



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Quarter 4 FY 2019-20 Results

Investor/Analyst Conference Call Transcript

May 26 , 2020

Neha Patil: Thank you. Good afternoon and thank you for joining us on Chambal Fertilisers and Chemicals Limited Q4 FY'20 Earnings Conference Call. Today, we have with us the senior management represented by Mr. Anil Kapoor - Managing Director, Mr. Gaurav Mathur – Joint Managing Director, Mr. Abhay Baijal - 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 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 interactive Q&A session. I would now request Mr. Kapoor to make his opening remarks. Over to you, sir.

Anil Kapoor: Thank you. Good afternoon, ladies and gentlemen. Welcome to our earnings call post declaration of results of Financial Year 19-20. I am happy to inform you that the Company's performance for the Financial Year 2019-20 has been very good and it has been best ever in the history of the company. We sold 3.16 million tons of Urea as against 2.54 million tons sold during the previous financial year. The company registered 125% increase in profit after tax which is Rs. 1,224 crores as against Rs.545 crores achieved during the previous year. Without considering the one-time deferred tax credit, the net operational profit after tax increased by 61% to Rs.880 crores as compared to Rs.545 crores during the previous year. Our total income increased to Rs.12,385 crores as compared to Rs.10,236 crores for the corresponding period last year. The increase in revenue and profitability is mainly attributed to the production and sales of urea manufactured from new plant and good performance of our marketed products.

Towards the end of the last quarter, the company faced the challenge of COVID-19 pandemic. The company's first priority was towards safety, health and wellbeing of its workforce. The next priority was to continue operation of all the three urea plants. Since we took many proactive steps before and after the lockdown to keep all critical employees within our premises, we were able to keep the plants running.

I am also happy to inform that till date all our operations are normal.

I will now request all the participants to ask questions which they may have with regards to the result. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Sarang Agrawal from Old Bridge Capital. Please go ahead.

Sarang Agrawal: I have a couple of questions. Sir, excluding G-III, I noticed that for the year, the G-I and G-II utilizations together have dropped from may be 130% in FY'19 to almost 105%. So, just wanted to understand, why did we see this drop and what are the levels that we are looking at in FY'21 for G-I and G-II?

Abhay Baijal: G-I and G-II production in FY 18-19 was 21.2 lakh tons whereas for this year it was 19.96 lakh tons.

Anil Kapoor: In the first quarter of last year, we had a problem with one of our reactors in Gadepan-I. That was the reason why this shortfall occurred. We do not anticipate any shortfall in production this year. We should be back to the old times.

Abhay Baijal: I was saying that in the last quarter (Q3) if you see and even in the running quarter (Q4) there is no difference - 5.34 lakh MT (Q4) versus 5.47 lakh MT (Q3). So run rate is the same. It was only, as Mr. Kapoor said, first quarter issue.

Sarang Agrawal: I was just wondering, one had a hunch that G-III will go for a shutdown in Q4, but we thought that would be made up by G-I and G-II. My sense is that may

be perhaps, going forward, we should look at G-I, G-II operating at similar levels to FY'19, correct?

Anil Kapoor: G-I, G-II you should look at what we have produced in the last quarter. And for G-III, as you all are aware, our 100% capacity is at 12.70 lakh tons. That is what we are allowed to produce. We are trying for some additional production like what we get for G-I, G-II. We are waiting for government approval. The moment that approval comes, we will come back and let people know.

Sarang Agrawal: Just wanted to understand, what were your pooled gas pricing for Q4 and what is the current pricing?

Rajveer Singh: The pooled gas price for March was USD 11.94 per MMBTU on NCV basis. You know there is a declining trend now. So, it should come down. April pooled price was around USD 9.7 MMBTU per dollar, on NCV basis.

Sarang Agrawal: Last question from my side was on the cash flows. So, if I look at H1 FY'20, you had almost Rs.1,000 crores of cash flow from operations, whereas the full year you had Rs.800 crores and your receivables also seem to have moved up. So, just wanted to understand, what has happened. Have we not received the subsidy or our trade receivables other than government subsidy have gone up drastically?

Abhay Baijal: You are right that in the first half we had a much higher proportion of flow as compared to the second half especially in the urea sector because the urea sector is paid at the moment only till November whereas the P&K sector has been cleared up to March as we speak but that was done only in April. Upto March, we were cleared up to December, January as far as P&K was there, but in the first half there was much better inflow than it was in the second half. As far as the market debtors are concerned, they are completely under control, there is no problem and we continue to maintain very low receivable position in any overdue bucket beyond 15-20-days. They are in the low single digits or double digits, maximum.

