Chambal Fertilisers and Chemicals Limited

Q4 & FY 2021 Earnings Conference Call Transcript
May 11, 2021

Rishab Barar: Good day everyone and thank you for joining us on Chambal Fertilisers and Chemicals Q4 and FY 2021 Earnings Call. We have with us today Mr. Gaurav Mathur – Managing Director, Mr. Abhay Baijal, Chief Financial Officer, 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 warm welcome to all of you participating on this call. As we are in a very difficult situation regarding COVID-19 in India, we sincerely hope that you and your families are safe and healthy and taking all precautions to prevent it from coming to you. I will begin with the performance of the Company during the last quarter, and then for the full year on a standalone basis. Overall, we are happy with our performance in Q4 financial year 2021. This is a lean quarter when two of our plants were under maintenance for some period.

Having said that, our total income for the quarter stood at Rs. 1,607 crore as against Rs. 1,998 crore in the corresponding quarter last year. The decrease is mainly attributed to lower sale volumes of marketed fertilizers and reduction in price of natural gas. EBITDA before exceptional items stood at Rs. 301 crore compared to Rs. 246 crore in the corresponding quarter of previous year. Profit after tax without considering one-time deferred tax credit stood at Rs. 126 crore as against Rs. 109 crore in the corresponding period last year.

In FY 2021, total income stood at Rs. 12,779 crore compared to Rs. 12,385 crore in the previous year, registering a marginal increase. EBITDA before exceptional items stood at Rs. 2,526 crore in comparison to Rs. 2,082 crore in financial year 2020. Profit after tax without considering one-time deferred tax credit was at Rs. 1,286 crore as against Rs. 880 crore in the previous year.

In line with our dividend distribution policy, the Board of Directors recommended a final dividend of Rs. 4.5 per equity share. After adding the interim dividend of Rs. 3 per equity share paid earlier during the year, the total dividend payout is Rs. 7.5 per equity share, which works out to Rs. 312 crore.

I will now delve into our product wise performance. There was marginal increase in urea sales. We have registered strong growth in DAP, MOP and NPK fertilizers. We have crossed an important milestone of 5 million tonnes of fertilizer sales on an aggregate basis.

As mentioned in the presentation, we have already started operations in five new states, that is Maharashtra, Gujarat, West Bengal, Telangana and Andhra Pradesh. Our performance in NPK have been good last year and we expect to do better in this product segment with the addition of these new territories.

We are encouraged by the measures taken by the government towards reducing the subsidy burden on fertilizer companies. Our subsidy outstanding was substantially lower as on March 31, 2021, in comparison to last year, with no short-term borrowings and much better cash position.

There is an exceptional item in the consolidated accounts and I would like to mention about that. CFCL and two other investors, namely NEA Indo US and NEA FDI have invested in preference share capital of CFCL Ventures Limited (CVL) in different series at different points of time. Whereas CFCL has also invested in ordinary shares of CVL with other minority investors, majority of the funds are invested through preference share capital and ordinary shares are very small.

Preference shares are redeemable at the option of holders voting and majority. As per terms of redemption preferences, preference shares will be redeemed at issue price or fair market value whichever is higher at the time of redemption. Further, these shares are also convertible into equity shares at predefined conversion ratio. As the holder of the instrument have right to ask for redemption as per the agreement, it is treated as liability under Ind AS and accordingly shown as long-term borrowings in the books of CVL.

When CFCL does consolidation of CVL accounts and CFCL accounts, CFCL investment in preference shares gets eliminated against the long-term borrowings, shown in the CVL books and the remaining part of preference shares invested by NEA Indo US and NEA FDI recorded as long-term borrowings into CFCL consolidated books.

In the present case, as one of the preference shareholder has renounced its claim towards preference shares, resulting into write-back of liability in CVL books, it has resulted in reduction of debt liability in CVL books and corresponding increase in profit. The same impact is there in the CFCL consolidated accounts as the debt liability has reduced due to write-back of liability in the books of CVL. However, there is no impact in CFCL's standalone books. CFCL has already valued its investment in CVL, based on its fair value of CVL. As there is no cash flow movement by renunciation of its right by a shareholder, there is no increase in fair value of its assets, hence no change in CFCL standalone books.

Coming back to our existing business. I just want to mention that there are headwinds in the market on account of higher procurement price of phosphatic fertilizers and the ability of the market to absorb these. On the positive side, the monsoon is expected to be normal. Hence, our outlook remains positive on the consumption front. We are actively looking to leverage our well-established presence in the fertilizer segment and improving financial metrics to expand our product portfolio to comprise a wider range of agri inputs, micronutrients and crop protection chemicals.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Baidik Sarkar from Unify Capital. Please go ahead.

Baidik Sarkar: Congrats on a good quarter. I hope you all are doing well. A couple of question. There seems to have been some slowdown in the sale of complex fertilizers in April, given the confusion around pricing and RMCs, input cost. How do you see this progressing towards closure? And is there a risk of stock-out at the field level affecting the core kharif season?

Gaurav Mathur: Thank you, Baidik. Yes, there was a slowdown in April because of challenges on the price and availability. We don't expect a reduction in consumption in the field as such. As I mentioned earlier, the monsoon is expected to be good, and DAP is a fertilizer which now the farmers are very sure about. So, as such, we don't at this point of time, expect any reduction. However, as we progress into the actual usage season, which commences in June, we will get a better idea.

