



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Quarter 1 FY 2020-21 Results

Investor/Analyst Conference Call Transcript

July 30, 2020

Neha Patil: Good afternoon and thank you for joining us on Chambal Fertilisers and Chemicals Limited Quarter 1 – FY 21 Earnings Conference Call.

Today we have with us, the senior management represented by Mr. Anil Kapoor, Managing Director, Mr. Gaurav Mathur, Joint Managing Director, Mr. Abhay Baijal, Chief Financial Officer, Mr. V.K. Gupta, Vice President, Marketing, Mr. Rajveer Singh, Vice President - Legal & Company Secretary, Mr. Anuj Jain, Assistant Vice President - Finance.

Before we begin, I would like to add that some of the statements to be made in today's discussion may be forward-looking in nature. We will begin the call with the opening remarks from the Management after which we will have the forum open for interactive Q&A Session.

I would now request Mr. Kapoor to make his opening remarks. Over to you, sir.

Anil Kapoor: Thank you friends. Welcome to the First Quarter Conference Call for the Financial Year 2020-21. At the outset, let me wish you and your family good health in times of this pandemic. The challenges in the quarter were multi-fold. However, timely intervention helped in their mitigation. Active social distancing, medical intervention, segregation and isolation strategy have helped us in maintaining near-zero spread in our environment. The credit for all this goes to the team at Chambal. Due to their efforts, we have remained unaffected in our production, dispatch and rail-head supplies to our dealers and retailers. Year-on-year basis, the profit after tax has grown by 33% to Rs.314 crores from Rs.235.9 crores. Urea sales volumes have risen from 7.28 lakh MT to 8.94 lakh MT - a gain of 22%. DAP sales volumes have risen from 1.99 lakh MT to 3.02 lakh MT - a gain of 51.7%. MOP has increased from

49,000 MT to 61,000 MT - a gain of 24%. During the quarter, market share in DAP has grown by 4.56% to 19.66% and in MOP by 3%.

Other segment that is – Micronutrients / Crop Protection Chemicals have also grown in volume and margins have also improved. The favorable monsoon and high reservoir level points towards continued momentum and higher off-take in rabi as well.

To service the higher demand, the Company has contracted significant amounts of DAP and NPK. As we have been maintaining in the past, this is in line with Company's forward going strategy to significantly enhance our participation in the Phosphatic and the NPK market. In addition, we intend to grow aggressively in other agri-inputs such as Micronutrients and Crop Protection products. Execution and result in this direction shall be visible progressively. Prices of gas have softened to around \$7/million Btu. This has provided significant relief in working capital. The policy environment has remained largely stable.

I would now invite questions from our audience. Thank you.

Moderator: Thank you very much. We will now begin the Question & Answer session. The first question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Qualitatively, you seem to have substantially outgrown industry not only in your core urea business, but especially in your trading business, where you deal in Phosphatics and MOP. Quantitatively, this quarter also saw strong cash flows, where your debt is down almost by Rs.600 crores despite subsidy levels being more or less at March 2020 levels. Given the above background and the current construct of the business, I have three questions -- One, what led you to significantly outgrow the industry and how did you differentiate yourself? Second, your FY 19-20 performance and Q1 FY 20- 21 performance on cash flows leads me to believe that going forward, you should be significantly able to reduce your debt. Would it therefore be fair to presume that in the next three years, we can see your long-term debt go

down by anywhere between Rs. 3,000 to Rs. 3,500 crores? And third, you have given us this quarter gas prices. If you could also give us last quarter Q1 FY 19-20 gas prices?

Anil Kapoor: Sales of DAP and increase in volume has not been a surprise to us. We have worked tirelessly in doing this. If you see till today, this year, we have sold up to 29th July and these are public figures, 4,14,000 tons of DAP compared to 2,17,000 tons last year, which is approximately 90% to 95% growth from last year. We intend to maintain this. What has happened, with Gadepan III, we have gone to new areas in selling urea. This has also increased our reach with all the dealers and farmers. As a result, other products naturally follow. We have now contracted DAP from our old partners like OCP, so we are assured of volumes. I do not see Chambal being stopped henceforth. As far as debt reduction is concerned, your number is bang on, we should reduce the debt by that level in three to four years. Another point which I would like to mention Tarang is; our strategy will also be to increase agrochemicals, micronutrients, etc. That is an area where, so far, we have not given too much attention but going forward that will be a focus area for us and we will increase our market share in those products also.

Tarang Agrawal Last one sir, average gas prices in Q1 FY 19-20?

Rajveer Singh: Tarang, the question related to gas price. \$7.1/mmbtu what Mr. Kapoor said for June 2020. As against that, last year June 2019, it was \$13.1/mmbtu on NCV basis. Quarter-to-quarter, April to June 2020, it was \$8.14/mmbtu as against that it was \$12.3/mmbtu last year. I am talking about first quarter of 19-20.

