



Chambal Fertilisers and Chemicals Limited

Q3 & Nine Months FY21 Earnings Conference Call Transcript

February 05, 2021

Gavin Desa:

Good day everyone and thank you for joining us on Chambal Fertilisers and Chemicals Q3 & 9 Months FY'21 Earnings Call. We have with us today, Mr. Anil Kapoor, Managing Director, Mr. Gaurav Mathur, Joint Managing Director; Mr. Abhay Bajjal, Chief Financial Officer, Mr. V.K Gupta, Vice President – Marketing, Mr. Rajveer Singh, Vice President - Legal & Company Secretary and Mr. Anuj Jain, Assistant Vice President - Finance.

Before we get started, I would like to point out that some statements made or discussed on 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 the call with opening remarks from Mr. Kapoor. I would now like to invite Mr. Kapoor to share his views. Over to you, sir

Anil Kapoor:

Thank you, Gavin. Good afternoon and thank you for joining us on this call. I hope that all of you and your families are safe and healthy.

Let me quickly brief you about the performance of the Company. We are happy with our operating and financial performance during the period under review. On standalone basis, EBITDA for the quarter increased by 14% to Rs.787.25 crore against Rs.690.11 crore during the corresponding quarter of previous year. Profit before tax (before exceptional items) stands at Rs.663.03 crore as compared to Rs.506.99 crore during the corresponding quarter of the previous year, that is a jump of around 31%. Profit after tax, without considering exceptional items and one-time deferred tax, was Rs.430.09 crore against Rs.329.84 crore during the corresponding quarter of the previous year.

During nine months ended December 31, 2020, on standalone basis, we have achieved total income of Rs.11,171.57 crore against Rs.10,387.24 crore during the corresponding period of previous year. EBITDA before exceptional items for nine-months period was at Rs.2,225.59 crore against Rs.1,835.52 crore during the corresponding nine months of the previous year. Profit before tax, before exceptional items, stood at Rs.1,780.81 crore as compared to Rs.1,231.35 crore during the corresponding nine months of previous year, a jump of around 45%. Profit after tax, without considering exceptional items and one-time deferred tax, was at Rs.1,160.26 crore against Rs.816.54 crore during the corresponding period of previous year.

Our performance was backed by increased volumes of non-urea fertiliser with better margin and better performance in urea and other agri-inputs. The Company sold 12.63 lakh MT of DAP against 8.73 lakh MT sold during the same period last year. MOP sales was 2.66 lakh MT against 1.83 lakh MT last year during the same period.

We have also scaled up sales volume of NPK/NPKS fertilizer and sold 68,000 MT of this material against 18,000 MT sold during the corresponding period last year.

The huge outstanding subsidy was always an area of concern for the fertiliser industry. You must be aware that the Government of India has made additional allocation of Rs.62,638 crore for fertiliser subsidy in the revised estimate in order to clear the backlog. As per our information, around one-third amount has already been disbursed by the Government of India to fertiliser companies.

With this additional allocation, the outstanding subsidy as on March 31st 2021 will be at negligible levels. The fertiliser subsidy allocation in the Union Budget 2021 is also likely to be adequate to meet the fertiliser subsidy outgo during the financial year 2021-22. The outstanding subsidy of the Company as on December 31st 2020 was Rs.5,825 crore. Out of this, the company has received Rs.3,165 crore in January 2021. We expect the balance amount to be released before end March 2021. The release of subsidy will substantially reduce the short-term debt of the Company which will result in saving of finance costs and substantial improvement in the financial ratios of the Company.

We are encouraged by our performance. We have a very strong quality product portfolio and our connect with the farmers is very good. We have also expansive distribution reach present in well integrated market and a lean balance sheet which will give us confidence going forward.

I along with Gaurav will be happy to take your Questions on the Financial Performance of the Company. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: My question is on the incremental subsidy released this quarter to the industry, it is a proud moment for all of us and it should significantly clean our balance sheet. My question is starting April, does the subsidy account began to expand again perhaps in a measured way but expansionary for sure? And what are the quantum of monthly release, given the budgetary allocation as we have today, what do you make of it?

Anil Kapoor: So, what we understand is that our opening balance of subsidy outstanding on April 1st, 2021 will be at absolutely negligible level. Now, subsidy release will depend on our sales from point-of-sale machines. And I think the way government will move forward, we will revert back to the original design of POS when we raise the bills on a weekly basis, the government will start clearing the bills as and when they are due. So, I don't foresee a backlog taking place definitely in the urea sector. The subsidy provision is very much adequate for the urea sector. We will need to wait and see what happens in the non-urea segment - how the price movements take place and what is the subsidy provision which the government makes.

Baidik Sarkar: In the same breath, are you surprised at the lack of noise around DBT, one would have assumed that this release was a precursor to DBT coming in. Your thoughts around that?

Anil Kapoor: I am not really sure as to what the government is up to, but we are very happy at the turn of events which has taken place, Baidik. For a company of size of Chambal to be literally approximately debt-free on working capital on 1st April will be a tremendous boost for the company and you can all calculate the ratios at which we will be. We will have only long-term debt in our books and with very little working capital borrowing, our performance ratios will be very good. Very happy to be at that state. Now what has happened on DBT, on a public forum, I will not be able to react on that what is my feeling because you can't go by what I feel.

Baidik Sarkar: So, the year ahead there's nothing much to be done on urea. So, how do we read your growth plan for the Complex and Agri Inputs business? Some numbers will help, and we'd also like to hear Mr. Mathur's views on driving earnings in the coming fiscal?

