



Quarter 4 FY 2016-17 Results  
**Investor/Analyst Conference Call Transcript**  
**May 22, 2017**

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**Raghavendra Jaipuria:** Good morning everyone and thank you for joining us on Chambal Fertilisers and Chemicals Limited Q4 and FY17 Earnings Conference Call. Today, we have with us the senior management represented by Mr. Anil Kapoor, – Managing Director; Mr. Abhay Bajjal – Chief Financial Officer; Mr. Anuj Jain – Assistant Vice President - Finance; and Mr. Rajveer Singh – Assistant Vice President, Legal and 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 Q&A. I would now request Mr. Kapoor to make his opening remarks.

**Anil Kapoor:** Thank you. Good morning, Ladies and Gentlemen. Welcome to our earnings call post declaration of annual results for FY16-17. I take this opportunity to share with you some of the highlights of the year.

During this year, we produced 2.02 million tons of urea. The year was good for us in terms of profitability as our profit before exceptional items and tax increased to Rs. 616 crores against Rs. 499 crores as compared to corresponding financial year, an increase of approximately 23%. Our revenues, however, for the year were down to Rs. 7610 crores as compared to Rs. 8925 crores of the corresponding year, mainly due to reduction in price of natural gas and imported fertilisers.

Our fertiliser and other agri -inputs segment did well for which profit before interest and tax during FY16-17 was Rs. 755 crores as compared to Rs. 677 crores of corresponding year, an increase of around 12%. The profitability was backed by strong performance of marketed products. We sold 9.85 lakh tons of DAP and 2.09 lakh tons of MOP in the year. I am also happy to inform you that the process of setting up new urea plant is in full stream. The construction activities are progressing well and are in line with the timelines targeted. We expect to achieve the commercial production by January 2019. Total expenditure on Gadepan-III project till date is approximately Rs. 1600 crores. I will now request all the participants to ask questions, you may have with regard to the results. Thank you. As an add-on, we have posted the Investor Presentation for Quarter and Year ended March 31, 2017. I am sure everybody who is on the call would have gone through it and can ask questions with regard to that Presentation also.

**Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin with the question and answer session. We take the first question from the line of Apoorva Bahadur from ICICI Securities. Please go ahead.

**Apoorva Bahadur:** Sir, wanted to know if we have firmed up the gas contract for the new plant?

**Anil Kapoor:** Apoorva, we are in the process of finalizing the contract and we should be closing the contract very soon and we will notify to the stock exchange as soon as we finalize it.

**Apoorva Bahadur:** Secondly, Sir, on the subsidy situations, if you could share the outstanding number and how much improvement we have seen YOY?

**Abhay Baijal:** I will just give you some comparatives between pending subsidies of March 2016 and March 2017. Urea subsidy outstanding in March 2016 was Rs. 2426 crores whereas this year it was Rs. 1669 crores that is a reduction of almost 800 crores. Subsidy on P&K was Rs. 838 crores as of March 2016. It was higher this year because we had not got any payment from July onwards, so it was Rs. 1229 crore. SSP subsidy outstanding was Rs. 84 crores in March 2016 whereas this year it is Rs. 33 crores, so this constitutes to Rs. 3348 crores as on March 2016, as compared to Rs. 2931 crore in March 2017.

**Apoorva Bahadur:** Could you also share the old subsidy number which has been outstanding, how much is that?

**Abhay Baijal:** Old subsidy number, I will get back to you, but the rough ballpark figure is around Rs. 400 crores.

**Apoorva Bahadur:** Last question, this is on the project debt detail, so how much have we borrowed?

**Abhay Baijal:** I can tell you that the long-term loan outstanding as on March 2017 is about 1075 crores.

**Moderator:** Thank you. We take the next question from the line of Satish Mishra from HDFC Securities. Please go ahead.

**Satish Mishra:** Sir, first of all that presentation is very informative. My question is related to if you can give some sense on the inventory situation because the monsoon is expected to be good, so how are we placed for our inventory as well as industry level inventory in our geography?

**Anil Kapoor:** Our inventory as on March 31, 2017 for urea is 1.17 lakh tons, DAP 1.15 lakh tons, MOP 0.08 lakh tons, and NPK 0.17 lakh tons. As far as the industry inventory is concerned, actually the data which is available, we should not go by because large majority of players do their sales in the month of February and March. As a result of which, the inventory is lying with the network. That data is not known to us. To see an industry data is I would say actually incorrect. As far as we are concerned, we will be able to sell all the stocks which we have before June end.