Moderator: Thank you. We take the next question from the line of S Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: So just a couple of thoughts. One is, in terms of your growth strategy going forward, do you have any specific target in mind in terms of share of revenue from Micronutrients and Crop Protection, because right now, presumably, the entire business is based on the subsidized business? So,

going forward, do you have any targets in terms of reducing the dependence on subsidized business?

Anil Kapoor: We have some internal targets but it will not be fair to disclose this on a public forum, they are aggressive numbers.

S Ramesh: In terms of your return on equity, even now you have 20% plus ROE if I look at the numbers. So, is there any operating leverage you enjoy based on the operating efficiency and energy consumption which is not kind of neutralized by the retention pricing with the subsidy formula and is a kind of sustainable if you are able to continue to run your plants close to 99- 100%?

Anil Kapoor: Biggest operating leverage we get is in cost of capital. If we continue to run and have performed in this manner, our cost of capital will be substantially lower and we would be literally best-in-the-class. Today, Mr. Baijal is able to borrow money at mouthwatering rate from commercial paper. Our long-term borrowing for capital project, we have locked the LIBOR. So it is a quite low interest rate and going forward the interest rate is going to be very low. Now interest is fixed on the dollarized loan.

Moderator: Thank you. The next question is from the line of Amit Doshi from Care PMS. Please go ahead.

Amit Doshi: Just very small two questions: One, on the proportion mix you mentioned that you intend to increase urea and the proportion of the urea versus the trading goods, the complex fertilizer and agri inputs. What is your long-term strategy target mix between the two?

Anil Kapoor: As far as urea volume is concerned, the volume is whatever the plant can produce and there we cannot grow. The growth in Chambal will come from decontrolled fertilizers, namely Phosphatic, NPK. NPK, so far, is an untapped market for Chambal. This year, we have made a beginning for NPK and I am quite sure we will grow going forward. Again, agrochemicals, micronutrients, crop protection, those are the areas which are very interesting and with our

reach in the rural market, I do not see any reason why we cannot create a major footprint.

Amit Doshi: But strong players are already there in the market.

Anil Kapoor: There is no player stronger in the rural market than Chambal Fertilisers. Look at our reach. We will be selling approximately 5 million MT of fertilizer. We touch literally every farmer in North India.

Amit Doshi: In DAP, we saw a lot of jump and also you mentioned that in your opening remarks as well. How much more potential that is there which was earlier untapped and now only we have started tapping. So how big is that market for us to grow from this levels despite we jumped almost 90% volume from last year to this year?

Anil Kapoor: Difficulty to say. I can only give you the market size. Market size approximately, in North India, is 6 to 7 million MT in our territory and we have not even explored newer territories which we may go in future. So, 6 to 7 million MT, we are just clipping the bottom right now. We are talking of 1.2 or 1.3 or 1.4 million MT, somewhere there. And there is a growth of about 6% to 7% in that market. There is quite a good opportunity for well-run companies.

Amit Doshi: Sir, why did we never went earlier, I mean, prior to this and why only last year and this year we started after this Gadepan-III because that is actually not connected, urea, etc. Why the focus specifically started on this. Any change in the strategy or the mind or thought process of the management?

Anil Kapoor: No, it is not change of management strategy. We all were busy in doing this project right. That was very important for Chambal. Management time is very limited everywhere. We are very proud of what we did in Gadepan-III. To complete a project before time and below cost, rarely happens in India. And I would like to also mention one more thing, we have purchased 99.999% of equipment from developed countries and we were very

particular from where do we import for the project. As a result, we are quite certain of the quality of the project we have done.

Amit Doshi: This special banking arrangement, how does it really work in terms of interest cost? Why it is referred to as special banking arrangement and what kind of cost that we incur because of the subsidy non-release by the government, etc.?

Abhay Baijal: Special banking arrangement is nothing but a bridging finance which the government does in order to go over from one financial year to the other financial year. So supposing, let us say, last year, there was Rs. 10,000 crores subsidy, it was supposed to have been paid earlier, they could not pay. So, they basically transferred their liability from themselves to the bank in the month of March, around 15th March we were paid and then the financial year close, then they release the subsidy and squared off that subsidy. So basically, it is a bridging arrangement. It works for about 45-days at best. What the government does is it gives you the treasury rate of 45-days from the bond rate, they will take the market, RBI will give a rate. And if the bank is given close to that, then a differential will be very small, maybe 1% to 1.5% which the company has to bear and for 45-days it is deducted upfront. So, it is a very small percentage and it is only for about 35 to 40-days. So either way, it does not make much difference. The only thing is it gives us liquidity towards the end of March. Otherwise, the accounting treatment and everything will keep standing as a loan and the subsidy will also be shown as unsquared. So, on the asset side, liability side, there is no change except that we have actually funds in our hand. That is all.

Amit Doshi: So what are the differentiating costs, for example, our working capital requirement, etc., that we borrow and this SBA?