Anil Kapoor: I will request Gaurav to make a statement on what are the plans which Chambal has moving forward. For all the participants, this is a very forward-looking statement which Gaurav will make. So, please bear with us. Gaurav, would you like to talk on what the plans of Chambal would be going forward?

Gaurav Mathur: Let me start by first of all saying that now Chambal is a very big player in the phosphatic sector, and we are actively looking for backward integration. As some of you may know, we are already present in Morocco with a joint venture and we are exploring investing in a phosphatic capacity in Morocco with the objective of further improving our sourcing in this area. The second point I'd like to mention is that we have initiated the process of geographic expansion and have plans in place to start operations in Maharashtra, Gujarat, Andhra Pradesh, Telangana and West Bengal. We have already opened offices and started placing our sales team. We are already operational in Maharashtra and Gujarat and expect to be operational in other states within March this year, so well positioned to participate next year. As was mentioned, we continue our focus on our non-urea product segment both in the fertiliser and agri products area. We are reasonably strong players in the agri products area and will target to focus and grow further in this segment. Our existing geography is also seeing growth in the phosphatic and non-urea sector. We have seen of the order of 5% to 7% growth over the past few years and we will continue to drive for a better share of that growth. As you know from the recent budget announcements, etc., the Government of India is looking at disinvestment and we believe that opportunities may arise in that sphere, and as Anil has mentioned with a strong balance sheet that Chambal has, we will be well-positioned to participate in that. Of course, we will continue to drive operational efficiencies across the entire organization and our manufacturing facility. Last but not the least, we continue to see how we can add more value to our farmers through soil health, advice on usage and whatever else they may need through our advisory services. So, that, in a nutshell, is our plan going forward.

Baidik Sarkar: Our spread in the complex fertiliser business seems to have come off rather sharply. Could you give us the range of what our gross profit per ton in Q3 vis-à-vis H1? And importantly, how should we see this development over the next few quarters, how will the spread continue? I ask that question because obviously kharif acreages mean a lot of importers are in the same space that you are. So, is there a risk of earning contraction in the year ahead. I understand volumes might go up sharply, but if spreads come off, how you are looking at it?

Anil Kapoor: Baidik, as you are aware, the acid prices have also gone up. So, when the acid prices go up, we definitely make more money in our Morocco venture. In the past also, we have received much higher dividend than what we have received in the recent past, that is one. Two, the DAP prices will definitely go up. You can see that happening in the marketplace. The MRP will go up. The MRP was Rs.28,000 earlier, which gradually came down to Rs.24,000 as the DAP prices fell. This is nothing new. This is commodity, this will happen. Prices will go up, prices will come down, it happens in every segment of commodity business. We will make sure that our margins are protected. There may be some swings in margin here and there but that is part of the business. Out of approximately Rs.2,400 crore EBITDA business, Rs.1,700 to Rs.1,800 crore is non-phosphatic business where the returns are literally assured, and that's in the urea business. And as Gaurav has mentioned rightly, our focus will be on non-fertiliser business only, which will drive profits for us, be it pesticides sales, we have number of products which are non-fertilisers which we sell in the marketplace. We are a very large player in sales of ammonia. I don't know how many of you are aware. Ammonia prices have gone up in the international market. We will definitely focus on that also now. So, Chambal has number of avenues in

which we can grow our profits and recover our margins. We may lose in one segment; we will recover in three others. We are a large player in every segment of the market which we work with.

Baidik Sarkar: The expansion in Maharashtra, Gujarat, A.P, and West Bengal is very good to know. So, given the acreage expansion that's staring at us in the fiscal, is it conservative to assume a 20% kind of volume growth in the year ahead?

Anil Kapoor: We have just entered that market. Those are difficult markets and they are not easy. There are big established players in that market. To break and take market share from others in that market is not going to be easy but we have a very strong network and Gujarat and Maharashtra are adjacent states to us. So, we will also take our Urea into those states, establish our brand through urea. We have a very strong dealer network in our segment which we expect to grow in this segment. We used to be in Gujarat way back and then we moved out of Gujarat. We are re-entering Gujarat. So, we know the dealer network fairly well there. I hope I've answered your question?

Baidik Sarkar: There is sharp run down in other expenditure this quarter both on a sequential basis as well as the YoY basis. What's driving these runoffs in other expenditure and given the environment coming back, should we expect these costs coming back in the fiscal? And also, would like to understand what has led to this runoff in cost in other expenditure?

Anil Kapoor: Our interest cost will substantially reduce going forward. With the government releasing subsidy, our interest cost will literally be only on the long-term capital and a little bit on the working capital for next year. So, we have a substantial tailwind as far as reduction in interest cost is concerned. Now, Abhay, what is this cost Baidik is talking about?

Abhay Baijal: In other expenses, power and fuel are included which is part of our direct fuel cost and material cost. There's a little bit of confusion on how other expenses are treated. So, what we are seeing in, reduction is basically the impact of the reduction in gas price. So, they go up and down and that is part of the urea business where this is a pass-through cost. Now, apart from that, the other costs include freight and forwarding expenses, packaging expenses, and other stuff like repairs and maintenance and also some element of foreign exchange movements which can be plus or minus depending on how the things are. So, what has happened, sequentially as well as from last quarter, there is substantial reduction in power and fuel costs and some offset by some extent of increase in terms of freight and packaging cost because our volumes in DAP, NPK, MOP, etc went up. So, these are variables to that extent that there is a power and fuel element in that. But if you strip that out, apart from that they are fairly steady, and they will remain steady related to the volume of business. That's how I would like to answer.

