



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Quarter 2 FY 2016-17 Results

Investor/Analyst Conference Call Transcript

November 15, 2016

Neha Patil: Good morning and thank you for joining us on Chambal Fertilisers and Chemicals Limited Quarter 2 and FY 2017 earnings conference call. Today we have with us the senior management represented by Mr. Anil Kapoor, Managing Director, Mr. Abhay Baijal, Chief Financial Officer, Mr. V. K. Gupta, Vice President-Marketing, Mr. Anuj Jain, Assistant Vice President-Finance and Mr. Rajveer Singh, Assistant Vice President-Legal & Company Secretary. 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 an interactive Question & Answer session. I would now request Mr. Kapoor to make his opening remarks. Thank you.

Anil Kapoor: Thank you. Good morning, ladies and gentlemen. Welcome to our Earnings Call post declaration of Half Yearly Results for the Financial Year 2016-17. I would like to share with you some of the highlights for the half year-ended 30th September 2016. It has been a good quarter for Chambal Fertilisers. We have done fairly well on the profitability front. In the first half of financial year 2016-17, our revenues were at Rs. 4,152 crores against Rs. 5,106 crores during the corresponding period of last year. During the second quarter, the revenue remained at Rs. 2,238 crore as compared to Rs. 2,753 crore for the corresponding quarter last year. The revenues were low mainly due to reduction in prices of gas and imported fertilizers, sale of one ship in the first quarter of the current year and reduced in-chartering activity. During the second quarter of the current year, the profit before tax increased by 15% to Rs. 189 crore against Rs. 164 crore during the corresponding quarter last year. During the half year ended September 30th 2016, the profit before tax (that is

before discontinued operation) increased by 8% to Rs. 391 crores against Rs. 362 crores during the corresponding period last year.

I am also happy to inform you that the construction activity of our new urea plant has gained momentum. The project is progressing well and we expect to achieve commercial production in January 2019 as per plan. The new plant will be of great significance as the added capacity will help reducing the existing demand supply gap of urea in the country. I will now request all participants to ask questions you may have with regards to the result. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Apoorva Bahadur from ICICI Securities. Please go ahead.

Apoorva Bahadur: Sir I wanted to know why has the subsidy outstanding increased during this first half ?

Anil Kapoor: I will let Abhay answer that question.

Abhay Baijal: The subsidy outstanding as at 30th September 2016 is mostly due to the urea. As you can see, from the period ended last year to this year, the inflow of subsidy on urea reduced from Rs. 2800 crore (approx.) to Rs. 2100 crore (approx.) and that is because some amount has been stuck up which has recently been received in the month of October 2016. So, the situation has normalized to some extent on year to year basis if you were to consider October inflows also.

Anil Kapoor: Sir, how much subsidy did we receive in October, if you could share the number?

Abhay Baijal: That is about Rs. 600 crore.

Moderator: The next question is from the line of Satish Mishra from HDFC Securities. Please go ahead.

Satish Mishra: Sir, first question is related to inventory situation because this year monsoon was quite diverse across different areas. So how is the situation in your geography related to inventory?

Anil Kapoor: Satish, as you know, Chambal is now a fairly diversified company selling urea, phosphatic, agrochemicals etc. At this moment we are not carrying a substantial inventory and this is well within our control.

Satish Mishra: Just to understand the impact of the demonetization, are we seeing our farm receivables or money at dealers' end getting stuck? what's your initial view on this, how will it get impacted?

Anil Kapoor: First five or six days had not been so bad. I think this week is crucial. We will have to ascertain exactly how this week progresses. First week was not bad as we could get our collections also and sales have been normal.

Satish Mishra: SSP volumes were not shared in investor's presentation if you can help with that.

Anil Kapoor: SSP volumes we have not shared because SSP now is not a very significant business for Chambal Fertilisers. So if you look at from our percentage of sales SSP is a very insignificant portion.