**Satish Mishra:** Sir, but just general sense, like we had the problem of excess channel inventory as you rightly said sales is different versus the actual present in the channel. So, are you seeing situation better than last year or it is more or less similar for industry?

**Anil Kapoor:** I cannot say about the industry, Satish, I can say only on behalf of Chambal. We are seeing robust demand and we should be able to sell the inventory plus we are also purchasing a large amount of fertiliser which we will be able to sell.

**Satish Mishra:** Sir, how is DAP availability as well as DAP price trend you are seeing in international market because currency is definitely going in our favor?

**Anil Kapoor:** Currency is going in our favor, but DAP prices as you can see from all FMB journals has also gone up. Last year in 16-17, last quarter, if you see the prices had come down in the range of \$310 to \$320 per ton. The same DAP is now available in the global market between \$360 to \$370 per ton, so you can calculate what was the exchange rate last year from the exchange rate right now and the DAP increase, these are all quoted figures which I am giving you.

**Satish Mishra:** Last question, the balance sheet what is given to us that is excluding shipping, all the fixed assets everything?

**Anil Kapoor:** Yes.

**Moderator:** Thank you. We take the next question from the line of Harsh Shah from Dimensional Securities. Please go ahead.

**Harsh Shah:** I wanted to understand the new DBT which has been rolled out on pilot project basis in 16 districts, I wanted to understand how will it benefit the fertilisers companies, because to my understanding the mechanism still remains the same. You will be providing the fertiliser to the beneficiaries and government will roll out subsidies to you, so will the process be speed up or how exactly will it benefit the fertiliser industry?

**Anil Kapoor:** Firstly, let me be honest, we do not yet know when will the DBT be rolled out. As of now, trials are going on in the 16 districts. There are substantial teething problems in those districts. In fact subsidy has not yet been received by fertiliser manufacturers or who have sold in those 16 districts, but if we were to go with the premise that government will give us the subsidy within seven days is what they have committed, a rough calculation indicates that even when the subsidy is given to the industry, we should be more or less interest neutral because currently there are subsidy delays. Tomorrow, in future, we will only be able to sell in the season where the material is bought by the farmer. It should be interesting.

**Harsh Shah:** From existing level, there will not be much impact on the working capital requirement?

**Anil Kapoor:** Not the way it is planned right now, but in the long run if you were to see I am sure the government is not thinking of working this mechanism for a long time. They probably have a full intention of taking it to the farmer. If and when that were to happen, the industry gets sort of partially deregulated. We are at least then not relying on subsidy from the government, but we can claim it from the farmer and the government will pay the farmer.

**Moderator:** Thank you. We take the next question from the line of Rohan Gupta from Edelweiss. Please go ahead.

**Rohan Gupta:** Sir, first question is I would like to understand the impact of GST in our business, how you see that?

**Anil Kapoor:** GST rates have been announced as you must have seen and GST on fertiliser is likely to be 12%.

**Rohan Gupta:** If I just look at the impact this is as against 5% bracket, right?

**Anil Kapoor:** Earlier, we were on 5% in certain states while in certain states, we were on nil tax. For example, in Punjab and Haryana, there was nil tax. In UP, as far as P & K is concerned, there was nil tax, there was a marginal tax on end. So, three large consuming states, they were literally on nil tax as far as P&K are concerned.

**Rohan Gupta:** Sir, now since the rate will be on 12%, is it going to add on our working capital?

**Anil Kapoor:** Yes, that is a good observation that 12% will impact our working capital.

**Rohan Gupta:** If I look at the N or P&K, fertiliser prices are not going to change to the farmer, so all the impact will be loaded only on subsidies?

**Anil Kapoor:** I have not got that understanding from any business. The government has not yet announced that they will increase the subsidy.

**Rohan Gupta:** Say suppose urea prices to the farmers right now is at Rs. 5350 per ton, but the cost is just example for our company is Rs. 12,000 per ton, now if we are talking about 12% GST rate, it will be first of all applicable on whole Rs. 12,000 ?

**Anil Kapoor:** No, that observation is incorrect. The GST is not applicable on the subsidy portion. It is only applicable on the MRP.

**Rohan Gupta:** In that case Rs. 5350 per ton which is right now being selling price to the farmer, so Rs. 5350 and 12% will be added on that and that will be collected only from the farmers?

**Anil Kapoor:** That is the way I see it at this moment and there will be some input credit advantage which we will get, which will be offset against this. The details are being worked out at this moment.

**Rohan Gupta:** If it is collected from the farmer, then there should not be any working capital issue because ultimately the money will come back immediately to the company, if it is being loaded in the subsidy portion then there can be working capital related issues, isn't it?