Abhay Baijal: Assume, for instance, that the loan was given to us at 7% by the bank and 6% is the subvention by the government, so actually the cost was about 1%. Last year, in fact, more or less no cost. But it is only for 45-days.

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

Deepak Chitroda: My first question is on the visibility towards the FY 20-21, I mean, rest of the quarters. So, what is your sense in terms of kind of volume growth we have already seen in Q1 and of course, this may be led to some sort of advance buying also and of course, if I look at the inventory. So, inventory has been substantially over compared to last year. So, do you think your confidence in terms of good demand is primarily led by the obviously good kharif and the good rabi as well as the channel filling which we might see going forward?

Anil Kapoor: We believe that what we have seen in the first quarter will continue going forward.

Deepak Chitroda: So do you think that still we will see kind of a strong year-on-year growth for the subsequent quarter for the year?

Anil Kapoor: I do not see any reason why we should not see growth in Phosphatic fertilizer this year.

Deepak Chitroda: My second question is on the IMACID profitability which has grown substantially. Obviously, the jump in the acid prices. Do you think that profitability will continue again for the rest of the year?

Anil Kapoor: This year should be better than last year? Let us see how it progresses. Prices are on the upswing right now. So, acid prices should increase as we go forward. IMACID profitability should be better than last year. Let us see.

Deepak Chitroda: Last question, in terms of Gadepan-III volumes which we had in the quarter. Last year, we had almost about 3,30,000 but this year, we had around 3,00,000, 10% decline compared to last year. So, any particular reason for it? Because, if I understand, probably we might have prioritized Gadepan-III compared to Gadepan-I and II volume.

Anil Kapoor: The rakes must be in transit, etc., Ultimately, we will be able to sell everything going forward.

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

Pratik Tholiya: Just a couple of clarifications. DAP market share is around 19.6%. So this is in your home market which will essentially mean Rajasthan, Punjab and Western UP?

Anil Kapoor: Yeah, that would be in our territory. That is pretty big. MP, Rajasthan Punjab, Haryana, UP, Bihar, Chhattisgarh.

Pratik Tholiya: When you say that 1.2 million MT of DAP, this is again catering only to the home market. When you go beyond that, do you expect the volume to grow further?

Anil Kapoor: I am saying approximate 1.2 million MT and this is going to be in our territory only.

Pratik Tholiya: The higher volume you are able to achieve is because of the higher volume in the urea which allows you to different territories. We are talking again only in the home territory. Can this move to the newer territories along with the additional urea, you will see a further growth over there?

Anil Kapoor: What I was saying was that this additional urea has given us confidence to go into newer territories. We did not have enough Urea to increase our dealer base. Now, we have increased our dealer base substantially. We have gone to newer territory. With that, sales of other products naturally follow. Natural extension for sale of urea.

Pratik Tholiya: Now, we are seeing good jump in our trading business. Any plans of setting up a manufacturing in this complex fertilizer since you already have a short supply of phos acid from IMACID. Would we look at second phase of expansion which will come mainly in the fertilizer business or you are comfortable more with the trading plan?

Anil Kapoor: It is all dependent on the economics. If I can continue to make the type of money which we are doing today by selling material produced by somebody

else, that is an ideal scenario. It is like a consumer market, all that consumer giants today, they also get the products manufactured by a third-party.

Pratik Tholiya: Then in the crop protection or any other businesses where we are looking at setting up our own manufacturing capabilities?

Anil Kapoor: We will follow in future depending on how is the growth we get in Agro Chemicals and Micronutrients, that can be a natural extension going forward. Depends on the growth we get.

Pratik Tholiya: In last quarter you talked about, you have to shut down the urea plant basically because you did not have the approval for the enhanced capacity. So that approval, you said, is expected soon. So any progress on that?

Anil Kapoor: We have made the application. Government is reviewing our application. Let me be honest with you; as far as profitability is concerned, it will not make much of a difference because we are talking of additional contribution of approximately Rs.20 crores in a year. It is neither here nor there. For that additional production even if we get the approval, it is an additional contribution of approximately Rs.20 crores.

Moderator: Thank you. The next question is from the line of Ateet Bansal from Nippon India Mutual Fund. Please go ahead.

Ateet Bansal: Couple of questions more to Mr. Baijal I think. Any CAPEX plans or any maintenance CAPEX guidance would you like to give for the year?

Abhay Baijal: Normal maintenance CAPEX is in the region of about Rs.100 crores. But those are continuing, some from the past, which has not yet been completed, some commitments have been made and advances will be paid. It is around that number.

Ateet Bansal: Other question is on the debt. Is there an SBA outstanding as on June 30th also in our books?

Abhay Baijal: No, no, it was settled between 15th and 20th April.

Ateet Bansal: And what would be the short-term investment that we have netted off on the short-term debt? In the presentation, there was some mention of net of SBA and short-term investment. So that is where the question was.