Baidik Sarkar: Because unless I am looking at the wrong set of numbers in the industry as a whole, April did see material regrowth. So, what you are suggesting Mr. Mathur is, by the time we close June, it's possible to theoretically claw back these volumes, right?

Gaurav Mathur: Yes. I mean, April as such was low, but overall, there was stock and there is the assessment that we have seen shows that it should pick up as we progress from May and June.

Baidik Sarkar: Yes, sure. So, events like these will be a fair occurrence, right, given the sense of food inflation and stuff like that. So, how do we de-risk our growth aspirations given these? And what is your growth aspiration in the non-regulated part of the business, mainly pesticides, biocides and all adjacent areas?

Gaurav Mathur: So, as we have mentioned in our previous calls, over the last few years, our huge focus was on setting up and ensuring our Gadepan-III plant which is established now. Simultaneously, there was a lot of focus on DAP and traded products. Now, we have clearly increased our attention on micronutrients and agro chemicals. We have grown pretty substantially in the last year that has gone by, and have plans to grow at similar or even higher levels in the coming years. We have actually put in place a business manager to focus on agrochemicals and micronutrient segment with this objective.

Baidik Sarkar: That's helpful. And Mr. Baijal, a question on receivable period. In the current dispatch cycle of urea, is the government going back to the old multi-month cycle? Or do you see a compression on the receivable cycles as things stand today?

Abhay Baijal: No, I really don't see. Most of our payments are made up to March second week, as far as the previous year is concerned. In the current year, there are one or two challenges, but they are medical challenges inside the ministry in the sense that some people have fallen sick and so on. Otherwise, there is no shortage of funds. And I am sure the moment the situation becomes okay, whatever is there in the POS machines which have been registered as sales to farmers, and we have been raising bills continuously by the way and they are being raised and so on. But when the question of payment comes, there are sometimes difficulties in the sense that there are medical emergencies inside the DOF itself. I think that will get cleared up, there is no issue in terms of accumulation of subsidy.

Baidik Sarkar: That is helpful. And I am assuming, the drastic fall in power and fuel cost that we experienced in Q4, had to do with the partial shutdown we have taken, right? So, starting Q1, we should assume your range of other expenditure to come down, I mean, to be in sync with what we have experienced in the past few quarters?

Abhay Baijal: Yes, you are right. See, the power and fuel expenditures are directly related to the gas consumption. As Mr. Mathur has mentioned that in the month of March we were under two shutdowns, Gadepan-III anyways, and Gadepan-II. So, both of them contributed to lower offtake of gas. Correspondingly, the purchase of raw materials that side also comes down, and as well as the power and fuel sector and the other expenses, will also come down.

Baidik Sarkar: And lastly, given your growth aspirations in the non-regulated part of the business, would it be possible to call out the extent of EBIT in 2021 that's accrued from Agrochem, micronutrients, and other non-regulated businesses? I mean, just a broad range maybe helpful.

Gaurav Mathur: Baidik, as you know, we sort of look at the overall results and we do not put out our results segment wise. So, I would leave it at that.

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

Tarang: Congratulations on overall strong year and the significant transformation in the balance sheet that we have seen. I had actually three bookkeeping questions. One, if you could give us the closing inventory of traded goods on 31st March 2021. Second, Rs. 120 crore CWIP that we see on the balance sheet, what is that about? And the third, if you could give us the pooled gas prices for financial year 2021 versus financial year 2020.

Abhay Baijal: I will take the second question first, that is Rs. 120 crore CWIP is kind of ongoing projects, replacement, maintenance, CAPEX and so on so forth. So, that is a future given the fact that some of our plants are now having older vintage, so that will keep going on. And as the stock and other things are concerned, in terms of tonnage I will revert back to you. Or if Anuj, do you have the numbers? You can tell us what exactly is the stock position on urea as well as DAP, NPK.

Anuj Jain: Urea, it is around 1.3 lakh tonnes. DAP, MOP and NPK put together, it is about 1.5 lakh tonnes.

Tarang: I wanted the value as well.

Abhay Baijal: So, in terms of value, if you see the total carried value of the inventory, how much is that Anuj, in the books?

Anuj Jain: Rs. 789 crore as at March 31, 2021.

Abhay Baijal: And if you take the urea inventory, I will say that 120,000 tonnes would have been close to about Rs. 170 crore. So, the balance has to be DAP, NPK, barring few other items of micronutrients and all that. So, that's roughly the range.

Tarang: Okay. And pooled gas prices for FY 2020 versus FY 2021.

Anuj Jain: I would say, for last year average was $8.79 per mmbtu. In the current year, it is going in the range of around $11 per mmbtu.

Tarang: No, no, I am talking about the year that went by.

Abhay Baijal: 2019-2020, 2020-2021 that’s what he is asking.

Anuj Jain: 2019-2020 I have to find out, 2021 is $8.79 per mmbtu.

Abhay Baijal: If I recall, it was I think $1 higher, or something, but we will have to check that and get back to you.