**Anil Kapoor:** Working capital will increase on the stocks the company carry.

**Rohan Gupta:** Also, as far as the input credit is concerned, generally we see the trading is happening and all the DAP now will be in 12% category tax bracket. However, in some of the inputs like ammonia, I think they are in 18% bracket also, right?

**Anil Kapoor:** Your observation is absolutely correct. Phosphoric acid also is at 18% as I understand.

**Rohan Gupta:** Exactly, Yes, so most of the inputs are in 18% bracket and the end product is at 12% bracket. It means that there is going to be a larger amount of input credit and that will only further put pressure on working capital?

**Anil Kapoor:** Those are the questions I think you should ask the manufactures of P&K.

**Rohan Gupta:** I was just going to come on that only, so is it not that the trader like Chambal will be on a beneficiary side as compared to the manufacturer like Coromandel?

**Anil Kapoor:** Your guess is as good as mine. The biggest advantage with the marketer is that if he is a smart operator, he can time his purchase better.

**Rohan Gupta:** In general terms, the manufacturer will have that disadvantage, how they will time it that is a different thing, but in general terms the trader of DAP in a current GST regime is positively beneficiary compared to manufacturer, isn't it?

**Anil Kapoor:** You should ask that question to manufacturer. It is unfair for me to make calls which are sort of applicable to manufacturer. They may have a different viewpoint.

**Rohan Gupta:** Sir, second Abhay Sir mentioned that P&K fertiliser subsidy pending is roughly Rs. 1229 crores and you mentioned that no payment since July or did I miss something?

**Abhay Baijal:** After March, we have definitely received almost Rs. 240 crores and we are awaiting some more payments towards the end of the month.

**Anil Kapoor:** You are absolutely right. From August last year, we did not receive any subsidy on P&K.

**Rohan Gupta:** This is because that the banking arrangement was only for the manufacturer and not for the trader so you did not get any of the payment released while manufacturer have got money released, isn't it?

**Anil Kapoor:** You are right.

**Rohan Gupta:** Sir, just last thing, on the complex fertiliser trading you mentioned that current DAP prices in the global market is roughly \$360 per ton. So, vis-a-vis current phosphoric acid prices in the market which is roughly \$590 something, is it feasible right now to do the imports of DAP, is the spread is favorable for you right now, and what is your DAP selling prices in the market right now?

**Anil Kapoor:** As of now, our selling price is Rs. 20,700 per ton, which is there in the FMS which is the government site from which data can be picked up and it is profitable that is why we are importing. End margins have reduced, the margins to the channel has reduced substantially.

**Rohan Gupta:** Sir, I missed the inventory number of your company, can you just provide it?

**Anil Kapoor:** We have DAP stock as on March 31<sup>st</sup> of 1.15 lakh tons, MOP of 8000 tons.

**Rohan Gupta:** Sir, as I understand, we hardly have any NPK, right?

**Anil Kapoor:** We hardly have any NPK, that is not a focused area for Chambal.

**Rohan Gupta:** A million ton of sales in DAP or complex fertilisers this year, do you think that the trading will continue to do similar number this year in FY18 or given the better prospectus of monsoon or something you want to increase this trading or any target?

**Anil Kapoor:** First thing it is not trading. Trading is a term used when a person does buy and sells without any effort. We buy fertilisers, we bag it, we then sell it to the dealer, the dealer sells it to the retailer and then to the farmer, we claim subsidy from Government of India, so it is not exactly trading, it is basically marketing. All FMCG companies today in the country do contract manufacturing. We do not call them traders, we call them marketers.

**Rohan Gupta:** Sorry Sir, I will ask this question again, on this 1 million ton which you did selling last year, you see any growth on this number and what is the target in mind?

**Anil Kapoor:** At this moment, the way I see it one million ton itself is a large number, let us see how the monsoon plays, so if the monsoon is actually as per the prediction, we should anticipate a growth in this business.

**Rohan Gupta:** Last thing, if you can answer on DBT because you just mentioned it is still critical and there has still not been much success seen on the government front. The 16 districts are still probably not in place properly, so I mean pan India in terms of DBT what according to you is the timeline; when you are interacting with the ministry or the preparedness on the ground level or on the country level. When do you think the DBT can be there?

**Anil Kapoor:** Government is keen to roll it out by October. The industry had a meeting with the government wherein they have requested that GST being rolled out, let the GST stabilize

and then we should roll out the DBT. I think next few months we will come to know exactly as to when the dates will be finalized.

**Moderator:** Thank you. We take the next question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

**Giriraj Daga:** Sir, first thing on the IT segment performance, we have seen a substantial turnaround in the IT performance. Can you just throw some light on the reasons and whether the performance is likely to continue?

