined?

Gaurav Mathur: That's right.

Abhay Baijal: We must also see from availability. See actually, we must see from availability, plants also go for maintenance, so, if we were to see from availability side, we are 100%.

Rushabh Shah: Okay, okay. Thank you so much.

Gaurav Mathur: Thank you.

Moderator: Thank you. Participants who would like to ask questions, please press '*', then '1'. The next question is on the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Sir, thank you for the follow-up. Sir, couple of questions with the current rate on fertilisers and current gas prices, how they are prevailing, do you see that the government will be in a position to meet this deficit? I think that they must provide close to INR 1.8 lakh crores to INR 2 lakh crores for the fertiliser subsidies which is almost 80% increased than the last year. Though, I mean, we are just one day away from the budget but do you see that there are chances that the delays from the government payment can be there and which can affect our working capital in the current scenario?

Gaurav Mathur: So, we will come to know tomorrow as the budget announcement happens on the fertiliser subsidy. And I guess that's the best thing for us to do is to wait, because you also read all the reports that come out in the newspapers. We also read that, but we can't hazard a guess. And therefore, I suggest whether before we start to answer any questions on shortage of fertiliser subsidy and impact on us, etc., let's wait till tomorrow.

All I can say is what we have seen this year that the government added almost INR 58,000 crores additional subsidies to their original budget estimate of INR 79,000 crores roughly. So, that's a huge amount. And they have been pretty quick in disbursing that. So, making it available, they have cleared the debt, the old subsidy dues in the previous financial year, as you all know, INR 65,000 or close to that crores was allocated. So, it appears to us that the stance of the government is to not have a subsidy to the fertiliser industry pending. That's all I can say right now from what we've seen in the last two years.

Rohan Gupta: Sir, if you can just provide what is the fertiliser subsidy pending by December?

Rajveer Singh: We have given in the presentation.

Gaurav Mathur: What's the fertilizer subsidy pending for us till December.

Anuj Jain: It is there in the presentation.

Gaurav Mathur: I think it's there in the presentation Rohan.

Anuj Jain: About INR 3,077 crores.

Gaurav Mathur: About INR 3,000 crores. Out of that INR 3,000 crores, INR 1,500 crores plus has been received in January.

Rohan Gupta: Okay. INR 1500 crores has come in Jan. Okay. Sir, second just clarification in your TAN plant, if you can give some sense of what is the gas pricing you have assumed for putting this plant for the IRR calculation for your internal purpose?

Gaurav Mathur: Let me answer that question to you in two parts. One is that we have looked at the gas price as an average over the past years. The reason for that Rohan is that it's unfair and incorrect to take the current very high gas prices because this is an aberration year, where there was huge challenges on demand and supply in Europe, Russia etc., which led to this kind of a situation on gas prices going up. So, it's not right to base your business decisions on one year. So, we have taken the average of the last three years.

The second aspect that would be good for all of you to know is that by the time we put up our plant, every supplier of ammonium nitrate in the country or producer of ammonium nitrate in the country would

be backward integrated to manufacturing of ammonia and therefore, backward integrated to gas. So, it becomes a very sort of level playing field in terms of gas, input cost of gas. And therefore, if gas prices increase that will be applicable to almost everybody.

Abhay Baijal:

Let me add, Rohan, here that we have also reduced the price of gas, we have also taken a lower realization. So, at the end of the day, we have also normalized realization and also normalized the gas price.

Rohan Gupta:

Okay. Sir, because our pooled gas price is primarily applicable for the urea production. So just because of the main element which you have taken like the last three year's average when you're talking about are you referring to Henry Hub gas prices or all the imported gas prices average in the country because the pool gas prices I believe won't be the right benchmark for the production of ammonia for the purpose of TAN. Right.

Gaurav Mathur:

Yes, you're very knowledgeable Rohan, that's right. We do take the pool gas price.

Abhay Baijal:

The point here is, as we have mentioned earlier, that this is arising out of a technical process to manufacture urea, because there is a shortfall of carbon dioxide. If the plants are designed in a particular manner we cannot but help produce this ammonia. So, there is a certain policy around that pool gas price, the costing has been done according to that policy.

Rohan Gupta:

Okay. And all the ammonia surplus will be available only from our Gadepan III plants, right?

Gaurav Mathur:

Yes, so, Gadepan I, II, III all of them produce excess technical ammonia that is an inherent design of not only our plants, but most ammonia urea complex plants. It's not specific to Chambal only.

Rohan Gupta:

Fine, sir, thank you.

Gaurav Mathur:

Thank you.

Moderator:

Thank you. The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta:

Yes, sir just I missed on asking on the current MRP for DAP.

Gaurav Mathur:

The current MRP for DAP is INR 24,000 a ton or INR 1,200 a bag.

Falguni Dutta:

Sir, then in that case, we are not importing anything now. I mean, then we would not have any sales for the coming quarter till this subsidy hike is given?

Gaurav Mathur:

Yes, I mean, this kind of MRP as we know, while there was no formal letter, but the government had sort of informally put a cap on the MRP of DAP.

Falguni Dutta: Okay. And sir what are the current ammonia prices internationally?

Gaurav Mathur: Yes. So basically, we are not going to sell what we import at the MRP of INR 24,000.

Falguni Dutta: Yes, sir.

Gaurav Mathur: Sorry, apologies. There seems to be some challenges with our line today. So, Falguni, what I was mentioning is that once the government announces the subsidies, then the MRPs will be re-examined. And it is not that the MRPs will necessarily continue at the current MRP.

Falguni Dutta: Yes, I understand sir. And sir what are the current international prices for ammonia? That's also from my side.

Gaurav Mathur: So ammonia, international prices are currently in the range of \$800 to \$900 per ton, just every week, it sort of goes up and down. But let's say \$900 plus minus.

Falguni Dutta: Okay, thank you sir. That's all from my side.

Gaurav Mathur: Thank you.

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 very much for everybody who has joined in and for all your questions and your keen interest. And I wish you all the very best. Hopefully, we will now see the last of the COVID situation. And look forward to interacting with you in the near future again, thank you very much.

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