Anuj Jain: On the inventory, traded goods inventory is Rs. 447 crore.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S. Padmanabhan: Sir, my question is, if you look at the cash position, the amount of debt that we have been able to reduce, because of operational as well as subsidies, it has been significantly higher than what one would have expected. Does it change your capital allocation strategy in the sense, what is the kind of CAPEX that we would be looking for? And even among the, say, non-urea space or non-regulated space, how would this allocation be between the micronutrients and others? If you can give some colour on this.

Gaurav Mathur: Thanks Sudarshan, for your question. So, yes, the debt has reduced significantly and made our balance sheet much more healthier. We have initiated our strategy process, and over the next six to nine months we expect to come out with where we would go for further investment.

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

Deepak Chitroda: Sir, I have basically two questions. First of all, I think partially you have answered it, in terms of the future plans. So, as we, I think, discussed in the past one or two quarters, what's your sense now in terms of organic plus inorganic growth plans, since we have kind of a much stronger balance sheet now? So, initially we talked about setting up of the non-urea plant in Morocco or some of the other initiatives we talked about. So, what is the state as of now on that side?

Gaurav Mathur: Like we mentioned in the past, apart from our expansion into new geographies etc., we have initiated the strategy process, and we are looking at various options. To start with, we are looking at options that are close to what we do. So, we have started to explore. And it's very early days, like I mentioned. We have started to explore areas related to agrochemicals, other products that we can make from the excess ammonia that we have at our Gadepan site. And of course, we continue to look at possibilities on the phosphatics and NPK side. So, as I mentioned, these are all things that, as you know, have started to happen once the whole subsidies situation changed. So, it will take us like six to nine months to really evaluate these and come out with something which is the right thing to do going forward.

Deepak Chitroda: Okay, thanks for that. And my related question is about what is your sense in terms of outlook for coming quarters, especially as you mentioned that the prices, MRPs have come up, definitely it is going to help Chambal to some extent considering we have a larger presence in the urea side. But do you think that especially considering the higher MRPs, do we see some sort of a volume de-growth? Although, in terms of the revenue side it won't be having much impact. But what's the sense in terms of the volume growth?

Gaurav Mathur: So, it is a little bit early to exactly say. Like I said in my opening statement, it is a bit early to say what exactly will happen once the farmers actually start using DAP. What we do know is that DAP is a very essential fertilizer that the farmers are very, very sort of clear about, and they use it at the time of basic growth, etc., which for the Kharif usage will really start from June. We also know that the monsoon prediction is again a normal monsoon, which is good. The procurement by the government is going on fine. The headwinds are really on the procurement price of the phosphatic fertilizers, which prices have really, really gone up tremendously. So, we just have to now see how this pans out. I don't think at this point of time it is possible for anyone to exactly predict. But all we can say is that the DAP usage should be reasonable. And there was a lot of depletion of stocks in the channel also last year. So, considering that, the good monsoon, we expect the DAP usage to be quite reasonable. And we will then wait to see what the government does on the subsidy front, which would also have an impact going forward.

Deepak Chitroda: Okay. I just want to squeeze one more question to Mr. Baijal. Last time you talked about the policy for Gadepan-III. As we know that it is going to expire within eight years, probably by FY 2027 or so. Is there any development on that side, what kind of environment we can see after FY27?

Abhay Baijal: So, Deepak, it is too far in the future. And the government is at the moment focused on getting its balance plants together, they put three of HURL, one of Ramagundam. At the moment, their focus is completely on getting them off the ground. Moreover, they have also announced a special policy for Talcher coal based plant. So, the understanding that I have is that they are looking at boosting indigenous production because they think that the growth path of urea is going to be high with more irrigation and more forward-looking agricultural policies which will act as a draw for more production and export of material. So, the sense that I get sometimes talking to them is that, A, this is too far in the future and they are not looking at it that way. Secondly, they are clearly concerned that we don't want so much dependence on imports for urea production. And they feel that there is going to be a quantum growth in the consumption of nutrients as it is because of the policies of food processing and boosting agriculture, which they think is one of the growth engines of the economy. I can't say what exactly shape or form it will take, it is just too far in the future. But whatever I see today is more or less that it is helpful that they look at boosting this sector.

Moderator: Thank you. The next question is from the line of Pratik Tholiya from Elara Capital. Please go ahead.

Pratik Tholiya: Congratulations on a very good set of numbers on the operational front as well as on the balance sheet side. Sir, actually first request is that if Mr. Mathur can just repeat what he said on the preference shares. Because that time the line had got muted so we could not hear anything, many of us were unable to understand. So, if you can just repeat what you had said on the preference share side?

Gaurav Mathur: Thank you, Prateek. Maybe I can ask Abhay to explain that to you.

Abhay Baijal: Prateek, it is like this that we had a subsidiary for software, which is all the businesses of software were gathered into that particular subsidiary, which was in Cayman Islands. Below which there were two operating companies, one in the U.S. and one in India. Now, the investment which was funneled to these two operating companies came through this holding company, where we were participants along with two other private equity, which was NEA of California and one NEA Indo US which was headed by Vinod Dham at that point of time. Now, these people had jointly invested, along with us, into that particular firm. And these were in the form primarily of preference shares in various series, B, C, D, E, F, stretching up to I think J or K.

