

Chambal Fertilisers and Chemicals Limited

Q2 & H1 FY 2025 Earnings Conference Call Transcript

November 07, 2024

Rishab Barar: Good day everyone, and thank you for joining us on the Chambal Fertilisers and Chemicals Limited Q2 and H1 FY '25 Earnings Call.

We have with us today, Mr. Abhay Bajjal – Managing Director; Mr. Anand Agarwal – CFO; Mr. Anuj Jain – Assistant Vice President (Finance); Mr. Tridib Barat – Vice President Legal and 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 Limited 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. Bajjal. I would now like to invite Mr. Bajjal to share his views. Over to you, Sir.

Abhay Bajjal: Thank you Rishab. Good Day to everybody and a warm welcome to all of you participating in this call.

During the quarter, on a standalone basis, the Company has achieved an EBITDA of Rs. 834 crore, as against Rs. 697 crore last year which is a growth of about 20% Y-o-Y. Profit after tax was Rs. 500 crore, as against Rs. 372 crore last year, which is a growth of 34% Y-o-Y.

For the half year, the Company achieved EBITDA of Rs. 1,776 crore as against Rs. 1,475 crore last year, which is a growth of about 20% Y-o-Y and PAT of Rs. 1,053 crore as against Rs. 842 crore last year, showing a growth of 25% Y-o-Y.

At consolidated levels also the Company has performed well during the quarter, registering PAT of Rs. 536 crore as against Rs. 381 crore last year, which is a growth of 41%. For the half year, there was PAT of Rs. 985 crore as against Rs. 720 crore last year, which is showing a growth of 37% Y-o-Y.

All our urea manufacturing units operated at optimal capacity. Production stood at 9.34 lakh metric tons against 9.08 lakh metric tons last year Y-o-Y. Urea sale was 9.65 lakh metric tons against 8.38 lakh metric tons Y-o-Y. Subsidy receipts too, continued to be timely, we received Rs. 4,713 crore in subsidy in quarter two FY '25.

We have great pleasure to inform you that the quarter earnings growth was also led by volume and margin growth in the CPC & SN segment. During the quarter, CPC & SN revenues stood at Rs. 289 crore as against Rs. 245 crore last year, showing a growth of 18% Y-o-Y, with contribution of Rs. 83 crore against Rs. 61 crore last year, showing a growth of 36% Y-o-Y. For the half year, the revenue was Rs. 632 crore as

against Rs. 542 crore last year, showing a growth of 17% Y-o-Y, with a contribution of Rs. 164 crore as against Rs. 119 crore last year, showing a growth of 38% Y-o-Y.

During the quarter, two new CPC products were introduced, primarily comprising of fungicides. We have added to our specialty nutrients portfolio with the introduction of the nano bio-phosphorus 'Uttam Pranaam'. We have sold till September 2024, about 2 lakh bottles, and in the last quarter 1.2 lakh bottles. Some of the products are Generation 1x, that is products which are of the latest chemistries, in collaboration with our esteemed partners. The performance in the quarter is notable, despite late and/or unseasonal rains and sowing deficit in some crops such as cotton.

Our strategy continues to focus on creating partnerships and alliances for introducing better chemistries and increasing the width of our offerings in our channels. Today, we have a CPC product portfolio of almost 62 products of distinct chemistries, covering fungicides, weedicides and insecticides. Geographic diversification has also been a part of this strategy and has been successfully executed.

Biologicals are increasingly gaining importance in the crop protection space. A biological nematocytocite will be introduced shortly to address the farmer's pain point for nematodes control, for which internal field tests have been successful. The other product lines and biologicals will gain importance as green and sustainable technologies become increasingly important. We intend to be broad spectrum in this field from Actives, Stimulants to Crop Protection Chemicals.

Alliances in this field are also being worked upon, including sponsoring research activities.

Increasing emphasis on water-soluble fertilizers is also a part of this strategy. Water-soluble fertilizers are currently low penetration fertilizers, but we feel that with the growth of precision farming via polyhouses, drip irrigation, and increasing crop diversification from cereals, oil seeds and cash crops into the fruit and vegetable segment, this is poised to grow faster and create a pathway for quicker growth.

In short, CFCL is now focusing increasingly on sustainable technologies which bring benefits in terms of improving farm yields, improve soil health and provide better product outcomes. They are also value for money and moreover, these products are also the fruit of high-quality research.