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

Pratik Tholiya: So, firstly on the subsidy side, till last quarter we were giving the subsidy table in the presentation which would give subsidy outstanding and subsidy received during the quarter. That sheet is not there in this presentation. So, it will be very helpful if we continue to maintain that. And in the meantime, Abhay sir, can help us with what is the subsidy received during Q3? Outstanding I think you said it is Rs.5,900 crore.

Anil Kapoor: I will tell Abhay to give it, but as on March 31, 2021, there will be hardly any subsidy outstanding. It may be a forward-looking statement. With that one should not be bothered about subsidy outstanding of Chambal Fertilisers.

Pratik Tholiya: I totally agree. I think a big positive from the government side but just to understand how the movement has been during the quarter.

Anil Kapoor: We can post it after the meeting today.

Rajveer Singh: After, it will not be possible. We are not going to share another presentation but in future we can include.

Anuj Jain: The outstanding and whatever we have received in January, that much breakup we can give right now.

Anil Kapoor: I have already mentioned Rs.5,825 crore was the outstanding subsidy as on 31st December.

Rajveer Singh: That is there in the presentation also.

Pratik Tholiya: Secondly on the EBITDA margin there has been a steady improvement this quarter. We understand that the urea volumes are flat and even the margins we know is fixed. So, obviously it is driven by the non-urea segment. So, if you could just help us understand how are these margins and how should we look at it, going forward from here on, considering that the prices like you also mentioned is going up. So, from our operational wise, you did mention that in IMACID you will make more money but on the operational perspective how should one look at the traded margins going on?

Anil Kapoor: Very difficult to tell, Prateek, what is going to happen going forward, how the price increase will be taken in the market. But what I can share with the participants is that we have got some amount of DAP, MOP, NPK and NPXS with us at lower cost so which will be used to average it and improve the margin in the first quarter at least. By then things will stabilize.

Anuj Jain The subsidy received in the last quarter is Rs. 1095 Crore.

Pratik Tholiya: You mentioned about CAPEX in the phosphatic segment especially you are looking at something in Morocco. So, any amount that you'll have frozen and what sort of timeline should we look at it in terms of by when because we already have the raw material supply with us, integration is what we will be looking at over there. So what sort of timelines are we working at?

Anil Kapoor: We will look at both forward integration and a Greenfield site. There is a committee which has been appointed which is looking at all these options and I think in the next few months we should finalize our plans of investment. So, as soon as the plans are finalized, we will come back to the stock market and keep them informed.

Pratik Tholiya: But IMACID is a JV, right, we have two other partners with us. So, it will be on JV basis or it will be only for pure investment from Chambal side?

Anil Kapoor: We have not decided on that whether it will be on IMACID or it could be a separate joint venture between Chambal and OCP. We have not finalized that plan yet. But investment will definitely take place going forward.

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

Deepak Chitroda: So, my first question is about the CAPEX which you talk about backward integration. If my understanding is correct, so are we going to replace our existing import arrangement which we do from the open market and ultimately, we'll have a lower import cost and indirectly this will improve our trading margin substantially?

- Anil Kapoor:** Deepak, as soon as our plans are finalized, we will come back to the Stock Market. Right now these are all evolving stage at this moment and for us to share anything which is not finalized yet is not fair. Right now, we are working the modalities.
- Deepak Chitroda:** The second question is about what would be our long-term sustainable working capital requirement? I understand obviously the one-time payment of extra allocation which we have got, that is going to wipe off our working capital requirement by March. Why I am saying because we will have at least four or five months kind of a lean period or off-season demand, right, so during that time we are not going to have a POS sales basically. So, definitely we need to have some sort of working capital. How do you think about that?
- Abhay Baijal:** Deepak, I will put it this way, the operating cycle for urea for at least nine months from April to December is just about 60 to 70 days. As far as DAP and MOP is concerned, we are a little longer; 120 - 130 days. They stretch a little bit by 30-odd days between February and April and May, but then it comes back to normal. So, it is only a two months to three months situation in between and it crosses the balance sheet date. So, looking at what I am saying in a normalized situation, 70 to 80 days in urea what is going to happen is, with the cash generation of the company, by October, November this year, since the amount of subsidy given is adequate for urea, I don't foresee any amount that will be required for borrowing to keep the working capital sustain. That is one. As far as the DAP and MOP is concerned, there will be some small borrowings that may be necessary or that will be strategic that you take some kind of credit or something like that. But I would not expect that there will be a large amount, certainly around Rs. 700 to 800 crore but not more than that.
- Anil Kapoor:** And also, Deepak, Chambal generates approximately Rs 1,400 to Rs. 1,500 crore cash which, till we go for a major expansion, is ploughed into the business.
- Abhay Baijal:** So, if the CAPEX happens post 2022 then at least by October, November, we will have generated that kind of cash or 50% of that even after paying the loan installment in September. So, that's why I'm saying, not more than Rs. 600 - 700 crore stretching up to October, November. So, that is the kind of level you can think in terms of borrowing side. Of course, on the assets side it will always be there.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.
- Pritesh Chheda:** Sir, wanted to know what will be your year-end debt and what should be the next year's interest cost assuming that next year the payouts by the government are fairly normal payout cycle which they follow?
- Abhay Baijal:** Our one installment of repayment of loan will happen. So, we are expecting around Rs. 3,800 - 3,900 crore of long-term loans which will be there in the books. I am not anticipating very much in terms of short-term borrowings as Mr. Kapoor has been emphasizing with the receipt of almost Rs. 5,800 crore which is planned by the end of the quarter, if anything it will be about Rs. 100 to 200 crore max. So, we are looking at Rs. 4,000 crore of total indebtedness by the end of the year. And going forward, as you can see, you can make the calculation. We started with Rs.9,000 crore and we will end up something like Rs.2,900 crore. You can see what kind of difference happen in the borrowing and the rate of interest or the interest reduction. On an average I don't want to put it, but you are all intelligent people, you people can calculate.