Sarang Agrawal: So whatever negative cash flows happened in operations in the second half is mainly on account of non-receipt of urea subsidy, correct?

Anil Kapoor: Absolutely, yes.

Sarang Agrawal: How are the trends looking now?

Anil Kapoor: Trends are good. We anticipate the government to give us some more money going forward and also the fall in gas prices will help our working capital tremendously.

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

Pratik Tholiya: On this G-III plant, you said that we are allowed to operate only up to 100% and you said you are working it out with the government. So what exactly are we doing on that front because if we have to keep it shut for one month every year that would actually hit our EBITDA quite significantly. So, what is the plan that you and the government is deciding, if you can just throw some light on that?

Anil Kapoor: I will not be able to share much on that except that, the government is concerned; after all, the material which the government gets due to additional production is literally at a lower price than imports. So the approval should come through, but we will not be able to commit to you before the approval is in our hand.

Pratik Tholiya: But beyond 100% if we produce, will the government pay us at same rate?

Anil Kapoor: No, it will be as per the policy which is governing Gadepan-I and II.

Pratik Tholiya: IPP plus something?

Anil Kapoor: The contribution is not much. The biggest advantage is that we do not then have to go through a shutdown of the plant. The plant continues to operate, so shutdown and startup losses are not there and maintenance expenditure

does not take place. So, overall, it is quite a good gain for the Company and for the government, it is urea which is cheaper than what they are importing.

Pratik Tholiya: In the COVID-19 call that you had done, you spoke about some imports are being delayed because of transportation and logistics issue. If you could just highlight how the situation is right now in the import especially for us on the DAP/MOP side?

Anil Kapoor: On DAP, I can only share with you the situation as of yesterday. Chambal has sold 1.52 lakh tons of DAP till day before yesterday compared to an industry total of about 11.5 lakh tons. So it is a very good number and we have contracted enough quantities. I don't think that there is going to be a challenge for Chambal Fertilisers.

Pratik Tholiya: Shipments have now become more frequent?

Anil Kapoor: Yes, we have got quite a few of shipments coming as we speak.

Abhay Baijal: This data is publicly available on mfms website.

Anil Kapoor: I am only quoting data which is there in mfms. I am not giving you any new data.

Pratik Tholiya: CAPEX is slightly higher this time at around Rs. 600-700 odd crores. I think, you mentioned, there were some milestone payments which were due which you have taken in this year. So, has all the milestone payments been completed or some is left which will be coming in FY'21?

Abhay Baijal: There is some very minor balance payment due to one of the foreign vendors. That is marginal, not very much, not of the order what you are talking about.

Pratik Tholiya: Otherwise, our annual CAPEX would be how much for FY'21 -22?

Abhay Baijal: Annual CAPEX runs at around Rs.80-90 Crores a year.

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

Deepak Chitroda: So basically a couple of questions. First of all, on the Gadepan-III, as you mentioned about 1.27 million tons of capacity, I mean, the production side. So, what kind of a mechanism are we working on? Is it in the similar line for G-III as we have for G-I and G-II?

Anil Kapoor: For additional capacity, that will be on the similar lines of G-I and G-II.

Deepak Chitroda: But more or less that has not been finalized yet or probably that is at the talking stage?

Anil Kapoor: No-no, the papers in government have moved and I think the approval should be coming soon. But till the approvals take place, we cannot commit. Also, the way you should see for fertilizer companies is to see on an annual performance basis especially for urea industry. If you see historically, bulk of our sales take place in the first three quarters. Performance of fertilizer industry should be looked at annual basis or in the first three quarters. The fourth quarter would be a weak quarter historically and going forward.

Deepak Chitroda: In terms of future plans, what are we basically aiming to do beyond Gadepan-III in terms of expansion plans or future plan of action for Chambal as a whole; probably say two or three years down the line?

Anil Kapoor: At this moment, we have got a large debt on our books. If you look at our debt-equity, it is still very high. We have to bring down our debt-equity. We are in a commodity business. After our debt-to-equity has come down to comfortable level, we will look at either some expansion or we can even go for some acquisition from the market. But that would come after we are comfortable on our balance sheet.

Deepak Chitroda: So what is your target in terms of net debt-to-EBITDA level or total net debt level probably for FY'21 or '22?

Anil Kapoor: Our target is that we should come down to debt-equity of approximately one and that should happen in a couple of years' times. Am I right, Anuj Jain?

Anuj Jain: Yes sir.

Anil Kapoor: So that is the timeframe we look at expansion also.