Now, in these shares, the rights were claimable rights, I mean, they could ask for redemption. When you ask for redemption and an instrument has the right for redemption, then under Indian accounting, Ind AS laws, we were to treat it as a debt. Therefore, in the balance sheet, when we were consolidating, we were always showing this as debt. And when, after all, all these things that happened in the software division, we had losses, we wrote it down and then ultimately sometime in

2019-2020 we sold off that business, and only a residue remained in terms of these three companies – one, the top company is the CVL, which is Chambal Ventures, below that these two operating companies. So, basically it was an asset sale, both in India and U.S., so those businesses stopped operating.

On or about December 2020, NEA Indo US came and wrote to us that they are no longer interested in claiming back these particular redeemable preference shares and they gave up all their title right and the right to dividend and all that from these particular shares. So, technically, it became a case in which the company had a remission of liability. I am talking about the company CVL, which is in Cayman. Now, when you have a remission of liability, that means you are writing-off that portion of the debt of the company, you will have to substitute it with equity. You have to substitute it with equity otherwise the balance sheet will go out of balance. When you do that, you routed the entry by way of the profit and loss account. And you therefore took an exceptional income of Rs. 337 crore in the CVL books. And as a result of consolidation, they came into the consolidated books.

As far as we are concerned in standalone, we have already taken the impact of that by writing down the value. Therefore, there was no impact in the standalone because we have not changed the valuation. As far as the books of CVL are concerned, there was a kind of a profit through the exceptional item and there was a re-adjustment between the networth and the loan side or what I would say the debt side, in the books of CVL. So, this is basically what has happened pursuant to their renunciation of rights on these particular instruments. I hope you have been able to understand.

Pratik Tholiya: Yes, it's very helpful. Thanks for detailed explanation. Secondly, on the demand side, just continuing from the previous thing. Sir, you have also got into some of the newer geographies. So, my question is basically, we have already done close to 1.7 million tonnes of non-urea in FY 2021. So, how much can we grow from here on the back of our existing geographies? And how much can come from the new geographies? Because already the incumbents are there and some of them are really big, so what is your view in terms of growth from these newer geographies that you have now opened offices into, which is basically Gujarat, Maharashtra, AP, Telangana?

Gaurav Mathur: That's a very good question, Pratik. So, we have just started to make the foray into the new geographies. Now, when we talk of the new geographies, bear in mind that we were earlier present in Maharashtra, West Bengal, and to some extent in Gujarat also. So, we do have some experience there. And like you say, there are very strong big players also currently operating over there. At the same time, Chambal brings its strength of the brand that we carry, the quality that we bring to the market, as well as the transparency and the way that we deal in the market. So, we have set ourselves some nice targets. I think it's a little bit premature, but we will think that over a period of time we would look to capture some 5% to 10% share in those markets. How soon that will happen, etc., that we will learn as we go along. So, that's I think what I can say at this point in time. Once we start to experience that market over the next one year, we will have probably a better view on that.

Pratik Tholiya: Sure, that's really helpful. Sir, just lastly, this Rs. 1,100 crore of subsidy that is outstanding, that is purely like Baijal sir mentioned, its lying with DOF or there is some POS amount also pending?

Abhay Baijal: Are you talking about the year-end subsidy of Rs. 1,100 crore?

Pratik Tholiya: Yes.

Abhay Baijal: So, it is comprising of three parts. One part is the material which is lying in the POS which is unbilled. Technically, it is not pending with the government, it is an accounting that we do that in the first point when we sell the material, we raise it as market debtors or subsidy debtors as the case may be. Now, since the process of having been sold through POS has not happened, that part when it goes through the POS, then the bills will be actually raised and the money will be realized, that is one part. The second part is, freight and other certain non-DBT items, which are matter of course. And the third part is adjustments to the value of the subsidy due to fluctuations in foreign exchange and gas prices, which is called escalation and de-escalation. So, that is the third part. So, these are the three parts which comprise of the Rs. 1,100 crore that you are saying. But I can say, a major part of this is that part which is still to go through POS machine and actually get billed. Does that clarify?

Pratik Tholiya: Yes, sir.

Moderator: Thank you. The next question is from the line of Viraj from Securities Investment Management. Please go ahead.

Viraj Kacharia: Some of my questions have been answered, I just had two. One is on the demand part, I just want to understand, because the COVID second wave which we are hearing about is impacting even in rural hinterlands, are we seeing any change in demand cycle or in terms of placement cycle, typically we have seen in a normal season?

And second is in terms of the CAPEX plans or the growth plans which we have. So, you said that next six to nine months we will be evaluating investment probably in non-urea sectors, how much of the incremental or the total capital plans we will be looking to spend towards, say, urea versus non-urea? Indicatively, not exactly.

Gaurav Mathur: Thank you, Viraj. With regard to the demand, and I think your question was, if I understood correctly, focused on the impact of COVID on the demand side, is that right?

Viraj Kacharia: Yes, just trying to understand has there been any impact on demand or any change in the placement cycle as in for fertilizer or seeds, that’s the only part of the value chain.

Gaurav Mathur: Right. So, we had seen the COVID situation first time around last year, and the company as well as with strong support from the government in central plus all the states, there was virtually no impact on the fertilizer and agriculture sector, as you can see from the outcome, where India has had a record production last year. Similarly, till now, in spite of all the COVID related challenges, we don't see any major impact on the fertilizer or agricultural sector. We might have a few niggles here and there in terms of some minor delays in the rake being handled, etc., but as such it is not of any significance.