Abhay Baijal: In the presentation, what we are saying is that when we say borrowing as on a particular day, let us go to that slide, it is Rs. 8926.67 Crore. So, when we are talking about 31.3.2020, that loan of SBA is there in that. But as on 30.6.2020, it is not there.

Ateet Bansal: And there are no short-term investment also?

Anuj Jain: There were some short-term investments in fixed deposit with a short term of seven days or so.

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

Madhav Marda: I had one question on the finance cost, that has come off quite a bit. You did mention that cost of borrowing is going down. You are saying fixed versus floating if I remember right what it was earlier. So what is the cost of borrowing now for the Gadepan-III?

Anil Kapoor: See, we are borrowing at approximately LIBOR plus 220 basis points, and LIBOR is fixed at around 0.3%.

Madhav Marda: So this cost of debt which used to be I think 4 to 4.5% two years back is down to about 2.5% now?

Anil Kapoor: For the project.

Madhav Marda: And basically, if the interest cost environment remain here, is there any one-off number in the finance cost or Rs. 97 to 98 crores is sustainable number. it has come substantially lower versus the quarterly run rate last year.

Anil Kapoor: No, there is no one-off. Last year, you see we had our interest cost reduction in the second quarter, where our project interest cost was reduced and

LIBOR was also high in the first quarter. This year, the LIBOR was lower and floating was also reduced. So, it was LIBOR plus 280 to 285 basis points. This year, it is LIBOR plus 220 basis points. So to that extent, there was a reduction in the spread also and LIBOR also has come down. Secondly, commercial paper also this quarter is substantially lower than first quarter of last year.

Madhav Marda: What is our borrowing cost there in the commercial paper?

Abhay Baijal: Currently on old and new taking place, if I am not wrong, it would be around 4.25% to 4.26% and going forward is sub 4%.

Anuj Jain: Last year, it was about 7%.

Anil Kapoor: You can see that there is a substantial reduction in interest cost.

Anuj Jain: About 1.5% to 1.7% average reduction in short-term.

Madhav Marda: One question on the subsidy side. I think we are benefiting because gas costs are low. So to that extent, the subsidies get accrued is lower for us. But obviously the government finances are a bit stretched on the other side. So, how should we think about subsidies will remain. For absolute value of subsidy coming down or staying the same, how should we think about that?

Anil Kapoor: Right now, the government is working out on number of alternatives. While Abhay was mentioning about special banking arrangement for 45-days, what we understand is they are trying to take some special approvals and do a special banking arrangement as early as possible. The ministry is working on number of fronts and we are very positive that decent amount of subsidy will be released for the industry. That is why it is too early to tell you what is going to happen this year.

Madhav Marda: The budget that the government usually has for urea subsidy, when they puts out the budget number, do you think they can meet that number this year or it could be lower, any thoughts on that?

Anil Kapoor: On subsidy front, I would not like to comment because it is a work-in progress right now. It is not only Chambal, it is the entire industry. In Chambal, we are able to borrow at quite a reasonable level from the market. Some of our other colleagues, they are struggling and that is why the government is looking at sort of a relief package for the industry.

Madhav Marda: You mentioned about expanding going forward in the non-subsidy business, such as Agrochemicals, Micronutrients. I think a few quarters back also a discussion was around acquisition for any fertilizer units that could be up for turn around. So is that something that we are still considering or what is the strategy there?

Anil Kapoor: Chambal will always be open to acquisition of a good fertilizer plant and at reasonable level.

Madhav Marda: Is there any opportunity in the market you see right now that could come up in the next year?

Anil Kapoor: If at all there is, we would not like to discuss on an open forum.

Moderator: Thank you. The next question is from the line of Ankit Tripathy from Kotak Asset Management. Please go ahead.

Ankit Tripathy: Couple of questions. At the current production level of urea, when do you expect your plant to go under maintenance or shut down? And the second question is, at the current gas price, how much of impact will be on the absolute EBITDA on related terms? And on the third part, what will be the margin on the complex fertilizers?

Anil Kapoor: Firstly, shut down is a part of our routine cycle. We take shut down of plant once in two years. And with three plants and if we have to take once in two years, one shutdown will definitely come once a year. In certain years, there may be two shutdowns. So that is something which is going to be a normal behavior. But normally we take shutdown in the month of March because that becomes an off-season. Moreover, I would just like to clarify that the contribution which we make with that additional production over 100% is

only Rs.1,600 rupees a ton. So, it is not a great number. It doesn't really matter much on the balance sheet. On your second question, two things happen with that gas price reduction -- One is our energy gain to that extent, we get lower energy gain when gas prices fall. But it is compensated by reduction in working capital. It is a sort of a contra-entry and this really doesn't affect much on our profitability. It is always better to have lower gas price. There is less strain on the government, the subsidy burden reduces substantially. So it is always good for the industry if the gas prices are lower.

Ankit Tripathy: But you said your interest cost is around 4%. So, working capital is to that extent and your EBITDA margin, there will be a substantial difference.