Pritesh Chheda: The interest cost for us should be about 8.5% now?

Anil Kapoor: Cost of capital now will be only for long-term where we have borrowed on ECB and the rates are very competitive. We never borrowed at 8% ever in our life. Earlier also, we were borrowing between 3% to 4%.

Pritesh Chheda: My second question is you were answering to one of the participants on the profitability part next year where we have certain costs on the manufacturing which will go up. So, sum total you believe that you will still be able to show the profitability growth, why are the volume growths in the non-urea side? And my other question was when you were referring to urea as fixed, that fixed is basically between 12% and 20% ROE is a formula so considering that formula also, we think that the EBITDA profitability for us should be growing next year?

Anil Kapoor: At EBITDA level, in urea business, EBITDA is more or less fixed, there will be some improvement in energy. So, to that extent there will be an increase in EBITDA. The EBITDA growth in Chambal will take place, as Gaurav has rightly mentioned through expansion in geographical areas and expansion in non-urea business.

Pritesh Chheda: So, directionally sum total, the EBITDA will grow next year, function of better profitability in urea plus volume growth in the non-urea side.

Anil Kapoor: I have not mentioned directionally. See, this is a commodity business. We will have to see how the rainfall is, whether it is El Nino year, La Nina year. There are number of factors which play in agriculture sector. So, for us to be on a definitive statement that we grow by this much, in agriculture is very difficult to forecast.

Moderator: Thank you. The next question is from Amar Mourya from AlfAccurate Advisors. Please go ahead.

Amar Mourya: You had indicated that you already received Rs. 3,000 crore of subsidy in January, right?

Anil Kapoor: That's right, Rs.3,165 crore is what the number I mentioned.

Amar Mourya: Total you will receive Rs.5,800 crore by the end of March?

Anil Kapoor: What I mentioned was approximately Rs.5,800 crore is the outstanding subsidy on 31st December 2020. I made two statements, Amar; one is that substantial portion of this Rs.5,800 crore, approximately the entire portion barring very small amount of bill here and there, but entire amount will be received by 31st March. And also, I made a statement that there will be very negligible subsidy outstanding of the entire industry as on 31st March.

Moderator: Thank you. The next question is from the line of Dhaval Shah from GIRIK Capital. Please go ahead.

Dhaval Shah: My question is for Mr. Mathur. Given your background from Akzo Nobel and the API company just previous to joining here. Now you are joining a company in the fertiliser business where like a lot of things have changed and things are very good. So, what sort of newness or value addition would you get to the already set platform in terms of your B2C experience with Akzo and Chambal being a very strong brand with a very high market share. So from a strategic perspective, where do we see this company say three to four years down the line? So, one you mentioned you're converting company to more of a chemical, getting into phosphoric acid expansion as you mentioned which is in the planning stage. How do we see this company?

- Gaurav Mathur:** Thanks. Just to clarify, when I mentioned about phosphatic, it wasn't about getting into the chemicals business of phosphoric acid necessarily, but it was more about having a source of di-ammonium phosphate. So, that's what we're looking at. In terms of what we see three, four years, I think what we see overall that is happening in the industry plus the growth that we see in the market as well as the dis-investment plans that the government has and the growth plan that I mentioned early on. So we really look to harness all of those together. We are in a position where if I look at it, Chambal has significant strength. First of all starting with people, we have an experienced team which I would say is one of the best in the industry. We have strong, well-entrenched brand - the Uttam brand that we have, good product portfolio, our distribution scale, and a very strong dealer base. We have strong market discipline, financials has been mentioned a few times, scale of operations and thought leadership, number of strengths and we are now one of the biggest companies in the private sector in the fertiliser industry. So, the play really is to leverage all of that and along the lines that I mentioned earlier essentially.
- Dhaval Shah:** In terms of allocation of capital, should I assume Rs. 4,000 crore is the peak debt for Chambal at least for the next three to four years considering our all the CAPEX plans or working capital plans, how should we look at this?
- Gaurav Mathur:** I think that's a question which is rather difficult to answer because it will depend on a number of other factors. Like Anil has repeatedly mentioned, based on the government policy on the subsidy and what we've seen actually happening, we would expect that our working capital funding would not be required and thereafter the peak debt depends really on the kind of investment that we make and the opportunities that we see. So, to put a number on that I would say is a little bit premature.
- Dhaval Shah:** But given our cash flow size, our CAPEX should be within that. Whatever CAPEX we do, we for sure not putting up another Gadepan-III kind of large asset. So, the kind of cash flows we generate should be very much enough for any sort of CAPEX you plan, should we understand it that way?
- Anil Kapoor:** Dhaval, we will be generating approximately Rs.1,400 crore to Rs.1,500 crore cash profit per year. So, in next three years we'll be generating approximately Rs.4,000 crore of cash. While there may not be an opportunity like Gadepan-III again but were it to come, Chambal is well prepared to take that because Rs.4,000 crore cash coming in. Our armory is full, we can make a substantial investment.
- Dhaval Shah:** That's what my assumption was that debt should not go up like the peak debt number?
- Anil Kapoor:** No-no, I do not think the government now intend to increase the subsidy. The way they have been very transparent in the budget and what they have done with FCI and fertilizer is remarkable. That is a structural change and I do not think the government would like to go back to the old status.
- Moderator:** Thank you. The next question is from the line of Amit Doshi from Care PMS. Please go ahead.
- Amit Doshi:** With reference to this non-urea business growth, one of your slides mentions about market share in various states that we have. So urea ranging from 10% to 20% market share we have except Rajasthan where we have 30%. Now, would it be fair to assume that for non-urea business, it will be easy for us to capture the market share that we have for urea. For example, if we have 20% in Madhya Pradesh, then to achieve non-urea 20% market share would be fair and then probably getting over that would be a challenging task. I am just trying to judge the growth potential of market share in the non-urea business.