**Abhay Baijal:** As you can see last year in May, we had actually divested ourselves from one part of the business which was the KPO business. First of all, this result is 15 months as compared to 12 months of last year, so as the business continues to grow, we can see the benefit of the lower overheads in the system. As for the future, I cannot give you any guidance, but I can see that there is a regular upturn in the pipeline in the channel, the number of contracts we are getting and as we optimize, I think we should be able to hold this level of operation.

**Giriraj Daga:** Okay, this Rs. 118 crores of revenue versus Rs. 81 crores is not like to like, one is for 15 months?

**Abhay Baijal:** Yes, what you saw in May was partly because when we divested, there was some part included of discontinuing business.

**Giriraj Daga:** In the presentation, we have given the breakup of debt also where we have given shipping debt of Rs. 486 crores, this we have not included any sale receipt here so far? Our shipping debt has gone down by Rs. 300 crores that is primarily because of repayment?

**Abhay Baijal:** There was also a ship which we sold in year 2016 that also got removed

**Giriraj Daga:** The remaining is, so once that sale goes through our debt will become minimal there?

**Abhay Baijal:** It will become zero, all of this will become zero.

**Giriraj Daga:** Last thing on the margin, if I look at the blended EBITDA per ton, we have about Rs. 2300 roughly Rs. 100 increase compared to last year, do you think more or less this is sustainable kind of a situation, EBITDA per ton?

**Anil Kapoor:** This is more or less sustainable.

**Giriraj Daga:** We do not expect GST hike or decent hike in the prices of DAP, we do not expect margin to shrink a bit because of this?

**Anil Kapoor:** I think it will be sustainable.

**Moderator:** Thank you. We take the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

**Dheeresh Pathak:** I just want to understand the comment you made earlier, you said that on the subsidy pending for the NPK business, the marketing companies like yourself have subsidy pending for longer compared to manufacturers. Is that the right thing or did I understand it wrong?

**Anil Kapoor:** You have understood it correctly, that is what happened last year.

**Dheeresh Pathak:** Why have they paid subsidy a preferential time period versus importers, can you just explain that thing?

**Anil Kapoor:** I think some initiative on Make in India.

**Dheeresh Pathak:** They have been paid till, you have not been paid from August, so they have been paid till?

**Anil Kapoor:** They must have been paid till September or October. What happens is Manufacturer is manufacturing in January, February, March. A marketer optimizes the purchases and does not buy in February, March, April. These purchases start from May, June, so he optimizes the window, whereas the manufacturer produces for full 12 months, so certain benefits are in place for manufacturing.

**Dheeresh Pathak:** Is the policy explicitly mentioned in some comment or this is just actions without an explicit policy that we will give preferential subsidy treatment to Make in India companies?

**Anil Kapoor:** This is not mentioned anywhere, but the way the government allocates the subsidy to domestic and imported fertiliser, from there one can calculate till which period you will get the subsidy.

**Dheeresh Pathak:** This behavior is evident in this particular year or has been there for many years?

**Anil Kapoor:** It was evident last year and we see that it will be evident this year also. It is only a month or two months advantage, which a domestic manufacturer has.

**Dheeresh Pathak:** On DBT, if I understood correctly you said that the way it is currently designed and structured, the working capital needs versus now and in the DBT scenario, they will not change. Is that what you said?

**Anil Kapoor:** That is right.



**Dheeresh Pathak:** Earlier there was an impression that the DBT, even in the way it has been designed without the full benefit of the DBT, it would have led to some improvement in working capital, so why is that not the case?

**Anil Kapoor:** You see what happens, in case of DBT the receipt of subsidy is only at the time of sales. Today, the subsidy applicable on receipt in the districts, sale will take place in few months in a year. Kharif sales typically starts from June and gets over by August and *Rabi* sales start from October and get over by January. So sales are limited in few months whereas in the earlier scenario one could technically get the subsidy right across 12 months in a year, but then in DBT we are told that 100% subsidy will be paid within seven days of sales. Today, after the receipt in a district, on paper it is 45 days but it takes approximately two months for the subsidy to come from the government. So, when we do the working capital calculation, we observe that will be neutral.

**Dheeresh Pathak:** The tradeoff between having to sell only in few months but being compensated by being paid 100% within seven days?

**Anil Kapoor:** That is right.

**Moderator:** Thank you. We take the next question from the line of Prashanth Tarwadi from Axis Capital. Please go ahead.