Anil Kapoor: What happens is government also does not pay us within 45-days. Government also takes its own sweet time to pay the money. We have done the calculation. It doesn't affect much.

Ankit Tripathy: And the margins on the complex fertilizer, how do you see that?

Anil Kapoor: If we have achieved this number in this quarter, margins are good.

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

Varshit Shah: My questions are two. Is the increase in market share of phosphatics, this was more due to the fact that the financial position of most of the other competitors is sort of weaker than us in lesser terms and we were able to capitalize more on this jump in demand? And second is more strategic long term that couple of years down the line your balance sheet lightens up even further and you have the opportunity to do further CAPEX, would you like to do CAPEX in urea or you would like to go for phosphatic because with the DBT 2.0 there is a big door opening up for phosphatics as well?

Anil Kapoor: CAPEX in urea would definitely not be a new plant because the policy does not exist as of right now. So, there would be incremental CAPEX to improve energy which we are actively pursuing and looking at options on how to improve our operating energy in the plants, for which a number of studies

are going on and we are quite confident of reducing our energy levels going forward. So that is the CAPEX of energy improvement. Some gentleman had asked a question some time back. In case some fertilizer plant were to come up for sale and at the right price, and if the quality of that asset is good, we would definitely be interested because that will increase our territory.

Varshit Shah: But would you be more interested in phosphatic or you are open to all?

Anil Kapoor: If project is good, we would be open to everything.

Varshit Shah: And my first question on market share gain.

Anil Kapoor: Market share gain is a natural extension of urea market share gain. And it had to happen sooner or later.

Varshit Shah: Since the season for this year is ahead of schedule, do you see that September quarter volumes might be lower YoY, optically I mean, not really a bad kind of industry?

Anil Kapoor: I will not like to comment anything on September quarter. I think let us wait and see. In my opening statement I had mentioned, we have contracted large volumes of phosphatic fertilizers and MOP, NPK. So, we are going to be aggressive in our strategy going forward.

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

Rishabh Jain: So I have a couple of questions: First is on the Agrochemicals business that you mentioned and Micronutrients. So, if one has to look at this business and if you want to scale up, what is going to be our strategy – have we already started building the team for that in terms of registration of product. If you can give us some qualitative statements on how you look to grow this business going forward and what kind of size you will be happy when you can share the numbers of this business separately?

Anil Kapoor: Numbers I will not be able to share but we have got an expert with us Mr. V.K. Gupta, he originally came from this industry and he has all the background for answering you that question. I let Mr. Gupta answer that.

V.K. Gupta: See, if you look at Agrochemicals, basically, like here in our territory, we have wheat, paddy, sugarcane and cotton. Cotton is a small crop here. So, these are the major crops and we concentrate mostly in wheat and paddy segments. Going forward, we would be concentrating more in soyabean segment which is in M.P. and going forward we propose to grow in this segment.

Rishabh Jain: Any specific size you feel because your numbers will be too low given the overall industry size. Any market share or anything which you feel you can take up over the next 4-5 years?

V.K. Gupta: There are lot of players. It is very well segmented market. See, scope is limited there because we are not the manufacturer. So, we are not getting that sales of technical. We are only on formulated part, that is at market end. We are getting our market share and we will push our market share in the coming days.

Rishabh Jain: Lot of companies what they do is they do tie-up with MNCs for new molecules and stuff like that. Even your distribution presence is there.

Anil Kapoor: What we have observed is we are trying to create our own brand because the margins offered by the MNCs are so low that it is not worth wasting your time. We develop our own brand and sell the product and below a certain margin we do not sell. We work on higher margin gain.

Rishabh Jain: Sir, my second question is on overall cash flows and the debt situation. Given the falling interest rate environment we are into, your objective earlier was to bring your net debt-to-EBITDA to a very comfortable level, but given the low interest rate, will there be any change in the capital allocation strategy because we will be generating a very good cash flows and your scheduled repayments are significantly lower than your overall cash

generation. How do you look at the capital allocation in the next one or two years?

Anil Kapoor: We are reviewing our capital allocation. There are alternatives. We are looking at various schemes. We are working on some dividend policy also. And as soon as we finalize our plan, the stock market would be the first one to know what we have finalized. That is a work-in progress.

Rishabh Jain: And your comfortable net debt-to-EBITDA, what will be that level?

Abhay Baijal: We aim to be around 3 to 3.5 times which is a comfortable number which assures all the rating agencies and keep yourselves liquid for any further capital acquisitions and other things that may need to happen, that is a number and we are already around 4 times.

Moderator: Thank you. The next question is from the line of Chirag Shah from Dalal & Broacha. Please go ahead.

Chirag Shah: Given where global gas prices are, do we see gas prices further trending down? I think you just said \$7 odd per mmbtu. Do you feel they can come down further?

Anil Kapoor: These are pooled pricing and you will appreciate a large volume of gas in India is linked to crude prices. There is a three-month rolling average linked to crude. As the crude prices tend to increase, gas prices will tend to go up. So, it will all depend on how the crude price moves.