Our new focus area in the coming quarters will be to enter the hybrid and research variety seeds, which will substantially complete agri-input product profile. We expect to start sales and marketing of these products from Kharif '25 onwards. This growth shall be followed with increased vigor.

In P&K fertilizers, the volumes were low due to availability constraints and we continue to follow the portfolio approach. Our farmer connect Seed-to-Harvest program is now gaining momentum. We are also placing a great amount of emphasis on communications and reaching out to all our stakeholders and partners. Through social media we have now extended our reach to 30,000 people. Besides, our Hello Uttam experts at four locations received more than 10,000 calls and queries from field asking for dosage of the products, weed control, insect pest management in Kharif crops.

As part of the Seed-to-Harvest program, a key focus area for Chambal, we undertook more than 3,800 farmer meetings, conducting over 3,000 demos and 4 soil sample days to collect over 2,000 soil samples. We have now tested a total of 58,000 soils for macro and micro-nutrients.

Our technical ammonium nitrate project is progressing as per plan. Statutory approvals are in place and we have spent around Rs. 388 crore till September end 2024. The overall progress achieved is about 37% and things are on track. Our joint venture, IMACID, is also performing well with higher production and better margins. And we continue to look forward to create more and more value for our shareholders.

With that, we are now happy to take your questions. Thank you.

- Moderator:** Thank you very much. We will now begin the question-and-answer session. We will take our first question from the line of Prashant Biyani from Elara Capital (India) Pvt. Ltd. Please go ahead.
- Prashant Biyani:** How much is the additional EBITDA contribution from the 3% energy efficiency improvement?
- Abhay Baijal:** I would say that it is in healthy double figure.
- Prashant Biyani:** Can you quantify the number?
- Abhay Baijal:** When I say healthy double figure, it is about Rs. 35 crore to Rs. 40 crore.
- Prashant Biyani:** And by when is the next leg of the energy efficiency initiative going to be implemented for urea plant?
- Abhay Baijal:** Prashant, we have a roadmap stretching out to 2028, and there are various projects which are under consideration, some have been awarded to consultants for doing the necessary engineering work. We shall be awaiting their replies. Then there is a cycle of ordering the equipment, and then putting them in place during the turnaround. So, this will stretch up to 2028, we have a plan going forward.
- See, what I want to show you is that energy efficiency remains a very key focus for the Company; number one. And number two, we are looking at good efficiency projects going forward. And we have a plan in place, there will be at least three to four such plans that we will implement, which have been generated in-house, and they have to be vetted by the various engineering consultants.
- Prashant Biyani:** How much was the additional subsidy on DAP pertaining to Q1 for sales?
- Abhay Baijal:** I think the government had announced a number of Rs. 3,500/MT, we have accounted a little less than that.
- Prashant Biyani:** And your subsidy outstanding has reduced dramatically in the last few quarters and especially in Q2FY25 as well. Sir, does it also include subsidy pending on fertiliser sold, but are yet to achieve POS sales?
- Abhay Baijal:** We are accounting it in the books at the first point of sale, it becomes a book debt. So, it will include both, what is billed to the government and unbilled to the government.
- Prashant Biyani:** In that case, is it that your fertiliser sales at retail level happen within the first 70-75 days of the quarter itself? And which is why you get subsidy before the quarter closes; is that the case?
- Abhay Baijal:** No, it is not like that. The sales of fertiliser is a continuous process. Now it could be in higher intensity or lower intensity as time goes on. So, the first 75 days and all that, I think is an artificial distinction. There are some territories where it will be a little late, for instance, it may be due to climatic conditions, it may be due to sowing conditions. So, those things keep happening and we are fortunate today that the government has got a substantial amount in terms of its budget to pay to the Company. And if you efficiently raise your bills, they are getting paid on time.
- Prashant Biyani:** Right. Sir good efforts on that part for reducing the subsidy outstanding. Coming to the domestic crop protection business, while the industry has seen subdued growth due to missing of sprays because of continuous rains, we have managed to outperform industry growth. How have we been able to do that, some color on that. And how is the liquidation also happening in your crop protection business, some highlight on that as well.