In terms of the growth, your question was, CAPEX towards urea and non-urea. I think, again, all these questions will be sort of looked at as we progress. As of now, we don't see any opportunity on the urea investment. We built our plant Gadepan-III and I think Abhay mentioned earlier that we have to hold a plant, so there will be CAPEX that is required either for sustenance or for improving our energy efficiency. But I don't see any major investment in that area as of now. And the other segment, as I said, we will develop over the next six to nine months. And as and when we have something concrete to communicate, we will definitely come back to you.

Viraj Kacharia: Sir, follow-up on this, the government also kind of indicated that we have been looking at in divestment of certain state or national fertilizer companies. So, would we be kind of interested in taking an inorganic route towards building a business either outside of core areas when it comes to urea? I am saying this, because traditionally our approach has been more organic and our key strength has been having one of the best energy efficiency in the industry. And which is also one of the reasons why we have such a lean operating cost structure. So, any thoughts on that?

And second, just a related question to that is, when you are looking at non-urea, say, crop protection chemicals and related, internally what factors we will be looking at before deciding any big CAPEX or posting any inorganic opportunity, because that is an area which we don't have a strong position, we don't have a major expertise yet. So, just trying to understand.

Gaurav Mathur: Okay. So, as regards the divestment plans of the Government of India on public sector units, what we have seen is, for example, NFL, where the government has put out an offer for sale for 20%, and any single player can bid for up to 25% of that, so which means 5% each player. Beyond that we do not have any further information and the government is, I think, in the process of appointing and going ahead with that process. So, as and when something comes out in a formal document, we will then consider that and take an appropriate call on that basis. As such, it's difficult to say at this point in time, how the government will exactly proceed in this, as right now they have just offered this 20% OFS. On the second question of investment on crop care and so on, again, I go back to what I said, these are all considerations that we will look at as we progress on our strategy development. Rest assured that if it is felt that these are the sectors where we want to do something substantive, then we will look to build our capability, I think that's something else we mentioned. We do sell a pretty reasonable quantity of crop protection products even currently. So, we do have some in-house knowledge and as I mentioned earlier we just appointed our business manager whom we hired from a reputed agrochemical company to improve our focus and lead our growth in the agrochemicals and micronutrient sector.

Moderator: Thank you. The next question is from the line of Trilok Agarwal from Birla Sun Life. Please go ahead.

Trilok Agarwal: Again to harp on the question that the participants are focusing on for the nice growth opportunity. In the previous call we had kind of stated that you are also considering expansion in urea, through taking over some PSU units, so I just wanted to hear your thoughts on that aspect?

Gaurav Mathur: I think I mentioned just previously that the government has (NFL) National Fertilisers Limited, there is an offer-for-sale, if the government wants to proceed with. As and when something substantive comes out in terms of a document and so on and so forth, and then we will examine it.

Trilok Agarwal: So, is it fair to understand that Chambal Fertilisers is open to acquiring these assets and run it efficiently going forward?

Gaurav Mathur: Trilok, I don't think I am in a position to make any comments.

Trilok Agarwal: The reason I am harping on this is because as a company you are known for building own plants than actually acquiring. That's the whole context I was trying to understand but I think I got an answer. Thanks very much.

Gaurav Mathur: Okay, thank you, Trilok.

Moderator: Thank you. The next question is from the line of Ashish Thakkar from Motilal Oswal AMC. Please go ahead.

Ashish Thakkar: Sir, in your opening comments you did mention about rising Phos Acid prices and inability of the farmers to absorb them. So, in this context, how long do you think your competitors, or you also can continue to sell at current MRPs and if possible do you feel that there is a possibility of the government getting you to pass the prices?

Gaurav Mathur: Ashish, thank you. First of all, if you go back to early Q4 of the last financial year, the MRPs of DAP were in the range of Rs.24,000 per MT. Currently, the MRP is Rs.38,000 per MT, so the MRPs have gone up substantially because entire industry is in the same boat. As regards the question of subsidy, I cannot predict what view the government will take. All I could say is the government will have to consider probably at what price point they feel comfortable that DAP should be supplied to the farmers and accordingly they may work something out. But other than that, it is difficult for me to second guess what the government will come out with.

Ashish Thakkar: One question on the next level of DBT. There are a lot of media articles talking about Rs.42,000 crore being directly transferred to the farmers account and also the fact that some of the farm laws the government may totally bury them. So, would you like to give some color on the possibility of a next level of DBT rollout?

Gaurav Mathur: I think this discussion on next level of DBT rollout has been I think going on for some time and to my knowledge the government is grafting with some fundamental questions, for example- how do you define a farmer, who should get that direct benefit transfer with regard to urea for example, how do you consider acreages of each farmer because there are various concepts over there. So, there is still a lot of work, I guess, which is going on in that direction. Again, it is difficult for me to say at this point in time what exactly the government will do and at what kind of timeframe. What we do know is if that happens, then it is obviously overall good for a high efficiency producer and strong player in the market like Chambal.

Ashish Thakkar: On the contract manufacturing side, since you said on the active side you probably try to put your hands on. So, would it be like normal domestic products or you feel there is also some thought going on as far as this contract manufacturing services part of the business is concerned?

Gaurav Mathur: Too early for me to answer that, Ashish, right. These are all things that will come up as we start to debate the strategy and what we need to do.