Anil Kapoor: I think you have answered the question yourself and I agree with your conclusion.

Amit Doshi: So, in that case I think majority of the places where DAP, MOP, we have kind of reached that kind of market share?

Anil Kapoor: There are certain opportunities which we have not explored. As Gaurav had mentioned, there is 5% to 7% growth taking place in phosphatic fertilisers. That definitely we will capture. We would definitely like to capture a little bit more than that of the business by trying to take some share from some other people and geographical expansion is taking place. That will open some avenues for us.

Amit Doshi: So, on the urea front like geographical expansion is one thing, but on the production side, of course, we are operating at the optimal capacity. So, then how do we plan to achieve that additional geographical expansion?

Anil Kapoor: Some of the areas where we want to expand, not necessarily we will go through urea route. We will just expand on the phosphatic and non-fertiliser route. As far as fertiliser plant is concerned, we are working out on schemes at this moment and some of them are being implemented which is on energy saving schemes in the existing plant which will improve the energy efficiency of the plant and thereby improve the profitability. So, some of the schemes have been approved and some of the schemes we are working on right now.

Amit Doshi: But that would improve the profitability, I was more on the production because we are operating at almost full capacity?

Anil Kapoor: We are running production right now at full capacity.

Moderator: Thank you. We take the next question from the line of Viraj from Securities Investment Management. Please go ahead.

Viraj: I had a couple of questions which are more strategic in nature. So, if we look at our own history in the past, whenever we had a good balance sheet position, we were kind of into other non-agri ventures as well and we kind of corrected and exited those and seen an improvement in our return profile as well. Now, going forward, if we were to understand Chambal Fertilisers, would it be purely a play on agri-related ventures in the future as well? Is that how one should look at the entity going forward, that's one? Second, just to add to that, post this government one-time clearance of past subsidies dues, as you said, our overall balance sheet position will be significantly better positioned. So, with urea we already have three plants up and running at full capacity. Incrementally, how should we understand use of that cash? Would it be largely in non-urea business only or we will still be open to bid for any of those divestment opportunities of urea plants of government, so that is a second?

Gaurav Mathur : Two questions you've asked. So, on the first one, yes, you're right, we've learned from some of the things that we have tried in the past and that's always part of business that you do things when you learn from them. So, our focus going forward is mainly on the agro sector. At the same time, if some significant opportunity emerges and it makes the right sense, at this point in time, I don't think we can absolutely rule it out, but our focus will continue to be on the agri sector. In terms of your second question, the investments I think I did mention that a) we are looking at an investment in phosphatic capacity in Morocco and b) with the dis-investment that we expect that Government of India will do, as we have the wherewithal therefore to participate in that and we have a strong balance sheet for that.

Anil Kapoor: I would like to just mention to all the audiences that the investment which we are planning in Morocco is not even on the drawing board. It is on discussion stage right now and as and when anything materializes, we will come back and keep you people informed. It is just on a discussion stage at this moment.

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

Madhav Marda: I just wanted to understand a bit on the disinvestment side. Basically, what would that mean like, would we buy like a sort of inefficient fertiliser business like a urea or non-urea one. Is that what we mean by disinvestment?

Anil Kapoor: As you are aware, there are a few public sector undertakings at this moment and government has announced that they will be divesting some of the non-core sector businesses. If and when that were to take place what Gaurav has mentioned is Chambal will participate in that disinvestment and would like to take over one of them if we can get it.

Madhav Marda: But what are these actually other urea companies, other fertiliser companies?

Anil Kapoor: I cannot mention anything at this moment till the government has finalized its plan.

Madhav Marda: The second question was which one of the earlier people had asked as well. I just wanted to understand that like you mentioned we will be generating Rs.4,000 to Rs.4,500 crore of cash in the next three years. So, will our CAPEX over the next three years be sort of within that Rs.4,500 crore or can we look to do a bit more in case the opportunity arises? Is there any thought process on that?

Anil Kapoor: At this moment, we have not decided on any major CAPEX. It all depends on the project profile. If it's a very-very interesting project, then we can always borrow a little bit. Our debt-equity henceforth will be quite low going forward.

Moderator: Thank you. The next question is from the line of Abhijit Akella from IIFL Securities. Please go ahead.

Abhijit Akella: First was a slightly longer-term question with regard to the Gadepan-III kind of regulatory framework that we are under. I believe we are under the new investment policy for the next 6 or 7 years. At the end of that what I understand is right now it's probably generating much better margins than Gadepan-I and II but at the end of these six years how should we think about the margin profile from there? Should it normalize to what the older two units are making?

Anil Kapoor: Six years is a long period for anybody to conjecture. What would happen in the urea segment whether the government comes up with a sort of an NBS in urea, it's a very difficult call. After all government got in an NBS in phosphatic. So, our fervent hope would be that government comes in sort of an NBS in urea segment. I would like to mention to you that we are today operating at the site energy which is very-very low. With Gadepan-III operating today at one of the lowest energy consumption in the world, it's a very efficient plant. So, as a result of which our site energy itself is very low. So, we would love to have a sort of NBS coming in fertiliser sector in the next four to five years. That will really open Chambal Fertilisers, we can face any competition in the world. There's a presentation of Chambal Fertilisers which we have posted on our site. I mean all the participants should have a look at that video and have a look at what chemicals plant Chambal is operating today. It's a world-class facility. And post-COVID, Abhay, I request that you should take a team and let all your investors give them a walk through in the plant.