**Prashanth Tarwadi:** I just want to understand government's approach towards imports of fertilisers both for urea as well as for the complex. We are given to understand that government is now not issuing fertiliser movement order from the port to ensure that domestic manufacturers are managed to produce at a optimum level and that too gets aligned with the Make in India concept. So, if you could elaborate on those aspect that would be really helpful?

**Anil Kapoor:** Firstly, let us get some facts right. India consumes approximately 9 million tons of DAP. Approximately 50% is imported, 50% is manufactured, and in manufacturing also 40 to 50% is produced by imported phosphoric acid. As far as restricting port movement in the month of February and March, this has been a practice going on for last four to five years, so it is not a new practice. Importers, they plan their import in such a way that they are able to take out the material from the port by year end and they bring in fresh stocks only in the month of April. It is not a new practice what the government is doing. As far as urea is concerned, with the commissioning of Gadepan-III and couple of other plants which are on the anvil, we should be moving towards the scenario where we could be more or less self-sufficient as far as urea is concerned. At that time, government may not have to import.

**Prashanth Tarwadi:** Lastly, correct me if I am wrong, but Chinese agri season is kind of end set March-April if I am not wrong and after that do we see more imports coming in India as they start exporting finished goods rather than raw material. Do we see that possibility happening?

**Anil Kapoor:** Let us say in terms of which product you would like that I should answer - urea or DAP?

**Prashanth Tarwadi:** Specifically, for DAP.

**Anil Kapoor:** You are absolutely right. Chinese season for DAP ends in April and which suits us perfectly fine because Indian consumption starts in the month of June. So, May onwards, we see Chinese goods arriving into India.

**Prashanth Tarwadi:** Our Indian importers have started approaching Chinese manufacturers for that because I understand about one or two months' time is required including entire processing and signing the contracts and then again voyage etc. So we should have already started approaching them right, so have you seen that trend happening?

**Anil Kapoor:** Yes, we are seeing that trend happening in the month of June, we are seeing substantial arrivals coming from China.

**Moderator:** Thank you. We take the next question from the line of Sumanth Kumar from Emkay Global. Please go ahead.

**Sumanth Kumar:** Sir, what is the region wise sales mix for Chambal Fertiliser?

**Anil Kapoor:** Chambal sells basically in the few states. I will tell you the states in which Chambal predominantly sells its product, it starts from J&K, Punjab, Haryana, Rajasthan, Madhya Pradesh, UP, Bihar, and Chhattisgarh. In the recent past, we have made forays in West Bengal, so these are the states in which Chambal sells, we do not sell in any other state.

**Sumanth Kumar:** Sir, the second question is what is the gross block excluding shipping business?

**Anil Kapoor:** We sell some small amount of product in Maharashtra, but the volume is inconsequential.

**Sumanth Kumar:** We do not have exposure in South?

**Anil Kapoor:** We do not have exposure in South. Last year we did sell some amount in Andhra, but again those are literally port stocks which need to be cleared.

**Abhay Baijal:** Net block is currently reflected as Rs. 1095 crore. The gross block if you were to see previous year numbers that will be close to Rs. 2400 crores, as this is ballpark number. Under Ind-AS, we are supposed to give only the net block.

**Sumanth Kumar:** For FY17, what will be the gross block?

**Abhay Baijal:** Opening 31/03/2017 is Rs. 1095 net block.

**Sumanth Kumar:** That is the net block.

**Abhay Baijal:** That is net block and Accumulated depreciation we do not show.

**Moderator:** Thank you. We take the next question from the line of Gauri Anand from Old Bridge Capital. Please go ahead.

**Gauri Anand:** Sir, I was just referring to this subsidy outstanding which you put out on your presentation. By end of May, you have received almost about Rs. 900 crores, so is it fair to assume that the subsidy has further gone down to about 2000 crores and the maximum draw down has been in urea?

**Abhay Baijal:** Yes, you are right to that extent that the amount that has gone down. Of course, there will be little amount of addition for the month of April, so that adjustment will have to be done, but what you are saying is right.

**Gauri Anand:** This balance Rs. 1000 crores which you will be left with, how much of this pertains in terms of ageing, how much would be over six months?

**Anil Kapoor:** Majority of this is less than six months.

**Gauri Anand:** The last sale of the ship, it was post March 31<sup>st</sup>?

**Anil Kapoor:** All four ships, but we have taken the valuation as on March 31<sup>st</sup>.

**Gauri Anand:** So will it have an impact in your first quarter numbers ?

**Anil Kapoor:** No, all the impairment which had needed to be taken has been taken on March 31<sup>st</sup>.

**Gauri Anand:** On the entire fleet is it?

**Anil Kapoor:** On the entire fleet.

**Gauri Anand:** Last question is on GST. So, is there a redressal mechanism for traders because which you have for the manufacturers while you pay duty on the end product and also on your inputs, there is some redressal mechanism because you cannot increase the retail prices, but is there a scope for traders under GST?