Ashish Thakkar: Is it possible for you to provide a sensitivity as to with the 10% rise in the prices of the gas, what kind of impact does it have on your margins?

Abhay Baijal: Generally positive. We have three plants. Two have separate policies. All the plants are sensitive to gas prices. But on the mix side, there is also an increase in the cost of interest because of the rise in subsidy that could entail in urea. So, it is a balance. Currently, because of low subsidy receivables, this year at least it will be a positive.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: On this DAP import side, just want to get some sense about a couple of years back, DAP price went up and a lot of people imported DAP, then all of sudden after say two, three quarters the price dipped and people sitting on the inventory or already booked or inventory in the pipeline transit, had to bear a large amount of loss. Now again this DAP prices all of sudden in last three to four months has shot up. How does one really view this and what is our risk mitigation strategies in place?

Gaurav Mathur: We have a very strong internal mechanism of tracking what's happening in the global market where DAP is being consumed. We keep a very close eye on what's happening on the big suppliers, what's happening on the demand, for example, in the US, in Brazil, in other parts of the world which are consuming DAP. We are also very careful about not booking material too much in advance. We are looking at only a couple of months ahead so that we don’t buy material at a higher price in a market which could start to go down. It's a balance that has been achieved over a number of years of experience and strong internal processes which is why at any point of time, for example even currently, we are not sitting on any high levels of stock. At the same time we are getting enough supplies to meet our sales and volume targets that we have, but we are very careful about building up stock in this kind of a situation.

Bharat Sheth: When we are studying all these different markets consuming and all of sudden, Brazil, US, everyone has increased the consumption, so how does one really view DAP price from one year and medium-term perspective?

Gaurav Mathur: The general view was that we might expect some stabilization or reduction towards end of Q2 this year. However, again recently, there has been some pick up of demand in the U.S. So, these things are very dynamic. Overall, there is a very thin demand and supply balance on DAP. Therefore, if the demand goes up substantially for short periods of time, then that creates a supply challenge. At the same time, what I do want to mention is that we have suppliers with whom we have MoUs and contract, so we do not expect availability for us to be an issue.

Moderator: Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: My question is on the crop protection side. So, I just wanted to know whether we are focusing on the B2C element in the segment or B2B as well?

Gaurav Mathur: Right now, we are selling into the channel really more of B2C. As we look to develop our strategy, we will look at all of those aspects. But at the current state of the company, essentially B2C through the channel that we have.

Varshit Shah: My follow up question is that if you see the B2C universe, a lot of the companies have taken years to just reach the Rs.2,000 crore revenue mark and if let us say Chambal achieves the Rs.2,000 crore revenue in the crop protection in B2C or may be some combination of B2B as well with 15-17% margin, it may be still less than 15% of overall EBITDA. So, actually the primary growth engine has to come from non-urea fertilizers because crop protection might grow on its own very fast, but to deliver growth at size of which you are, I think you still have to focus more on the non-urea fertilizer. Is that understanding correct, some moving in middle perspective?

Gaurav Mathur: Varshit, our focus on non-urea fertilizer has no link per se to what we want to do in the crop protection. So, there we will continue to grow. And this is public information, for example in DAP last year we had about 18% volume of market share and we would like to grow that. So, there is no doubt about it. We are expanding into new geographies. We do want to become a pan India company and also like I mentioned earlier, achieve market share in those geographies. As far as crop protection segment is concerned, yes, we will see how to go about there. If that is an area that we find as part of our strategy process, that we want to do substantial amount of effort and investment into it. Those are questions, again I say, would come up as part of our strategy development.

Varshit Shah: As you are entering into new geographies specially in the non-urea fertiliser space, what has been one or two key learnings you think a go-to-market strategy?

Gaurav Mathur: Varshit, we have just entered there, it is too early, and maybe we will have some learnings in a few months' time.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Swan Investment. Please go ahead.

Sachin Kasera: In one of the previous questions, you mentioned that you are not giving very specific break-up between urea and non-urea, but could you give us some sense as to what is the non-urea now contributing some reasonable way to the profitability or while there is a good mix in terms of revenue because its mainly traded, contribution to profitability is very less? Second part of that question is that over the next three to five years, how do you want to see the urea versus non-urea profitability mix? As a management would you like to reduce the dependency significantly on urea?

Gaurav Mathur: Simply to answer, we do have a substantial contribution in our profit from the non-urea segment. To the second question, yes, the urea segment is in a way fixed, I think probably most of you would understand that we sell as much urea as we can produce and there is a government formula on the contribution, etc., So, that in a way is fixed. On the other hand, our traded portfolio is something that we really want to continue to expand and increase our market share. So, by that simple logic, we would expect the proportion of our non-urea fertilizer portfolio to increase over the next three - five years.

Sachin Kasera: Sir, will you be in a position to share today for non-urea is it a substantial part of your capital employed or it is a very asset light model as of now for you?

Gaurav Mathur: There is no fixed asset, it is essentially the working capital which is employed in the non-urea.

Sachin Kasera: If you can share, is it 120-day cycle or 150-day cycle on an average?

Abhay Baijal: It is between 130-140 days. Longer in terms of MOP but DAP is fairly tight. So, on an average, we can say taking DAP, MOP, etc., into account. NPK is too young for us, not too much volume there. So, between DAP and MOP, we would say it is about 140 plus days.