- Abhay Baijal:** Yeah, definitely, till things open up on travel and people are comfortable enough to travel, we can arrange for 20 - 25 people.
- Anil Kapoor:** It's a site which we are very proud of and I would say Chambal facilities are world-class facilities, we are second to none.
- Abhijit Akella:** The second thing I just had was on IMACID. What I gather is that there's probably been the loss of one significant customer for IMACID in India. Because of that the margins actually have come under some pressure. So, now that Phos-Acid prices are going up, do you see IMACID being able to recover those from other customers or is there a risk that we might actually miss this upcycle in the Phos-Acid?
- Anil Kapoor:** Alternatively, IMACID can always go in for a tolling arrangement and make DAP and there's a huge demand of DAP coming globally. So, I don't foresee margins of IMACID coming down substantially. Yes, some amount of disturbance can take place, but I don't see any major changes.
- Moderator:** Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.
- Rohan Gupta:** Some accounting question or some mathematical question from my side. We have Gadepan-I and II where we are still under the old regulatory regime where probably our profitability per ton or EBITDA per ton are restricted at close to maybe Rs.3,000 to Rs.4,000 per ton even if we take the additional benefit which the government has recently given. So, with that, we have roughly Rs.3,000 per ton EBITDA in our Gadepan-I and II. And at Gadepan-III, I understand rightly we are working probably at Rs.8,500 per ton with higher energy efficiency benefit probably maybe we're running at Rs.500 to Rs.700 per ton higher. With both of these things if I work it on the number that gives me an EBITDA for nine months of roughly Rs.1,350 to Rs.1,400 crore. That leaves me with almost Rs.800 crore kind of EBITDA from the non-urea. I understand that is primarily coming from maybe DAP and a little bit of value-added product. But still sir if look at our non-urea volume, we have done roughly 14 lakh or 13 lakh tons total. I just want that what is the contribution from non-urea in our EBITDA, if you can give some ballpark number on that?
- Anil Kapoor:** On public platform, my competition will kill me, if I disclose my margin which I'm making and my entire cost allocation strategy, costing strategy will go for a toss. So, please don't ask me questions which I cannot share on public platform. Profit is either coming from urea, it is coming from phosphatic, it is coming from non-fertiliser, there are only three segments we operate.
- Rohan Gupta:** Second question on your CAPEX plan. You are now definitely going to generate a strong cash flow. Do you look at any minimum?
- Anil Kapoor:** Let me tell you about the CAPEX plan. We had done the project of Rs. 6000 crore and we have created such a lovely company. We have already generated profit after tax of Rs.1,180 crore. All my participants who are there, you people have not even rewarded me for the investment which I have made. Government has cleared my subsidy. It is a literally a short-term debt-free company. I will ask you a counter question. You people also reward Chambal Fertilisers.
- Rohan Gupta:** Sir, must see the stock price. It has been rewarded very well sir.
- Anil Kapoor:** Price to earnings of seven to eight.
- Rohan Gupta:** Sir, I am sure that if you show us the growth plan of the company in next three years...

- Anil Kapoor:** There are so many companies which are operating at 60 /80/100. I sometimes envy them, and I start asking Abhay, when I will get the multiple of 50.
- Rohan Gupta:** Sir, I will say that if you show us the visibility, that your company will grow at 25% compounding for next four years, I am sure you are also going to triple your multiple from here.
- Anil Kapoor:** I like to just share with you, Rohan. I took over this company in 2007. We used to have a PAT of Rs.150 crore. Today, we are having a PAT of approximately Rs.1,200 crore. We have grown 8x. So, you calculate what is that CAGR of that. You are a good mathematician, eight times in 12-years, what is the CAGR?
- Rohan Gupta:** Sir, at that time the stock price used to be Rs.40 to 45, now it is Rs.250.
- Anil Kapoor:** Eight times, Rohan we have grown, and have patience, we will grow, we are businessmen, we are not going to let the money remain idle, but we will make sure that we will not make investment in businesses which we don't understand. That's a commitment which I would like to make to everybody. In the past, we made some investment in businesses which we did not understand. So, we are committed now to make only businesses where we know what's happening.
- Moderator:** Thank you. The next question is from the line of Tarang from Old Bridge Capital. Please go ahead.
- Tarang:** I would like to make a statement. When five years back, you started on the journey of Gadepan-III. There were so many uncertainties. We didn't know whether the plant would be commissioned on time. If the plant would commission on time, we were not sure whether the market should be there. If the markets were there, we were not sure our principal debtor would honor its commitments. And once all that happened, execution like has been recognized, it's been really nice in the last two years. And the working capital intensity, which was very high, the subsidy couldn't have come in at a better time because almost 40% of your capital employed was at a negative carry which gets released now. So, congratulations and really happy to see Chambal come such a long way. That being said so, when we look at the plans that you have and the kind of muscle that you have with your balance sheet, historically we've seen phosphatic is not as capital-intensive a business as urea is and non-fertilisers is even lesser in terms of capital intensity. So, that being said while I understand you've enumerated your plans multiple times in this call, do we therefore envisage a significant or a decent amount of outflow coming into the shareholders in the near future?
- Anil Kapoor:** Tarang, we have already announced a sort of a dividend policy and that we will be honoring that. So, we will have a sort of a consistent dividend which we will pay to all our shareholders. Barring which, time will tell. As Gaurav has mentioned, let's see what the disinvestment plan is and phosphatic play, NPK play, MOP, non-urea business, it's a huge business in India and Chambal would like to grow in that business going in for new geographies, expand in those geographies. There is plenty of opportunity for Chambal Fertilisers. You people will be very happy two to three years from now when you see how we have progressed. Give us some time we will grow. That is a commitment to the participants here.
- Moderator:** Thank you. The next question is from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.
- Nikhil Rungta:** Two questions from my side; first is I won't be asking any number on the debt side or the CAPEX side. I just want to know till what level the management would be comfortable increasing its debt-to-equity?