**Anil Kapoor:** Firstly, Gauri, we are marketers. Secondly, I do not understand where is the message coming that we cannot increase prices.

**Gauri Anand:** It will impact volumes.

**Anil Kapoor:** I will just give you some insight on the pricings, how the pricing has moved in the recent past. Last year when we started, in the month of April, the prices were approximately Rs. 23,700 per ton in case of DAP. We ended the year at Rs. 20,700 per ton, the prices were reduced substantially. Now with the GST coming in, in certain states the maximum which

can increase is we can go back to Rs. 23,700 per ton. In certain states, there is already a tax incidence of 5% to 6%, so the net price increase in those states will be less than in case of DAP. In case of MOP, last year in the month of April, the MRP was Rs. 16,000 per ton, we ended the year at MRP of Rs. 11,000 per ton. With GST coming in, we anticipate a price change of approximately Rs. 1800 to Rs. 2000 a ton so price can go up to Rs. 13,000 still lower than opening of last year. I do not anticipate demand destruction.

**Gauri Anand:** Will it be a level playing field for you and the manufacturers then, you will be left with no choice but to hike prices but manufacturers still have that room to wait for to be given out by way of subsidies. Is that a possibility?

**Anil Kapoor:** We are working out the details of our calculation, but there would be a marginal difference that marketer can always drive down imported price.

**Moderator:** Thank you. We take the follow up question from the line of Rohan Gupta from Edelweiss. Please go ahead.

**Rohan Gupta:** Sir, can you give the non-fertiliser revenue for FY17? Second question, the production of urea this year is roughly 20 lakhs ton versus last year's 21 lakh ton. I believe that even for FY17 also the policy or the rates for above cut off was quite remunerative because of lower gas cost, so our production on urea for this year is lower than the last year, what would have been the probable reason for that?

**Anil Kapoor:** Last year, we did not have any annual shutdown.

**Rohan Gupta:** It is because of shutdown, nothing else?

**Anil Kapoor:** Basically, it is because of shutdown. We had a long planned shutdown in the month of October due to which there was a production loss of approximately 95,000 tons.

**Rohan Gupta:** It is nothing to do with the production above cut off was not so remunerative or nothing because of that?

**Anil Kapoor:** It is not because of that.

**Abhay Bajjal:** The other agri import revenue was Rs. 352 crores up to March 31<sup>st</sup>.

**Rohan Gupta:** Sir, can you give the comparative number of last year?

**Abhay Bajjal:** Rs. 399 crores.

**Rohan Gupta:** It is lower than the last year?

**Abhay Bajjal:** Yes.

**Rohan Gupta:** Large part of this I assume will be agrochemicals?

**Abhay Baijal:** Yes. Since the crude oil coming down, some of the imports into the agrochemical part also came down.

**Rohan Gupta:** Sir, most of the companies at the industry level estimated that agrochemical industry this year has gone up close to 8% to 9% despite that price fall because we were on a very low base, so we losing more in terms of revenue for more than 10-15%, 15% roughly. So, the probable reason is that the product in which we were is more of the commodity nature and the price fall in those category has been much sharper or we as a strategy of the company is not going to focus much on this business?

**Anil Kapoor:** Both. We were in certain segments of products where price fall was substantial, but we have now changed our product mix so to that extent we will take care of the problems we faced last year. With Gadepan-III coming in, we would be manufacturing 3.5 million tons. Our marketed products we see the 1.2 to 1.3 million ton, so we will be close to a 5 million ton company, that itself is going to be a challenge.

**Rohan Gupta:** This is not focus area for the company in terms of non-fertiliser business?

**Anil Kapoor:** It will be a focused area, but not a major focus area. We do make good money in this.

**Rohan Gupta:** The margins here will be at least 10% upward?

**Anil Kapoor:** Upward.

**Moderator:** Thank you. We take the next question from the line of Satish Mishra from HDFC Securities. Please go ahead.

**Satish Mishra:** Sir, just one follow up question. I want to understand the change in the policy for IPP link, there has been some increase in reassessed capacity for all the plants, so you can help with understanding. Earlier, it was like around 1.8 million ton was up to reassess, then there was sharing between government and company and beyond that it was IPP linked?