Abhay Baijal: So, my understanding from my sales team is that between 60% to 65% sale is on cash, so that is instant liquidation. As far as how we have done better and why we have done better, well, it's a little involved subject. I would like to put it across to you when I made the point that we have about 61 products in the three segments, weedicide, fungicide, and insecticides. And we have always tried to marry the requirement of the farmers to what is their emergent and current requirements. And to that extent, we have a very strong and solid planning process, a sourcing process, a validation process for the value for money. And I think that's the reason why we have a range of options for the farmers instead of being stuck in one or two verticals. So, that makes the difference, that is one. Secondly, our strong alliances and relationships that we are building up, some of them are Gen 1X and they are patented combination stuff which is now coming up. So, I think those are creating the value drivers for our business.

Prashant Biyani: Sir, one question on TAN. We are also setting up a 2,10,000 MT nitric acid plant. How much of nitric acid will be used in TAN?

Abhay Baijal: I do not think we are setting up 210,000 MT plant, we have not announced that. We are setting up a 240,000 MT Technical Ammonium Nitrate plant, of which the precursor chemical is WNA, which is Weak Nitric Acid. I think you are referring to that part. Weak Nitric Acid can be sold as weak nitric acid. Weak nitric acid can be forward converted into technical ammonium nitrate also. So, at the moment, the plan is to convert that nitric acid into technical ammonium nitrate.

Prashant Biyani: But there is no separate TAN plant?

Abhay Baijal: No, no. There are two plants within the TAN plant. One is the weak nitric acid plant, which is then used alongwith further ammonia to convert it into technical ammonium nitrate. It is a two-step process, so there are two plants in one.

Prashant Biyani: And what is the update on CAPEX plans for IMACID?

Abhay Baijal: My understanding is that the Board has approved 2,00,000 tons expansion of Phosphoric Acid capacity.

Prashant Biyani: And this should come on stream by when?

Abhay Baijal: My understanding is that engineering work has been awarded and normally this kind of project takes about two and a half to three years to come to fruition. Subject to their achieving zero date, and in this case of course there is no problem in terms of finances, it is only a question of how quickly the technical parameters and other things are decided and closed.

Prashant Biyani: Lastly sir, how much is the gas price for the quarter?

Abhay Baijal: I think for this quarter, people have been contracting DAP between \$620/MT to \$645/MT.

Prashant Biyani: Okay. In terms of dollar per MMBTU?

Abhay Baijal: Did you say gas or DAP?

Prashant Biyani: Gas.

Abhay Baijal: Okay, gas has been around, I think it was \$16.7 to \$17.

Moderator: Thank you. Next question is from the line of Falguni Dutta from Mansarovar Financials. Please go ahead.

- Falguni Dutta:** Good afternoon. Very good numbers. I just had one question. What led to the significant increase in own manufactured fertiliser profits other than this energy efficiency which you mentioned about Rs. 40-odd crore?
- Abhay Baijal:** We have sold almost 1 lakh tons more of Urea.
- Moderator:** Thank you. We will take our next question from the line of Ashok Jain, an individual investor. Please go ahead.
- Ashok Jain:** First of all, congratulations for wonderful results. Now, I would like to ask on operations and then balance sheet items, and then, I mean, future projections. The first question is that, if I see this complex fertiliser, revenue has come down drastically, it has come down to Rs. 261 crore as against the June quarter of Rs. 1,111 crore or Rs. 1,972 crore in previous year September quarter. But if I see that as far as segment liabilities are concerned, that has gone to Rs. 772 crore, as against the Rs. 567 crore in the June quarter. So, it looks something unusual. First of all, why this revenue has come down? And second, how the liabilities have gone up?
- Abhay Baijal:** First of all, I think, if you refer to my opening remarks, I said that there were availability issues, therefore the sales were restricted. Therefore, the revenue came down, we sold all our stock and whatever we had purchased. Number two, we have also contracted some amount of fertilisers at six months credit terms which is showing in payables.
- Ashok Jain:** So, how it has gone to Rs. 770 crore, I mean, this is Rs. 205 crore increase in last one quarter, whereas the sale is not there. So, does it mean that we have added inventory....
- Abhay Baijal:** Some stock has been carried forward, and that stock will be sold in this quarter as well as the next quarter.
- Ashok Jain:** Yes, because the overall stock level is at a static level, so that means we are adding inventory by some of this complex fertiliser, I think that we will be able to sell it in due time.
- Abhay Baijal:** Yes, we will be able to sell it, not a problem.
- Ashok Jain:** Yes. And now, coming to crop protection chemicals, here I see that the revenue has come down from June 24 quarter from Rs. 342 crore to Rs. 289 crore. So, no doubt, profitability is good. I just want to know why revenue has come down this quarter? And this is the area where I think we should give more focus, obviously, you must be doing it.
- Abhay Baijal:** Mr. Jain, the point is, I made a mention of the fact that there were late rains, unseasonal rains. The fact is that some of our territories had a problem in terms of absorbing these chemicals, in terms of the sales. So, this will be made up as we go forward.
- Ashok Jain:** This is a good profitability business so, obviously, you are giving focus to it. So, do you see a good chance of good growth in this?
- Abhay Baijal:** I would say that if you look at half year to half year, that would be a more correct analysis of the matter. And I see the numbers that you have said, it should not be seen Q-o-Q, but you should see Kharif to Kharif and Rabi to Rabi. And typically, one should see half year to half year. And from half year to half year if you see, it was from Rs. 540 crore to Rs. 632 crore, which is almost 17% growth Y-o-Y. And the profits are from Rs. 119 crore to Rs. 164 crore.
- Ashok Jain:** Yes, that's good. Yes. Coming to this joint venture which we are having with Indo Maroc, that one. So, here our profitability has gone up, it's quite good. So, do you feel that the same growth can continue there?