Chirag Shah: But you should also get the benefit of the prices which were low in the last quarter?

Anil Kapoor: We are getting that benefit and it will continue going forward. Around this cost of crude, we should be somewhere near \$8/mmbtu.

Moderator: Thank you. The next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: This is a follow up question. So there just a question on capital allocation and future investment. Now if we see, your cash flows for the March 2020, you got about Rs.800 crores of operating cash flow after working capital. So, in terms of your own assessment of your cash flows for this year and over the next two, three years, do you see the operating cash flows being sustained at these levels and in terms of your overall objective towards delivering earnings growth and maintain your ROE, I mean, what is the kind of strategy going forward incrementally in terms of putting this cash to use?

Abhay Baijal: The numbers for the cash generation are rightly you spoken at around Rs. 700-800 crores after meeting debt obligation. Well, the question then is that putting this to work, Mr. Kapoor mentioned two or three things -- one is of course that we will aggressively improve the P&K, DAP and other segments. Now that will require growth capital, although we will see how we have to do it in a manner that it will remain asset light. Now, that will absorb in terms of working capital, some amount of cash in order to build that up. We also hope that going forward because of the low gas prices and may be what Mr. Kapoor mentioned in terms of special banking arrangement. If we are able to release cash from our existing investment into urea subsidy then also that will work for us in that particular manner. So, we will use that both for growth capital and for the future dividend policy which Mr. Kapoor just mentioned to balance these two things out properly that we have enough growth capital and at the same time reward the shareholders in a particular fashion.

S Ramesh: So, what you are essentially saying is incrementally you would like to look at the Phosphatic business. So, in terms of the return on capital employed, would you be able to maintain the kind of return on capital employed, you are generating if you were to incrementally focus more on the Phosphatic business?

Anil Kapoor: We would definitely try. And that is why our focus has shifted more and more towards Phosphatics, micronutrients, agrochemicals.

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

Rohan Gupta: Sir, a similar question like what you just answered regarding that strong cash flow generation. In opening remarks, you mentioned that your company's ability is to basically raise debt at such a low cost. I see that it is the other way around that rather than capital availability, which is I think kitty available to the strong companies, problem is finding the project which can justify the further investments. We are roughly 20%-plus ROC and stronger ROE company right now of 25%-plus. So where do you see that the capabilities or the opportunities are to justify 20%-plus ROC in our businesses with a strong cash flow of a size of which we are generating like, Rs.1,000 crores sort of cash flows? You mentioned that Agrochemicals can be an opportunity but if you get a pretty small business and many competitive players are there. We are having almost less than 4% interest cost for our average debt. Where you are seeing opportunity to deploy this cash flow?

Anil Kapoor: I personally believe there will be opportunities for a company to grow in some acquisition strategy in urea business. Some existing players may come on the block for which then Chambal would definitely be interested. Then, as I have already mentioned, there would be DAP, MOP growth. And thirdly we will definitely look at options of expanding on DAP, MOP capacities to be built either in India or overseas.

Rohan Gupta: Sir, for urea you mentioned that inorganic growth opportunity but because of the policy framework which is right now that all the old capacities are under the limited profitability metric and that does not justify the investment. Probably that you have been very clear earlier also that buying any asset in urea does not make any sense because of the profitability cap being there. So, either it is only Greenfield investment or may be Brownfield investment that only make sense. So, you just mentioned that inorganic growth opportunities in urea and buying any asset there. How that will justify with the limited profitability? In that case, is there any change in policy you see from the government angle?

Anil Kapoor: What happens with the urea strategy is that it gives us newer territories to grow. In Phosphatic business, if you see, India imports phosphoric acid, imports ammonia. So all the basic raw materials are imported into India and then it is stored and manufactured in India. So either you manufacture in India or manufacture overseas it does not make too much difference. But what you definitely need is new territories in which you can grow. You need good urea brands also which you can leverage upon to grow your other products and there are a lot of options and alternatives available, India is a big country.

Rohan Gupta: So you are saying that after focusing in North, now you can focus on other markets and grow the brand of Chambal and that is where you see that opportunities are there, whether organic, inorganic both?

Anil Kapoor: You are bang on. Having stabilized our business which we have done now is the natural extension for Chambal to grow and with the financial muscle which Chambal has, it can comfortably grow in other areas.

Rohan Gupta: I just only want to clarify, when you say other area, it is only related business which you are talking about, right?

Anil Kapoor: Yes, we are talking of only the businesses in which we are in. We are not talking of new businesses. Other areas means other territories, geographical.

Rohan Gupta: And you see that in our country, there is a huge scope for consolidation and with many agri and fertilizer companies are facing stress, so in next two to three years, you see that a lot of consolidation can happen in the industry?

Anil Kapoor: Let us wait and see. The fun has just started.

Moderator: Thank you. The next question is from the line of Amit Doshi from Care PMS. Please go ahead.