**Anil Kapoor:** Sharing principle remains the same. What the government has done is that earlier they used to be adding approximately \$15 a ton on IPP to determine the true IPP cost for the industry. This year they have made a revision upwards, so what government have done is, I am giving you approximate numbers, government is now reimbursing IPP plus \$25 to the industry to a maximum of 2300, that number remains the same.

**Satish Mishra:** Sir, even that portion where we were sharing our profits with government that has also reduced because of increase in our reassessed capacity, am I correct?

**Anil Kapoor:** That concept does not exist now. It is now all above 100%, there is only one formula and the formula being you calculate your variable cost and the government reimburses you

IPP plus \$25, subject to a maximum of 2300 plus bag etc. So if you are an efficient plant, you can get a full delta which the government gives but if you are inefficient, you will not be able to get the full reimbursement.

**Moderator:** Thank you. We take the next question from the line of Nirbhay Mahawar from N Square Capital. Please go ahead.

**Nirbhay Mahawar:** Sir, just wanted to get a sense on the agrarian situation in the country, as the farm loan waivers proposed by some state boosting sentiment or the low agri produce prices, this are much more dominant force?

**Anil Kapoor:** Farm loan impact in certain states, we need to see what will happen whether it is positive or negative. As far as government is anticipating record production; we can see that from sales also. Chambal has been able to sell whatever we could produce or whatever we could bring in.

**Nirbhay Mahawar:** Overall farmer profitability is at a reasonable level, would it be fair to assume?

**Anil Kapoor:** I would say reasonable, nothing great but reasonable. Marginal farmer is always at a loss.

**Moderator:** Thank you. We take the follow up question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

**Dheeresh Pathak:** I am referring to slide 5 into presentation where the revenue and EBITDA is given for the last four years, I would like to know like for FY17 and FY 16 how much of this, let us say Rs. 924 crores EBITDA in FY17, how much of this is from urea?

**Abhay Bajjal:** The urea EBITDA will be Rs. 612 crores.

**Dheeresh Pathak:** What was the amount for last year?

**Abhay Bajjal:** Rs. 619 crore.

**Dheeresh Pathak:** This amount would be fairly because our production does not change much because of the capacity issue, so this amount based on the government policies would not see any change. It will be like a steady Rs. 600 crore plus business, there should not be any volatility in this EBITDA?

**Anil Kapoor:** You have got it spot on. It is in fact in a long run, it is a reducing EBITDA business as far as urea is concerned. There will be some fixed cost increase with inflation and if the government were not to absorb that fixed cost increase, your EBITDA margin will tend to come down.

**Dheeresh Pathak:** Let us say last in the five years or six years back were you making more than this 610 crores?

**Anil Kapoor:** There were some policy changes, good companies keep on improving their energy, so we have reduced our energy consumption substantially. It is a very loaded question for which I will have to go into the details.

**Dheeresh Pathak:** Would have been a tradeoff in higher capital employed because you need to upgrade, you need to invest, you will get more EBITDA, but you would end up investing more?

**Anil Kapoor:** We invested in 2008 if you will recall and we have made the plant much more efficient today.

**Dheeresh Pathak:** To the point that you are mentioning that Rs. 2300, what is that Rs. 2300 cap that is the EBITDA per ton spread cap, is it?

**Anil Kapoor:** That is the cap which you can get from IPP plus \$25 minus variable costs.

**Moderator:** Thank you. We take the next question from the line of Samir Kapdia from Rockstud Capital. Please go ahead.

**Samir Kapdia:** Can you tell me what is your current capacity utilization?

**Anil Kapoor:** It is over 100%.

**Samir Kapdia:** How do you see like the government making a statement of revival of the fertiliser plants? So how would be the demand scenario going forward?

**Anil Kapoor:** If and when the plant gets commissioned, imports will come down.

**Samir Kapdia:** But then how do the competition be within domestic. So, is it a room for everybody to increase the sales or will it be impacting?

**Anil Kapoor:** Samir, the efficient player always survives.

**Moderator:** Thank you. We take the follow up question from the line of Rohan Gupta from Edelweiss. Please go ahead.

**Rohan Gupta:** Sir, just one last thing, you mentioned that government is definitely focusing more on Make in India and your complex fertiliser business where you definitely looking more and more opportunities going forward, so do you think that in future that this trading thing in complex fertiliser may become more and more cumbersome and do you have any future plan to get into the manufacturing of complex fertiliser?