- Abhay Baijal:** See, the Company has a production capacity running to about 40,000 tons per month. And so, the two things that profitability depends upon are the contribution levels and the sales that are achieved. I think they should be able to continue this performance.
- Ashok Jain:** Now, coming to the balance sheet item, here if you see on Page Number 5, trade payables, you will find that the total outstanding dues of creditors other than micro enterprises and small enterprises, it has shot up to Rs. 2,012 crore. And secondly, the other financial liabilities have also gone up to Rs. 690 crore as against Rs. 406 crore and Rs. 761 crore. So, huge liability has gone up. So, I am unable to understand why it is like this?
- Abhay Baijal:** I can tell you in very short term, this is the money that we owe to the government. Because there is a process called escalation and de-escalation. Fortunately or unfortunately, we were receiving a little bit more subsidy from the government than was eligible, to that extent this is payable. Over a period of time, maybe in the next month, two months, three months, we will be paying that off. So, this will normalize.
- Ashok Jain:** And now coming to the investment part, obviously, it has gone up to Rs. 2,783 crore. So, if I see revenue coming out of it, that obviously seems quite low. First of all, I could not make out where it has been shown in the P&L, but still I feel if it is part of other income, then it is low. I mean, this is what I feel.
- Abhay Baijal:** Mr. Jain, it is like this, that the part which we owe to the government is actually converted into cash and placed as mutual fund investments. To that extent, there will be interest income on that. That will be part of other income.
- Ashok Jain:** If I see the annual report of last year March, here it says that MTPA of TAN plant is 240,000 per annum and 210,000 MTPA of WNA plant. So, my question is how much do you feel that approximately cost of it and how much we have already spent? And when do you think it can be completed?
- Abhay Baijal:** Okay. So, you want to know what the project cost is. I think the Board-approved project cost is about Rs. 1,600 crore.
- Ashok Jain:** It's Rs. 1,600 crore for both the plants, am I right?
- Abhay Baijal:** Yes. And we have spent about Rs. 400 crore till now
- Ashok Jain:** And when do you feel that this will be completed?
- Abhay Baijal:** We will be completing it by October '25.
- Ashok Jain:** But this Rs. 400 crore is not showing in capital work in progress because capital work in progress is around Rs. 200 crore or so. So, but you feel that by October '25, it can be completed?
- Abhay Baijal:** Yes, not a problem. See, what is happening is that these are milestone payments, this is an EPC contract to Larsen & Toubro. They draw on the basis of whatever work they have done. And that is as per the milestone payments, and it is according to schedule. The major payment will start happening once the equipment is shipped. At the moment, it is on account of advances given for the major equipment, and construction activities.
- Ashok Jain:** So, that means we can expect balance on the new equipment after one year, we can expect that?
- Abhay Baijal:** No. Mr. Jain, the payment is no indicator of progress, because the equipment orders are already placed. So, as per milestone payments, the payment to the vendor will be made, they will draw the payment from us. So, when the equipment arrives, majority of the payment will happen. So, suddenly we will see an increase in capital work in progress.