Satish Mishra: The DAP price trend in the international market if you can help how it was in the last quarter?

Anil Kapoor: DAP price in the international market have substantially reduced.

Satish Mishra: Currently?

Anil Kapoor: Currently, DAP prices are in the range of \$310-\$320 per ton. This is all as per public documents.

Satish Mishra: In the last quarter, how much will DAP price be like our last procurement? Even approx. number will work.

Anil Kapoor: Approximately within the range which I just mentioned. That would be the last purchase and not the average purchase. The Chambal is now a large player. The sales numbers are available to you all if you want to access on nic.in (Government website) and you should be able to access how much Chambal has sold to date. October sales is also available there and as you know I cannot share all these details having not shared with other shareholders.

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

Falguni Dutta: Sir why were the other expenses lower this quarter Year On Year?

Anil Kapoor: I will let Abhay answer this question.

Abhay Baijal: Basically, this quarter we have not done in-chartering of ships that is the major reason for that plus one ship bunkering cost because we had sold that ship. So, these are the two reasons why these other expenses were lower.

Falguni Dutta: How is the fertilizer demand now? In between we used to see in the press that the consumption not been so good. So, how are things now as regards urea?

Anil Kapoor: As regards both the fertilizers - urea and DAP, Sales of Chambal are robust so far. The demonetization question has been asked and I do not yet know the impact of that. It's too early. But Chambal sales have been pretty robust. Falguni you know all the information, you can just access this information from NIC.

Falguni Dutta: No sir. I just wanted to know the outlook of that because we have heard, people used to say in the urea and may be other fertilizers still not very positive picture. So just thought of not an impact of demonetization as such but broadly. Though you did mention that inventory is not a problem but overall for the industry we see good demand this year. That's what I just wanted to confirm.

Anil Kapoor: I cannot tell you about the industry Falguni. I can only share with you about Chambal Fertilisers. As far as urea is concerned, this is the peak season. There is definitely a disconnect in the market with respect to domestic production and imports. I am just sharing with all the participants, the market prefers domestic production. Imported fertilizer is sold on a second priority and that's a fact. It's a historical fact.

Moderator: The next question is a follow up from the line of Apoorva Bahadur from ICICI Securities. Please go ahead.

Apoorva Bahadur: I wanted to know your thoughts on DBT implementation because what we are hearing was that the government will change it again to direct payments to the players and not to the farmers. So how is it that going as of now, the pilot project and all?

Anil Kapoor: Apoorva, it's like this, government has initiated a trial project in 16 districts. You are absolutely right that in the first phase the government is working on a mechanism whereby the subsidy would be credited not to the farmer's account but to the seller's account that is the industry's account. So far, it has not been implemented in any of the districts. There are teething problems and industry and government are working together.

Apoorva Bahadur: And I know, it's like a bit too premature to ask but what impact do we see of this demonetization on DBT? Can this lead to, as we are seeing, an increased pickup in proper banking and at some point in time in DBT implementation as well? Do we see something like that?

Anil Kapoor: I don't think so. That's my personal view. I do not think demonetization impact will be there for more than few days. We have to rely on our honorable finance minister and prime minister when they have been saying that as the situation will ease in next few days and DBT is not going to happen in any near future.

Moderator: The next question is from the line of Pratik Tholia from Emkay Global. Please go ahead.

Pratik Tholia: Sir, just wanted to understand if the DAP prices are around \$310 and my sense is that the fall in the international market has been lower as compared to the fall in input prices of DAP so phos-acid and ammonia prices have gone down anywhere between 25% to 50%. So, would it not impact your margins because for the domestic players the cost of production would actually go down compared to traders, right?

Anil Kapoor: Pratik, you people are all very intelligent. You should be able to calculate yourself what is the cost for a domestic producer. You take \$580 for the acid price and approximately \$200 for ammonia price. You work it out and see which is better, imports or manufacturing. As far as Chambal is concerned, I can share with you. So far, as I said, I do not yet know the impact of demonetization, sales have been robust and margins have been decent.