Anil Kapoor: We have not even discussed that internally, to be honest with you. That's a question I can't answer at this moment.

Nikhil Rungta: Second is, three years down the line, where do you see share of urea, non-urea fertilisers and non-fertilisers in the total EBITDA?

Gaurav Mathur: We are initiating our expansion plan and I think its very early stages. So, I think perhaps we'll be in a better position to answer this question one year from now where we get a better sense of the new geographies, etc., we're getting into.

Nikhil Rungta: But can we say the share of urea would be on a declining trend only?

Gaurav Mathur: As we grow in the non-urea segment then it's a natural conclusion that if the urea segment is by and large based on our capacity, then as we grow in the non-urea segment, then the shift will take place.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Can you share what will you not do or how big the acquisition you will not do which will impact our financials in the sense that a lot of participants have got that comfort that we have come down from our debt-equity ratio from 2:1 to 1:1 now.

Anil Kapoor : Lower than 1:1.

Amish Kanani: So, the question is, the appetite of the expansion come in organic opportunity can be very-very huge sir, and the opportunities also is very huge. So, in that context, if you can give us some broad contour or maybe if not now may be by end of fourth quarter what will we not do which gives us a comfort that we will be focusing on profitable and high ROC growth?

Anil Kapoor: Good question. We will definitely not do something which we don't understand. That is one thing which is very certain. We have made mistakes in the past and I think there's been a very steep learning for us on that subject. Now, what would be our debt-equity? What's the risk profile? As Gaurav has rightly mentioned, I think just give us some time, let us just assimilate. This much money has come suddenly, we were also not thinking, to be honest with you.

Amish Kanani: Congratulations to you.

Anil Kapoor: No, congratulations to Government of India. Let us not take credit for the money which has come. Our money has come because Government of India wanted to be very transparent in the budgeting process. I think you should congratulate the finance minister for that. As far as we are concerned, let us assimilate the money which has come, we will come back to you.

Amish Kanani: End of the year, fourth quarter call could be a good.

Anil Kapoor: Yes, end of the fourth quarter call.

Gaurav Mathur: If I just add, I think you used the right phrase. We are not looking for growth for the sake of growth, but we will look for profitable growth. So, it has to generate sufficient return on whatever investment we make.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

- Susmit Patodia:** My first question is the risks to business are significantly coming down. Would it make sense to also cover the ECB exposure we have especially considering the transition that LIBOR is undergoing, reduce the risks in the business further?
- Anil Kapoor:** There are two portions of that; one is the LIBOR which I will let Abhay answer how is he going to cover the LIBOR aspect, but till Jan of next year, we have fixed the LIBOR and we are protected on that front. As far as the forex spread is concerned, our Gadepan-III is a dollarized business as I had mentioned in the past also. So, we have a natural hedge available. So, whether rupee to weaken, our profitability in Gadepan-III will also improve.
- Susmit Patodia:** What if rupee strengthens?
- Anil Kapoor:** Our profitability will reduce. See when we started this business, it was at a lower rupee, now the rupee has depreciated. What is your feeling, Susmit, because you come from Motilal Oswal, on the rupee going forward in the next two to three years? That will give us a direction on how to play this market.
- Susmit Patodia:** My simple thing is that with this whole government subsidy risks going away, would it make sense to then reduce the other risks of the business and frankly no one knows where rupee is going to go, it can go to 40, it can go to 100, no one knows.
- Anil Kapoor:** My only question is with the inflation which we have in India vis-à-vis the global inflation, the delta of that inflation to that extent the rupee should weaken. If at all inflation were to come down to 2% to 3%, then the rupee can change. That's my feeling. I am not a finance guy. I am an engineer like Gaurav. We are hardcore engineers. Mr. Baijal is my finance head. So, he coaches us on the subject. There may be temporary phase because of certain inflows in FDI, the rupee may harden. In a long-term, the rupee should weaken unless we get our inflation at 2% to 3%.
- Susmit Patodia:** And what about the LIBOR risk?
- Abhay Baijal:** We are in continuous discussion with our bankers. There is another standard, it is called SOFR. At the moment, the document of Asia Pacific Loan Management Association, they are being transformed to take care of these changes because the benchmark is changing. We'll have to see how it works. I think somewhere in the second half of the year before this runs out and there is also a lot of rumor that LIBOR could be extended by one more year. There is a moment evolving issue, maybe by June, July, we will know exactly how this will be played. So, we will do accordingly. We are in discussions with our bankers. They have a clause which they have asked us to sign on which we will possibly later on but not at the moment. It says that the variation in the benchmark should be allowed and so on. So, as far as that is concerned, we are covered. As far as how we will play this, whether we will fix it on SOFR or we will re-benchmark on SOFR, but we have taken care that we do not have wind-up costs as Mr. Kapoor said, most of the derivatives on interest that we have taken will run out co-terminus with the finish of the LIBOR so that we do not have any wind-up costs on the derivative, that much we will ensure.
- Susmit Patodia:** My second question is as a country we're still importing urea and government is showing significant rational thinking towards the sector. Is there a chance that we could go beyond the 100% contracted utilization in G3?
- Anil Kapoor:** Time will tell. At this moment the government has not allowed us to sell beyond 100%. We are in continuous discussion with the government to allow us to sell beyond 100%.
- Moderator:** Thank you. The next question is from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.