Amit Doshi: Just a follow up. Basically the capital allocation that we discussed about acquisition opportunities that you may explore, you are open to it. So, would

the focus be first on repaying the Gadepan-III loan or even you are okay that before that if some opportunity comes, you are okay to take that up, I mean, of course, presuming value, quality, everything is right?

Anil Kapoor: There is a certain repayment of loan which we have agreed upon with bank. So that we will continue. But if there is an opportunity for growth, we have enough other cash flows available even after paying the loans.

Amit Doshi: So you are open before even that? Okay, fine. Initially you said that first of course to improve our balance sheet to get loan settled.

Anil Kapoor: See, that was earlier, but now the balance sheet has substantially improved. And by the time capital acquisition takes place, it is not going to happen in two months or three months, it will take a little bit more than that. So our balance sheet will further improve by then.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: On the agrochemicals front, you just mentioned that we will be targeting only formulation products and not technicals, but the areas we are targeting, I mean, the segments like Mr. Gupta mentioned about soyabean. So, there will be already some players catering to that segment with a certain number of products, what will be our differentiated strategy to enter into the segment and how are we targeting to gain market share. Is it introduction of a new molecule which is not currently being catered to, or is it the same product but with a different combination? So, what would be our strategy for this?

Anil Kapoor: Soyabean is a segment we have been selling for ages. I think there has been some confusion on the answer which Mr. Gupta gave. We have been selling in soybean earlier also. Let me be honest, in the last few years, with our focus on putting the project right and getting ourselves established in phosphatic, we have not given that adequate focus which we should give. And now we are looking at growing in other areas which are a natural

extension for Chambal. So, in all areas where we can grow in the agri space, we will definitely like to grow and with our market share and reach, we can be serious players in every business which we do.

Rohit Nagraj: Sir, second question is in terms of the fertilizer sales volume that has happened in Q1. So, it seems that on a YoY basis, it is significantly higher as an industry and for us also. So, is there any pre-ponement which has happened because of the season and over a period of next three quarters, the volumes will certainly normalize?

Anil Kapoor: Urea sale basically is a seasonal and we cannot sell more urea than what we produce. So, it is not an unlimited business which we have. Let me assure everybody that the urea which Chambal produces is literally best-in-class, our quality is very good and our brand is very strong. I do not have more material. I wish I had one more plant. I would have sold that also. But in Phosphatic, I had mentioned in my previous investor call, there is a site mfms.nic.in which is open to public forum, everybody can go and access that site. If you see the data, what is the growth of Phosphatic, you will see there is an x amount of growth for the industry. What has Chambal grown at? Chambal has grown at 3x. Everybody is open to infer what is Chambal strategy and where we are moving.

Rohit Nagraj: So just clarifying this, we are gaining market share probably from existing players, but the market is growing at a normal rate?

Anil Kapoor: Market is growing at a fixed rate. So, if we have to grow above that, we definitely have to take somebody else's share.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Firstly, there are talks of release of some more subsidy on the basis of the age of the urea plant. Any update on that? I think Rs.350 per MT and Rs.150 depending upon the years of existence for the plant.

Anil Kapoor: So if the plant has completed 30-years, they get that Rs.150 more. Our first plant was commissioned in '94, so that has completed 26-years. It has to wait for four more years to qualify for that Rs.150.

Saket Kapoor: There is Rs.350 also for more older plants. There are two categories.

Anil Kapoor: The older plant gets Rs.350 plus Rs.150 is basically the ageing. In the annual results last year, we accounted for Rs.350, but not in the first quarter last year. This year in the first quarter also, we have accounted for Rs.350 per ton, but that is only available for Gadepan-I and II, not for Gadepan-III.

Saket Kapoor: And what would be that quantifying for the quarter? What is the receipt?

Anil Kapoor: Anuj, how much quantity we produced in Gadepan-I & II in the first quarter?

Abhay Baijal: Around 5.08 lakh MT this year as against 3.74 lakh MT last year in Gadepan-I and Gadepan-II. That is the quantum.

Anil Kapoor: And whatever that number is, you can multiply it by Rs.300 to 350. It would be approximately Rs. 10 to Rs. 15 Crore.

Anil Kapoor: Generally available up to 100% of the production.

Abhay Baijal: We have to take a factor of about 3.4 to 3.45.

Saket Kapoor: Some older plants also are being getting streamlined and will be up and running, that is from the government kitty. So how will this affect the overall urea market going forward? And when are those four plants going to get commissioned?

Anil Kapoor: I think "When are they going to be commissioned?" That is a question you should ask government of India. I will not be able to answer because I do not know what stance the government is taking vis-à-vis commissioning of those plants. India is still importing 7-8 million MT of urea. So they will be very well absorbed within that imports.

Saket Kapoor: A very small point, what are the continuity factors that will go forward for this year that will lead to this quantum jumps in the fertilizer production and sales and how confident are you that those factors will continue?