Deepak Chitroda: So in terms of trading business now, if I talk about sir. As I understand, there has not been much change in terms of MRP but I think in the industry most of the players have reduced their discounts which they were offering on MRP. Obviously, there are couple of reasons behind it because of the rupee vs. dollar. So do you think in FY'21, the margins will be much better compared to last year?

Anil Kapoor: In FY'21, we should, on this front, do better than last year, both in quantity and margin.

Deepak Chitroda: So, have we started getting any benefit of the cross-selling of the traded volumes basically because of Gadepan-III?

Anil Kapoor: Absolutely. Our DAP volumes this year were 9.5 lakh tons compared to approximately 8 lakh tons last year and last to last year we did 8.7 lakh tons and going forward we should definitely do higher than that. If you see, in the last year in the first four months, we sold 2.25 lakh tons. So far up to 23rd, 24th, we have already sold 1.52 lakh tons. Our growth rate is much higher than last year. I can only mention to you what has gone on in the past.

Deepak Chitroda: And my last question is regarding the Gadepan-III long-term loan which we have taken. So if I understand it correctly, every year we have to have a payment schedule of around Rs.600 crores or so. Am I correct in that understanding sir?

Abhay Baijal: Yes. This amount is little higher i.e. about Rs.700 Crores.

Deepak Chitroda: So, if I look at our net borrowing position as on FY'20, I think the major spike which we have seen that is only due to the short-term borrowings which we have done mainly due to I think the higher volumes which we have got from Gadepan-III, I guess?

Anil Kapoor: Our major short-term borrowing is because of receivable from Government of India.

Deepak Chitroda: Because we have larger volumes because of Gadepan-III, right? That is why our short-term borrowing has increased, correct?

Anil Kapoor: Yes.

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

Madhav Marda: I just wanted to understand the debt reduction target which you have spoken about. Would it be fair to say that is anything close to Rs. 1100 to 1200 crores of free cash flow every year; this year and next year more or less?

Anil Kapoor: Let us discuss about last year. We generated operating profit of Rs. 880 crores. There was depreciation of approximately Rs.290 crores and there would be a tax, because this Rs.880 crores is calculated on full tax whereas we are on MAT. Anuj, can you mention the total cash profit and free cash?

Anuj Jain: It is about Rs.1,400 crores.

Anil Kapoor: From that we remove the dividend and we remove the CAPEX. So, the free cash would be approximately Rs.1,100-1,150 crores.

Madhav Marda: With LIBOR having come down, there should be some saving on the interest cost for us this year. If you could help us with that how much could we be saving on that?

Anil Kapoor: Madhav, we should definitely have saving this year but however if you look at the first quarter, the fixation of LIBOR was at 1.45%. The benefit really should accrue going forward because now the LIBOR has come down to 0.38%. So, now we should get the benefit in the next nine months and there will be definitely a lower interest cost this year.

Madhav Marda: What was the LIBOR last year and in FY'20 how much it is vs. FY'19?

Anuj Jain: The year started with about 2.3% and in between it was about 1.8%, so average can be around 1.8% to 1.9%.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investments. Please go ahead.

Resham Jain: Sir, on the overall cash generation which you mentioned, what has happened this year is that from the CAPEX whatever balancing amount need to be paid and the increase in working capital has led to debt amount being actually slightly higher than what we have seen last year. Going into next year now, you mentioned that the goal is to repay debt over the next two years and if we just look at the cash generation, is it fair to assume that you will be able to repay like Rs. 2,500-odd Crores over the next two years?

Anil Kapoor: If the subsidy remains as was last year, then in the ballpark, we should be able to pay Rs.1,800-2,000 crores.

Resham Jain: The trading business, other than the P&K business, I think two, three years back, we were looking agrochemicals to be very promising business. Any thoughts on the same?

Anil Kapoor: While we continue to do agrochemicals, that is not a growth area for Chambal right now. Growth area for Chambal is in the DAP and MOP. While we will continue to maintain what we were doing earlier, that is not our growth area as of right now.

Resham Jain: The recent locust attack which has been in news, do you feel any significant impact of the same on the geography, because we have a larger part in Rajasthan and a bit of UP and those areas? Are you seeing any impact of the same being visible?

Anil Kapoor: I am aware of this locust attack. It has just come last few days back. But I let my marketing head to take that question.