Pratik Tholia: What could be the current DAP prices to the farmer?

Anil Kapoor: Current DAP selling price at this moment is Rs. 20,700/ MT plus there are discounts being given by various companies and which at this moment are being passed on to the farmers.

Pratik Tholia: So that could be in the range of?

Anil Kapoor: That could be dependent on company to company. There will be some local taxes which are in addition to this, like in Punjab, Haryana there are no taxes, UP there is a very marginal tax and in MP and Rajasthan there is approximately 5% to 6% tax.

Moderator: The next question is from the line of Adil Lari from Kredent Research. Please go ahead.

Adil Lari: Can you just highlight your view about the ongoing crop protection scheme and how it will affect you in medium to long-term and is this scheme catching ground in terms of more and more insurance being written for farmers?

Anil Kapoor: What scheme. Can you just elaborate?

Adil Lari: Crop protection scheme.

Anil Kapoor: Crop insurance scheme.

Adil Lari: Yes.

Anil Kapoor: You mean to say crop insurance?

Adil Lari: Yes, crop insurance scheme.

Anil Kapoor: When the crop insurance scheme is offered in a large-scale and the farmers start taking that, it will be a step in the right direction for the farmers. The vagaries of weather then can be discounted; it will be a step change for Indian farmers. I would look at it very positively for the industry and the farming community.

Adil Lari: Does that mean that even if there are chances of drought or monsoon picture is not there, farmers still will go ahead with their normal routine plantations and leave it for the government if it doesn't rain or the crops get destroyed or doesn't come up he will get the insurance. So the fertilizer demand will become secular instead of cyclical?

Anil Kapoor: I have yet to see the modalities of the insurance policy. Hence I will not be able to comment on that.

Adil Lari: But is it picking up in terms of number of insurance being taken by the farmers in the recent last 3-4 months?

Anil Kapoor: On that, I think you will need to ask insurance companies whether it is picking up. We are not selling that insurance.

Moderator: The next question is a follow up from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: Can you just give a small update on our existing software business?

Anil Kapoor: As you are aware Falguni we have sold off a part of our business. Now we have a technology business which is operating and I'm happy to report that the performance has substantially improved. Since I have not declared it in my results it will be very difficult for me to share the details. But I can only share with you that it has substantially improved. The losses have reduced substantially.

Moderator: The next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: On the IT and the shipping businesses, what is the plan of action now? I believe that in the recent past you have been trying to look for buyers for the shipping business. Is there any progress on that and similarly on the IT business?

Anil Kapoor: We are operating that business quite successfully and as and when something materializes we will keep you informed.

Amit Murarka: But the strategy still remains there, I mean trying to see if there is a potential buyer?

Anil Kapoor: We at this moment will not be able to disclose that.

Moderator: The next question is a follow up from the line of Pratik Tholia from Emkay Global. Please go ahead.

Pratik Tholia: CAPEX guidance for FY17 and how much you've incurred in H1 on your Gadepan-III project?

Abhay Baijal: We, till date, have spent close to approx. Rs. 1000 crore on Gadepan-III. During the balance of 2016-17, it is another around Rs. 400 crore.

Anil Kapoor: For 2017-18, we will not be able to mention right now, may be in the next investor call we will give the details and we will give details in the presentation to the stock exchanges. But all I can share with investor community is that this project is going as per plan. We follow a very detailed procedure of S-curve

where each of the activity is monitored as per plan. There is no deviation taking place and we are confident of achieving commercial production by January 2019. As far as the investor community is concerned, we have shared the working of Government of India which I'm sure all of you have had a look at it and which gives in detail the contribution and margin expected from sale of urea from the new plant.

Moderator:

Thank you. As there are no further questions from the participants, with that we conclude today's conference call. On behalf of Chambal Fertilisers and Chemicals Limited, thank you for joining us for this conference and you may now disconnect your lines.