Anil Kapoor: I have already answered number of times what has been our strategy. I think as the quarter progresses, you will see the impact of what Chambal is up to.

Saket Kapoor: But I was only looking for the external factors that have contributed and will continue to contribute.

Anil Kapoor: External factor is definitely there; the reservoir levels are better than last year, monsoon prediction is pretty good and there is buoyancy in the market.

Moderator: Thank you. The next question is from the line of Dharmik Prajapati from Prospero Tree. Please go ahead.

Dharmik Prajapati: I have two questions. What is the realization per ton of urea – has it decreased compared to Q1 FY' 20? And what is the gross margin in our own manufacturing and trading products?

Anil Kapoor: It is unfair for me to answer that because those are certain numbers which are confidential in nature. And as far as urea is concerned, compared to last year first quarter, as I just mentioned, we have increased for our older plant, we have taken Rs. 350/ton extra in this quarter compared to last year. To that extent the profitability was definitely better in old plants. In new plant, since it is a dollarized business, when the dollar appreciates, to that extent, there is an increase in revenue.

Dharmik Prajapati: What you can see on the balance sheet, the EBITDA margins have substantially improved because of our trading business compared to last quarter; about 18%. Will you be concentrating on the trading more than manufacturing?

Anil Kapoor: You see what happens is, in fertilizer industry, this EBITDA margin is a big misnomer. For example, let us take a hypothetical case. If I am purchasing

DAP at \$300, and I am purchasing DAP at \$400, my margin remains the same at which we sell. So naturally when I am buying at \$300, my EBITDA margin will increase. This is what happens in fertilizer industry. And in urea also, my contribution literally remains the same. But if the gas prices were to fall, my revenue falls, my margin improves. So in fertilizer industry the metric should be my absolute EBITDA.

Moderator: Thank you. The next question is from line of Suhash Naik, who is an individual investor. Please go ahead.

Suhash Naik: I have one industry wide question, as you said, government is coming out with lot of reforms in the agri sector right now and as you also said that they are looking at the packages and all that. So what kind of reforms you think they are looking at as far as our urea is concerned?

Anil Kapoor: There are a number of discussions going on for quite some time. There are a few committees which have been formed in case of urea. And till anything fructify, it will be unfair for me to comment. Nothing has been finalized. The moment anything takes place, we will be the first one to inform you, but at this moment, it is too early. Government is working on number of schemes.

Suhash Naik: Is the thought process towards reforms?

Anil Kapoor: The Government is certainly looking at certain reforms.

Moderator: Thank you. We have one last question in queue; we take the last question from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: You mentioned about putting in place dividend policy of sorts. So just wanted to understand is there a particular net debt-to-equity, net debt-to-EBITDA level which you would like to maintain in the future considering our cash flows are actually very resilient to any sort of, ultimately, it is a very stable volume that we have. So, any thoughts around that in terms of capital structure or dividend policy?

Anil Kapoor: That will definitely be a thought process. It is a work-in progress. And I am quite sure as soon as we finalize, we come out in the market.

Moderator: Thank you. We have one more question came up in queue, is from the line of NM Modi, who is an individual investor. Please go ahead.

NM Modi: Regarding the urea production, in June 2019 quarter, we have produced 3.74 lakh MT whereas this quarter we have produced 5.08 lakh MT. So what was the reason of low production last year?

Anil Kapoor: Last year we had annual shut down in one of our plants and it was extended one because there were some problems with one of our urea reactors.

V.K. Gupta That is why the production was low.

Anil Kapoor: In this quarter, there were no major shutdowns.

NM Modi: I was wondering because this is a new plant

Anil Kapoor: New plant in both the quarters have produced approximately the same.

NM Modi: In March 19-20, that was under maintenance, that is why the production was less?

Anil Kapoor: What happens is government has allowed us a fixed amount of production which is approximately 12.70 lakh tons. Once we achieve that, we are forced to go in for a shutdown.

NM Modi: Other thing I wanted to tell you is about your idea of micronutrients, crop protection and agro chemicals. This will be a very good business if you set it in the right way, in the right path, because Coromandel is doing the same thing and they are earning a large profit on this venture.

Anil Kapoor: I am aware what Coromandel is doing. We definitely look at what competition does.

NM Modi: Is there any possibility of urea import from our side?

Anil Kapoor: Chambal has never gone in for urea imports because there is a clash with our brand. And when we import, the quality of urea definitely deteriorate because of multiple handling. Urea is very soft product. Then what happens is it will not be good for Chambal's brand. So we stick to domestic manufactured Urea.

NM Modi: You can think of SSP, MOP?

Anil Kapoor: We have a plant of SSP ready in case we want to start. SSP pricing is not very remunerative. So the moment I produce, my return on capital, return on equity will substantially fall. That is the business which makes money but the returns are very poor. Not commensurate with the effort which we have to make.

Moderator: Thank you very much. That was the last question in queue.

Anil Kapoor: Thank you.

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