Sachin Kasera: My second question is regarding the external capital employed. We have seen a significant and continuous improvement in the last two years. So, are we now more or less at the peak ROCE and ROE the current business model can deliver or do you think that over the next 2-3 years the type of risk you are taking, probably you see or plan atleast to improve it further from here?

Gaurav Mathur: Sachin, that all will depend on our growth strategy. So, I think it is a little difficult to specifically answer that question right now. There are many-many variables in that question as of now.

Sachin Kasera: Let me re-phrase it. As a management, are you now happy with where you are or aspiration would atleast be to try and improve further from here?

Gaurav Mathur: I think it will be fair of me to say that no management should be happy with where they are.

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

Rohan Gupta: A couple of questions from my side. First is on the issue of DAP pricing cycle. So, now, we are very close to the consumption season, half of the May is already over and I think we need to put inventories in the market just after 15 days. Given trading platform and trading business, we need to probably procure the material now and I think the government has still not given the clearance that how they want to go ahead with the pricing of DAP in the market. I think most of the companies are in a discussion with the government. What is your strategy in this current scenario, whether you are building up the inventories and what is your belief that the government will allow the increased prices of DAP, if not then how the DAP issue will be tackled in the market?

Gaurav Mathur: In terms of our availability of DAP, as I mentioned in an answer to another question, we do not see any issues in availability of DAP for us, we have contracts with very-very big reputed manufacturers, so we do not see any issue on that front. As regards the pricing, DAP as such the pricing is not controlled by the government, the subsidy is, at the same time the pricing is really led by IFFCO. For all players whether they are players who manufacture DAP or players who import DAP, are by and large in the same position. Those who manufacture DAP from Phos Acid would be exactly almost in the same position as importers and those who manufacture from rock, which is maybe 20% or thereabouts of the overall DAP consumption, will have some advantage, but overall there is a very significant chunk which is either imported or made from Phos Acid. 60% plus of DAP is imported. Why I am mentioning all this is that the price in the market is something that will be pretty similar for the industry. The government has to take a call as to what kind of price they want the farmer to get the DAP at, basis which they probably can decide on whatever subsidy they want to have. Does that answer your question, Rohan?

Rohan Gupta: I understand, DAP prices you see in the market but my issue was more that almost a month back when the players wanted to increase the prices of DAP in the market and government has asked them to roll it back and not only for that player but for the entire industry. I think that the issue is still hanging on and the companies are still not allowed to increase the prices to pass on the rising input cost of Phos Acid or DAP. So, that was my issue.

Gaurav Mathur: Rohan, that is not the case. MRP is now already at Rs.38,000 a tonne.

Rohan Gupta: So, you are saying that the DAP printed price already at Rs.38,000 per tonne to the farmer?

Gaurav Mathur: Yes, we are selling DAP at Rs.38,000 per MT.

Rohan Gupta: If you can give some sense that what is the DAP import prices right now in dollar terms?

Gaurav Mathur: Currently, the price, I think what has been published and that is known, is around $560 per MT.

Moderator: Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: I have actually a couple of questions. First one is on IMACID where we have stake? Essentially, given the sharp increase in the Phos Acid prices, if you can just talk about how do you see the outlook there, any cash generation from that particular plant, how you plan to utilize it?

Gaurav Mathur: As you know, we have one-third stake in IMACID, one-third is with Tata Chemicals and one-third is with OCP. I presume, I cannot speak on behalf of IMACID, that is a separate board and separately run company, I presume that with rise in Phos Acid prices, there should be some upward trend in the margin and hopefully we will see some positive impact of that in our dividends. At the same time, IMACID board will look at where it wants to invest its money, does it want to invest or does it want to give dividend, so ultimately it is up to the board of IMACID.

Rakesh Vyas: Mr. Abhay, can you highlight have we accounted for any dividend from IMACID in last fiscal, how much was it?

Abhay Baijal: No, the total dividend that we see in the previous year was of the order of Rs.25 crore and that was received I think in the first quarter, that is about it. As far as the current year's dividend is concerned, I think they have a general assembly what they call, what we call as AGM, that is due to be held very soon and whatever the board has recommended in terms of dividend will get confirmed and then we should be receiving the dividend.

Rakesh Vyas: My second very quick question is on the plant maintenance for fiscal '22. I believe for Gadepan-3, we still have not got the approval for producing beyond capacity. So, that definitely will go for another planned maintenance probably in month of March. But for the other two plants, is there anything also planned and in which quarter?

Gaurav Mathur: Gadepan-III will probably go under shutdown because of the policy and we have plans for a shutdown for Gadepan-I, which should happen sometimes in March '22.

Rakesh Vyas: So both the plants in March 2022. This time it will be Gadepan-I instead of Gadepan –II.

Gaurav Mathur: That's right.

Moderator: Thank you. The next question is from the line of Praful Kumar from Dymon Asia. Please go ahead.

Praful Kumar: Sir, just one broad question over a three year period to a five year period in terms of strategy, you did mention that non-urea, micronutrient and agrochemicals. Given your very strong pedigree and background in chemicals and paints earlier, in terms of the vision for the company for next 3-5 years, can you just draw a broader outlook at least how the opportunities can be, what do you intend to do on the ROCE basis, where do you want to take the mix and ROCEs for the company?