- Manish Mahawar:** In terms of our Morocco, basically may be we are in a discussion stage to set up a plant or so. I just wanted to know what is the optimal Greenfield capacity generally globally in terms of phosphatic side and what will be the CAPEX requirement for a fully integrated plant?
- Anil Kapoor:** Optimal capacity, normally where globally people who put up plants is approximately 400 to 450 thousand tons of Phos-Acid per annum and which translates to a million ton of DAP granulation. And this is very-very approximate cost right now. It would be to the tune of between \$400 to \$500 million.
- Manish Mahawar:** Second, historically we have seen in the industry in India, I have not seen like any company is setting up a plant outside India at least for a forward integration. Most of the companies has a strategic investment in terms of raw material sourcing. So, what is our thought process in terms of setting up a plant outside India in terms of DAP? Most of the companies or industries has a tie ups in terms of raw material sourcing in India, we are planning to set up a DAP plant?
- Anil Kapoor:** Our logic is this way; I am an engineer, so Manish, I'll give you a little bit from a technical viewpoint. One ton of Phos-Acid requires approximately 3.5 tons of rock and Morocco has the largest reserve of rock in the world. The quality of rock is very good, and it is ideally suited to produce phosphoric acid. In India, in fact, the majority of the rock which comes is from Morocco. There have been capacities which have been put up in India with import of Phos-Acid. If you look at the freight component, freight of Phos-Acid to India is approximately \$85 per ton and freight of DAP to India from Morocco is approximately \$25 to \$30 a ton. Freight wise also it makes a lot of sense to import the finished product than to bring the raw material. It also makes ample sense to bring the finished product than to bring the 3.5 tons of rock, produce that Phos-Acid in India, put up a granulation capacity in India. It makes ample sense where I get DAP from. As we become global today most of our DAP players in India, they import Phos-Acid, they import rock, they import ammonia, they are only building a value addition to that small extent. What we are saying is we will do that value addition in Morocco, bring the finished product, and sell it in India. You tell me from a global perspective, which is a better model? To be honest with you, Manish, it is a no-brainer. And with that thinking in mind, Chambal put up a plant in Morocco in 1999.
- Manish Mahawar:** Second question is in terms of our non-urea fertiliser business. Definitely we have opened our office and this dealership and in other states where we don't have a presence earlier. What would be a market share on a pan India basis we are looking out maybe three to five years down the line for non-urea business?
- Gaurav Mathur:** Manish, Anil also mentioned in a comment earlier that these are difficult markets and we're just making an entry. So, I think it's a bit premature. I think in answer to another question similar to this, I said we will be in a better position to give you an answer on that may be six months or a year's time from now. I think we need to first really understand the market and see the dynamics over there. There are very-very strong players over there. So, it's a little early for me to make a mention of a market share.
- Moderator:** Thank you. The next question is from the line of Mr. Viraj from Securities Investment Management. Please go ahead.
- Viraj:** I just had one question. You talked about opportunities within agro. So, would it be right to think that at least for the near-term, focus will first be on phosphatic and crop protection and then probably we may be looking to play a much more wider value chain in agri? Just add to that, usually what we have seen in phosphatic, players while they also make a significant investment in backward integration, but a larger focus is on more margin-accretive products like NPK and the mixes and all other than the more commoditized product which is DAP. So, when we are kind of looking

at forward integration, would we be looking at that flexibility in terms of say switch from DAP to NPK kind of a product?

Anil Kapoor: As Gaurav has mentioned, that we are entering into certain newer territories where NPK is an important play. Chambal's bread and butter today is in the northern India territory where NPKs are not so strong, DAP is very strong because potash in cereals is not used to that large extent which in cash crops is used in the southern states. Also, in southern states, the soil is not so rich in potash as in the northern India, soil analysis shows that the potash requirement is not of a very large extent. With that in mind, North India has been predominantly a DAP market. Southern part of the country and western part, mainly, Maharashtra and south, there we have NPK and NPKS. Today, globally all products are available. We have imported NPK, we have imported NPKS, we have imported DAP. So, to that extent, capacities are available globally for us to import. Before we plan to put up our own capacity, there is no dearth of capacity globally.

Viraj: And on the agri, you said that focus will be on agri while we may probably look at any other opportunities also in agri on a selective basis?

Gaurav Mathur: I reiterate that, our primary focus will remain on agri business and that's what we are really looking at.

Viraj: On agri, what are the segments we may have a focus in the near, medium-term? Would it probably be non-urea fertilisers and crop protection and then we have a much larger play?

Gaurav Mathur: We have non-urea fertilisers, we have crop protection, we have micronutrients. So, these are the various areas in the agri sector which is non-urea really and we are really going to focus much more significantly on these.

Moderator: One last question in the queue. We take last question from the line of Amit Doshi from Care PMS. Please go ahead.

Amit Doshi: You mentioned that you are in talks with the Government for operating additional capacity in your unit for Urea production. So, at the time when imports are increasing and companies like you coming forward to apply for additional capacity, why would Government not allow, and what could be the reason?

Anil Kapoor: I would not be able to answer that question. It is the Government call, they need to take that.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Anil Kapoor: Nothing much except that it's been a good journey and let me assure the entire investment community that Gaurav is a very competent person. He has a very long experience in chemical industry. He is from IIT Kanpur and we have full faith in him to take Chambal forward. I've had a very long innings in Chambal and I'm sure that Gaurav will take Chambal to greater heights. Thank you all for the journey I've had so far.

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