



## Quarter 1 - Financial Year 2023-24 Earnings Conference Call Transcript August 08, 2023

- Rishab Barar:** Good day everyone. Thank you for joining us on the Chambal Fertilisers and Chemicals Q1 FY24 Earnings Call.
- We have with us today Mr. Abhay Baijal – Managing Director; Mr. Anand Agrawal – CFO; Mr. Anuj Jain – Assistant Vice President (Finance) & Company Secretary and Mr. Ashish Srivastava – Vice President (Sales and Marketing).
- Before we get started, I would like to point out that some statements made or discussed in the conference call today may be forward-looking in nature and must be viewed in conjunction with the risks the company faces. Chambal Fertilisers and Chemicals does not undertake to update them. The statement in this regard is available for reference in the presentation.
- We will begin this call with opening remarks from Mr. Baijal.
- I would now like to invite Mr. Baijal to share his views. Over to you, sir.
- Abhay Baijal:** Good afternoon everybody and a warm welcome to all of you participating in this call. It is indeed a pleasure to re-connect with you on this forum once again.
- We are happy to share our performance over the just concluded quarter that is quarter 1, FY24. Since we have already shared the presentation on financial performance, I shall not spend time repeating the numbers in my opening remarks.
- Our Urea business continues to do well. All our units have been operating at optimal capacity and our production of Urea stood at 8.89 lakh metric tons. Subsidy collections during the quarter were timely and they have lately accelerated. The budgetary allocation for the current fiscal is adequate to cover up for the subsidy payment during the year, which is a very heartening feature this year. Due to the delayed monsoon disturbances, due to Cyclone Biparjoy and the Balasore train accident, the movement of material was restricted and affected our P&K sales by about 30%, which is expected to be made up in the next quarter. At the same time, the prices of DAP and NPK phosphatic fertilisers have declined during the quarter, but of late have started moving up. Our technical ammonium nitrate project is on track. The project, as you know, was awarded to Larsen & Toubro, and the technology licensor is CASALE.
- Our Crop Protection Chemicals and Specialty Nutrients business continue to grow strongly. The business has grown by about 25% in volume Y-o-Y and 17% in value Y-o-Y. We are seeing very encouraging progress in our new products, which were primarily for sugarcane, rice, soya bean, groundnut and cotton crops. Our Seed to Harvest program continues to make very good progress. In the first quarter, Chambal Fertilisers reached out to 2.3 lakh farmers from training programs and tested 39,000 soil samples. This has encouraged very good relationships with our farmers and is creating business opportunities.
- With that, I will now take your questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Vidit Shah from IIFL Securities. Please go ahead.

**Vidit Shah:** My first question was just some data points around the sales of the Gadepan-III unit and the average gas cost that we had in the first quarter.

**Anand Agrawal:** Yes, so in Gadepan-III, our production was 3.57 lakh tons. And the average gas cost was \$16.87 on an NCV basis.

**Vidit Shah:** How much is it right now?

**Anand Agrawal:** Is around 16.61, provisional. So, generally we get monthly in provisional and then after the completion of the month, they give us the final number.

**Vidit Shah:** So, on the P&K Fertilizer, fertilizer volume degrowth that we have seen, you expect this to be covered up in Q2? So would it be fair to assume that we covered it up fully or do you still see some volume loss because of on the movement restrictions that we had in the previous quarter?

**Abhay Baijal:** So, as far as the stocks are concerned and whatever we have in hand, which we are going to sell, we will largely make it up, but that also depends on further imports which are subject to viability calculations. I would say that more than half of what we have lost, will be made up.

**Vidit Shah:** And we have been deliberating on for the CAPEX plans and expansion plans and use of free cash flow, any update on that, if you could share on where we are?

**Abhay Baijal:** You see, we are very clear as of now. Efficiency initiatives in Gadepan-I and II, pursuing asset like growth in the Crop Protection and Specialty Nutrients and looking for value-added initiatives in the nitric acid or nitrate chain, these are the thrust areas for the time being. Of course, when we are looking for another big one, these are some of the things that we are already going through or getting through some closure on and the pipeline of this actually is around Rs. 1,900 crore to Rs. 2,000 crore. So, that CAPEX is going to take us to about '25-26 timeframe and then we will take it on from there.

**Vidit Shah:** So, you are talking of Rs. 2,000 crore over the next 3 years, is that right?

**Abhay Baijal:** Yes. We are continuously evaluating all efficiency initiatives in Gadepan-I and II, whatever has been frozen till now and plus what we will do more and anything more that we might do on the nitric acid chain, the nitrate chain that is another possibility, but we are embryonic in the sense that we are going through some calculations or discussions and we will keep rolling these things forward at the moment and as I told you, the asset light structure on CPC and SN is a very key focus area for Chambal.

**Vidit Shah:** And just if you could share an update from the ground of Nano Urea, are you seeing any market share of traditional fertilisers being eaten up or is it still remains largely muted across all geographies?