Gaurav Mathur: Thank you, Praful. I think what we want to first focus on is to explore our adjacencies. It is very important for companies to remain focused and not necessarily venture into areas which may look attractive from far, but the company may not have any core competency. So, our first focus is to explore our adjacencies which I mentioned areas like crop protection, etc., and then if we see that there are any very big opportunities, that may come as a second thing if at all. But for now, we want to be very focus on business segment which are linked to what we currently do and where we can leverage our core competencies.

Praful Kumar: So, maybe it would be useful sir whenever you have a broad outlook, maybe next three months, six months, share with us in terms of direction, opportunity, size or some granular details?

Gaurav Mathur: Absolutely. Like I mentioned, the development of strategy in a considered manner, looking at opportunities, looking at our competencies that take some time and do want to get it right and we will surely share it with all of you as and when we have something substantive.

Moderator: Thank you. The next question is from the line of R. Hariharan from Arcus Resources. Please go ahead.

R. Hariharan: Just a follow up question on the crop protection business. Do you have an internal benchmark as to what proportion of your total revenue should come in from crop protection over three to five years' time? Second is, have you invested in your own formulation plant or would you be trading in all the crop protection products because quality is of paramount importance and at some stage it would help the business if you have your own formulation plant? And also, the business being very capital or cash flow intensive, what are the current number of debtor days that is there in the business?

Gaurav Mathur: Hariharan, first of all, no, we as of now not set ourselves any targets as to the proportion of business from crop protection. That is part of the strategy work that we want to take in. Second, whether we will buy or build formulation units, again that will evolve as we work on the strategy.

Abhay Baijal: On the crop protection business, I do not think we have a cycle more than 90-days in any sense when we are selling because we sell mostly through our fertilizer channel. I would say more than 95% of our sales is through our fertilizer channel and that is a far more disciplined channel and we normally manage to recover the maximum but in terms of credit which has been extended by us is around 90 to 120-days but we operate between 60 to 90-days mostly.

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

Resham Jain: So, currently as on March end, we had debt as well as cash of around Rs.900-odd crore and we have scheduled repayment of Gadepan-III plant, I think that is the only loan which is outstanding right now. How should one look at the cash accumulation whether we will prepay the loan or we will keep this loan as it is and keep building the cash for the next leg of CAPEX which we are planning for?

Gaurav Mathur: Resham, very broadly put, any option to prepay the loan has to be looked versus what we can get out of that cash if we do not prepay the loan. And that is the call that we will take from time-to-time and act accordingly. I don't think we can have a standard answer for that. Yes, that's what we will continue to examine and if we feel that we can utilize the cash best by prepaying the loan then we shall do so, at the same time now with the reduction in our cost of long-term capital that we have for Gadepan-III is very-very low, so it may not necessarily make sense for us to prepay the loan.

Resham Jain: So, in that case, actually your cash generation is anywhere between Rs. 1700 to 1800 odd crore per year and you are already carrying 900-crore cash. So, your cash will keep depleting your ROCs in a way. Just the context in that, because last few quarters also, you highlighted about the plans on investing in newer areas and I understand there is a large CAPEX need to be evaluated carefully. But any timelines which you have set, how are you going to utilize the cash balance if let us say no large CAPEX is not being finalized because it will lead to sub-optimal return ratios?

Abhay Baijal: I will just tell you, some part of our business is pretty seasonal, you must understand. For the past so many years, there was always accumulation of subsidy debtors towards the end of March. This year the reverse has happened; we have had the huge de-accumulation precisely before March. When you go into the cycle of building up stocks, so naturally you will draw upon working capital. Some of this cash will be used at some points of time during the course of the next six - eight months to set off the borrowing itself it may be possible due to the build-up of working capital, that is one part. Plus, assuming that the government is giving a subsidy and there is adequacy of that, we will now start seeing a much better balance sheet at the end of the year because if we are going to carry very little subsidy debtors, this position will keep repeating again and again and as part of our cash accumulation or de-accumulation, as Mr. Mathur very clearly said, that depends on what is the relative cost of the debt or cash or earning opportunity that arises out of that. Surely, the company will be building up some cash reserve for the possible expansions that will happen or whatever we are talking about in terms of CAPEX. It is now more or less given that we are going to go for some kind of expansion or whatever. But it is only a question of what we will be doing and when we will be doing. This cash will come in handy and we also have a dividend policy which says that so much of the profit will be given away. So, cash will have these three main uses: a) to even out the fluctuations in working capital; b) to build up for any other projects that may come up; and thirdly to pay dividend.

Moderator: Thank you. The next question is from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Are we also open for any overseas strategic investment, the one that we have done for IMACID? And if the answer is yes, we are open, so then what are those areas?

Gaurav Mathur: Hi, Siddharth. Too early to say anything you know. Answer to all these questions will come out of the strategy works that we will do. So, at this point of time, I can neither say yes nor say no.

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

Gaurav Mathur: Thank you, everybody for participating in this call and for your very-very good and insightful questions. I do hope that all of you are safe under these difficult conditions and I wish you all the best. Thank you very much.

Moderator: Thank you. On behalf of Chambal Fertilisers and Chemicals Limited, that concludes this conference. Thank you all for joining.