**Anil Kapoor:** We are not right now selling much of NPK. NPKs are sold basically in southern states. As far as Punjab, Haryana, UP, Bihar, MP, Rajasthan are concerned, they consume bulk of the DAP in the country. We have a phosphoric acid manufacturing capacity in Morocco as I am sure all of you are aware, Chambal has 33% stake in IMACID, but if you look at

the manufacturing capacity is coming up in DAP globally. We see substantial capacities being added in Saudi Arabia, they are producing 3 million tons, additional 3 million tons will be added this year. They will have a 6 million ton capacity. They are on record to say that they will put additional 2 to 3 million ton capacity in next four years. China, the major manufacturer are all expanding capacity, so in such a scenario, Chambal will have to evaluate once Gadepan-III is over, whether do we do manufacturing in India or we continue to do marketing. Cost benefit will definitely be with companies which have got their own supply of rock and both China and Saudi have their own rock. So that is a business decision Chambal will take two years from now. That is going to be a very interesting decision.

**Rohan Gupta:**

Sir, as you rightly mentioned in your key market which is now in central market, the market is more DAP market. Going forward, with all the government focus on DBT and soil health card and all, do you think that this market can significantly move to NPK market and at that time, the trading of DAP may not be so viable or so remunerative because it will be more segmented market for NPK and at that time you need to probably plan something in advance for that or do you see that trend emerging over next four-five years if the DBT and the government focus on soil health card and all increases, these markets are changing or not?

**Anil Kapoor:**

These states do not consume much of potash, in some of these states soil is rich in potash and these states manufacturer bulk of cereals. In cereals, you do not need excessive potash. So, whatever potash is required by the farmer in the small measure, he puts in direct application of K, so we do not foresee in the medium-term, demand of NPK rising in Chambal territory. If the demand were to change, I am quite certain manufacturers of DAP can always convert their capacity to manufacture NPK. It is not very difficult to add in a line of K and DAP to be converted to NPK, and Chambal can always import NPKs.

**Rohan Gupta:**

Sir, that is right now. You have a good phos acid availability globally through IMACID, but as of now we do not see any plan that company is going to put a complex fertiliser plant because you can anytime get N, ammonia, and you have your own phos acid, so coming in a big time or bringing your focus on NPK in your market area, that is not the part of your business right now. So that will clearly mention that probably in your states you do not see right now that there is a need for NPK too much because of the structural nature of these market like pulses or K in soil itself, so potash is not required. So those probably structural changes are not visible for you right now that they can change their structure of this market and DAP will be the key consuming product for this market?

**Anil Kapoor:**

You are absolutely right, you have summed it up well.

**Moderator:**

Thank you. We take the next question from the line of Amit Rane from Dalal & Broacha. Please go ahead.



**Amit Rane:** My question is on capital release from the shipping business, how will it impact our borrowing requirement for the CAPEX plan?

**Anil Kapoor:** Marginal improvement to that extent it will form a constitute part of equity which Chambal will have to put in the project.

**Amit Rane:** Okay, so if you can quantify some number from that?

**Anil Kapoor:** Little bit confidential in nature at this moment.

**Moderator:** Thank you. We take the follow up question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

**Giriraj Daga:** Sir, just one clarification about the EBITDA . You said on urea, Rs. 924 crores EBITDA includes the other income, so how do you bifurcate the other income into urea and DAP?

**Abhay Baijal:** In segment, we treat all other income as part of urea only because most of these assets which creates the other income come from urea.

**Giriraj Daga:** The entire has been treated as a urea income?

**Abhay Baijal:** Yes.

**Moderator:** Thank you. We take the last question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

**Dheeresh Pathak:** For the full year for the country as a whole how much of the NPK gets imported, can you give a ballpark number?

**Anil Kapoor:** NPK I will have to get the details, Dheeresh, since we are not in the NPK business, we do not capture that data.

**Dheeresh Pathak:** Just for the discussion sake, like my understanding was that it is very small, so the reason I would want to know is that because NPK has these various grades, and therefore, there is no one grade which is very large part and that is why the imports are less?

**Anil Kapoor:** Bulk of NPK is sold in the country in two or three grades. So, if the demand were to increase in Chambal territory, we have imported NPK. 10:26:26 grade was imported by Chambal substantially.

**Dheeresh Pathak:** Like the jump in the vendors in Saudi and China from whom let us say marketing companies like us would want to import, they customize grades according to the needs or they sell specific grades which they make?

**Anil Kapoor:** Right now, both China and Saudi do not make too much of NPK, but NPK can be sourced from Russia, can be sourced from Indonesia. There are companies which manufacture large volumes of NPK.

**Dheeresh Pathak:** They customize as per the specific marketing company's requirement?

**Anil Kapoor:** Absolutely.

**Moderator:** Thank you very much. Ladies and Gentlemen, that was the last question. On behalf of Chambal Fertilisers and Chemicals Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.