**Abhay Baijal:** See my view on Nano is that and what I get the read from my marketing people is that it is too early still to make an accurate prediction as to what is the substitution that it will do. What I understand is that farmers do try it in the foliar application rather than the basal application which means that its use is limited only once the crop has grown to a particular height and there too our own experience in various places is that it is static. Sometimes it works, sometimes it doesn't work. We do not really know

what are the 3 or 4 conditions that are necessary and sufficient to make it work so it is an evolving process. As of now, we have not seen any substitution of Nano.

**Moderator:** Thank you. The next question is from the line of Darshita from Antique Stock Broking. Please go ahead.

**Darshita:** So, my first question is regarding the retrospective subsidy card, if we saw any impact in the first quarter?

**Abhay Baijal:** The subsidy that was announced by the Government, there were 2 issues there. One was a catch up on the September to December quarter which was there which was already taken to the previous quarter and then there was the new which was applicable from April onwards. We haven't seen any effect of that on our profitability. Going forward is still too early to say anything.

**Darshita:** What I was saying was that you mentioned in your opening remarks that DAP prices were going down during the quarter, but now they have started showing some signs of revival, so I wanted to understand your view on how NBS rates would pan out for the second half of the year?

**Abhay Baijal:** That is a very tough question. See the point is this, we are still just close in July. These things are normally announced in the middle of the rabi season, which is we are talking in the time frame of 31st October or around that point of time. It is extremely difficult to read the Government's mind as to what they are thinking is. Governments always work with precedents. They will always wait to see some data and only when they see the data, then they start forming an opinion. Definitely, the numbers that we are seeing at the moment show a firm upfront. This is there as far as ammonia is concerned. It is there in the urea as well, so it is a general uptrend and there are geopolitical issues to that, but the Government is waiting and watching. That is all I can say, so very difficult for me to make a comment as to what the Government will do on or around 15th of October or so.

**Darshita:** And just again a speculative question like a follow up on that and I just want to understand your view on this. After the Government announced NBS rates for the first half of FY24, now for the second quarter, we have further seen phos acid prices coming down, so is there a possibility of government coming in again and announcing something like a retrospective subsidy cut sometime in the second-half of the year as well, something similar to what we saw recently?

**Abhay Baijal:** I don't think there is a retrospective cut in the offering personally, because what they have to do or catch up on in terms of the January to March number, or rather, which was basically a September to December number, which they should have done in January but if that was their intention they did a catch up only in April. I don't think that kind of an issue is going to happen again. That was more or less because of a certain commitment made, etc., a very long story, I don't want to get into that, but I don't think the Government is looking at that kind of retrospective catch up.

**Darshita:** And just one last question, I wanted the outstanding subsidy to split between the subsidy for POS sale and subsidy outstanding for the dealers?

**Anand Agrawal:** So, the overall subsidy outstanding for the Company is around Rs. 2,600 crore as on June end.

**Darshita:** And I just wanted to understand the split for the POS sale like the inventory for which the sale has already been done and the outstanding with the dealers, if you have the split for the same?

**Abhay Baijal:** Darshita, my understanding is that subsidy is payable only on POS sale so that is the final number and beyond that, there is nothing in between. So, we accrue subsidy, as an accountant we accrue subsidy, but we actually receive the cash only when the POS sale is completed.

**Darshita:** So, the outstanding number, Rs. 2,600 crore includes POS sale

**Abhay Baijal:** No, it includes both types. It includes accrued and billed, but not billed.

**Darshita:** Sir, I just wanted to split between that in case. So, you are saying you have already received the money for the POS sales?

**Abhay Baijal:** I would just like to go this way. That July we saw a very good inflow and most of our borrowings have been squared off except for the long term. That is all I could say.

**Moderator:** Thank you. The next question is from the line of Devang Saraogi, an Individual Investor. Please go ahead.

**Devang Saraogi:** My question is what would be the expansion plan in crop protection and specialty nutrients business? How big can this business be for us in next 3 to 5 years?

**Abhay Baijal:** As I said that as CPC that is crop protection and specialty nutrient is an asset light structure and the growth that we have seen is definitely sustainable. We are working with some experts to see what further areas to look into and what geographies, what crops, what specific molecules to look into and work on that basis to see that we at least grow this business to another 40%-50% and that is on turnover as well as profit and the 2 year to 2.5-year time frame. Now, for that various strategies, I am thinking is being put into place, we are extensively working with our people, our own team as well as some experts to come back on that. So, at the moment that is a kind of a vision and we are working on that to how to achieve that and we think to that reach in almost 10 states that is West, East and North. We have enough coverage in order to go and doing market depth and reach to do what we think is possible.

**Devang Saraogi:** And one more question that, are we going to look for an opportunity for merger or acquisition in this space?

**Abhay Baijal:** You see, I had made the point about asset light structure. Should there be a good asset available, we are not averse to that, but we have to find the right metrics of pricing as well as profitability and our fit results. Sometimes it happens that you get one or two options, but then they are either too highly priced or there are issues in terms of the fit with us. So, all of that we have to consider before we get into this.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

**Abhay Baijal:** So, thank you very much for all those who questioned us. I hope we have been able to give adequate information. Till we meet next time, adieu, au revoir. Thank you.

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