Ashok Jain: So overall, I can say that the Company has done extremely well. And we are very happy. And I would like to remain in touch. Thank you very much.

Moderator: Thank you. We will take the next question from the line of Harmish Desai from Phillip Capital (India) Pvt. Ltd. Please go ahead.

Harmish Desai: First question on the TAN plant, you have given the update in the presentation that the amount spent up till September, can you give an update of what is expected amount to be spent in FY '25 on the TAN project, by the end of FY '25?

Abhay Baijal: Cumulatively, about Rs. 600 crore.

Harmish Desai: Coming to the crop production segment that you guys have been reporting, the performance has been consistently good in the first half. Can you, in brief, give an update of what could this be attributed to?

Abhay Baijal: So, we are actually a Company which is creating value in the product through matching the expectations of the farmers, timely placement, good communication in terms of usage, and giving quality to the farmer, that is one part. Secondly, we have a range of products, I think I mentioned in my opening remarks, we have 62 products across all the three categories. So, there is a range of crops, there is a range of insecticides or insects or the weed or the fungus which needs to be addressed. So, all of that goes through a process of testing in our fields, understanding the value proposition, placing the value proposition properly to the farmer, and then convincing him to buy our products in comparison to others. Plus, our price points are very reasonable. We always want to be value for money, and that approach has helped us, that's why the growth is there.

Harmish Desai: Some of your peers have reported some amount of product returns because of inconsistent monsoon season in the second quarter, did we face anything like that?

Abhay Baijal: No.

Harmish Desai: And sir, we have been consistent in terms of our product placement, that is the reason why we did not face such problems?

Abhay Baijal: No, I think, first of all, we assess the market, more accurately. We understand what the farmer is needing. We do not pump-up the channel just because we want to achieve these numbers. And as I said, the range of products that we have creates that flexibility with us. We have a continuous discussion with our supply chain, backward and forward. We take only that quantity which we want to do. So, those are the things, the management of the whole process of serving and providing product to the farmer. That is the most important issue.

Harmish Desai: And any update on IMACID performance, the performance in the first half has been really good. So, do you expect this to continue in the second half?

Abhay Baijal: The Company is on an even keel. We are producing about 40,000 tons per month. And given the situation and contribution which it is in, I do not see any negatives coming up in terms of repeating the performance.

Harmish Desai: Got it. So, can you give us the volume of Gadepan-I and II and Gadepan III for the quarter?

Abhay Baijal: I would ask Mr. Anand Agarwal to give you the numbers.

Anand Agarwal: For G-I and G-II, our numbers have been 5.71 Lakh MT compared to 5.51 Lakh MT last year and G-III, 3.62 Lakh MT compared to 3.57 Lakh MT in the last year.

Harmish Desai: Are there any plant shutdowns to be taken this year?

Abhay Baijal: Yes, Gadepan III plant will be taken for turnaround in the month of March 2025.

Moderator: Thank you. We will take our next question from the line of Falguni Dutta from Mansarovar Financials. Please go ahead.

Falguni Dutta: I had one more question on nano DAP. So, what was the value of the sales for that in H1?

Abhay Baijal: We have sold about 2 lakh bottles. And that is not nano DAP, that is bio-phosphorus. Please understand that it is not derived from a chemical process, it is derived from a biological process. That makes it a unique product.

Falguni Dutta: And this is a part of which of our segment?

Abhay Baijal: This is part of our speciality nutrients segment in the CPC-SN segment overall.

Falguni Dutta: And obviously this is outside subsidy, right?

Abhay Baijal: Yes, it is.

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

Abhay Baijal: So, thank you very much for a brief and sharp exchange of views, I would say. Thank you very much for listening to us and we hope to continue to create value to you going forward. Thank you so much.

Moderator: Thank you, sir. On behalf of Chambal Fertilisers and Chemicals Limited, that concludes the conference call. Thank you for joining us.

Please note: *Wherever appropriate, we have edited the text to incorporate grammatical corrections therein, for clarity.*