V.K. Gupta: This locust attack has come in 2-3 streams. One is Jaipur side - Jaipur-Dausa, which was 2-3 days back. Another is Jhansi side. Good thing is that at this moment there is no crop on the ground and temperatures are very high. So, India would be safe to the extent that no crop damage would happen but they may damage the fruit crops or the vegetable crops. But this is on the drier

part. Bundelkhand is also a dry part of India. Jaipur-Dausa and Bharatpur side is also dry part. Some are about to enter Agra side also and government agencies are taking care; they are aware of it. So, not much damage has taken place till now. Had it happened in August or September, there would have been severe damage because then crop must have been in the fields.

Resham Jain: Sir, do you feel that in the next two months, with the temperature and then the rain, this should be settled? In the sense, it should not be a major cause of worry for us in the next two months?

V.K. Gupta: At this moment, the worry is that more attack should not come from Iran and Pakistan side. Government agencies are all alert and they are taking actions against that. Pesticide sprays are taking place. So, they are being contained, we can say this thing, and it is passing downside. I mean, it is not coming up north, it is going towards south or south east.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: A couple of questions. First, you mentioned that definitely after two years you would be more comfortable with debt-equity ratio. Cash flow still will remain very solid and strong and that can give you an opportunity for some acquisition sort of opportunity. Do you see that in fertilizer business, right now also there are some opportunities and if that so then rather than just looking at the balance sheet size as of now, you will be okay even acquiring some assets available at a cheaper rate at current scenario before two years also or you are very sticky about balance sheet being leveraged as of now?

Anil Kapoor: If something is very attractive, we will definitely look into it because we will definitely look at what will happen to our balance sheet, what will be the synergistic effect and how much cash we can generate from the new business. If something is attractive and we can turn it around then we will not leave that opportunity.

Rohan Gupta: In that sense, right now that almost there are 2-3 companies definitely facing a lot of stress including your own group company. So what is the thought process there? I believe that with the current pressure on capital, a couple of companies are only able to do the business, but weak companies are going to lose the business. So, do you see that there are opportunities exist earlier than what you are projecting and is there any merit for doing something?

Anil Kapoor: If opportunity comes, we will not be found to be wanting and those will not be very expensive propositions. In the marketplace, whatever companies may come or likely to come in the near future, they are not expensive.

Rohan Gupta: When you say acquisition, I believe you are looking at the plant assets, right?

Anil Kapoor: There will be plant assets. You never know. Government has also announced that they would like to go through a major disinvestment scheme. So, we should keep ourselves free for that also.

Rohan Gupta: So, disinvestment once again, if you are looking at any of the NFL and RCF and all, they will be only for the plant assets, right, not for the marketing or nothing because you already have fantastic brand and pan India distribution? So, anything you are looking at just plant assets ?

Anil Kapoor: I will not talk specific about companies because this is not the right forum, but each company has their own brand and own geographies. For example, not that RCF has come to picture and we are looking at RCF. So there is an upfront disclaimer on that issue. RCF brand is quite strong in say Maharashtra or Karnataka, whereas Chambal brand is not so strong in Maharashtra and Karnataka. So, anybody who acquires say RCF not necessarily Chambal, would like to have that brand also. It is not necessarily an asset sale, it could be company purchase.

Rohan Gupta: Sir, you just mentioned that going forward your focus for growth area can include DAP and MOP. I believe that your Company has always been in favor of trading of DAP and MOP because that is where you believe the margin lies and that is leveraging your distribution network. So, when you say that growth

area is DAP and MOP, once again you are looking for manufacturing assets in creating or buying in DAP and MOP or just only trading you are highlighting?

Anil Kapoor: Let me put it this way; if you look at consumer product companies in India today, big ones, without taking names, they do not manufacture the product. They get the product manufactured from somebody else. Am I right? So, if I can get the product manufactured by some other company, may be an Indian company, that would be a good opportunity for Chambal to grow, without investing in assets.

Rohan Gupta: Absolutely, sir. That will be very asset light business model that even nobody is stopping you even to do right now also. So, you are saying that, later on in next two years, these are your growth areas. So, I just want to understand that where the potential cash flows of the Company is going to be invested even after two years?

Anil Kapoor: After two years or within two years, as I mentioned, there will be definitely some opportunity which will come in acquisition space.

Rohan Gupta: This present scenario and in terms of DAP trading, I just want to understand that what is your procurement price of DAP and how is the market situation in terms of logistic issues you are facing, because the season is just kicking in now?

Anil Kapoor: We definitely plan to do volumes higher than last year. Our plan is definitely to do better. We also definitely plan to do better margins than last year. There will be problems in the logistics, but for a company like Chambal, if there are problems in the marketplace, then there is an opportunity for good well run companies and well run companies will always get advantage of that. For example, if there is a logistic issue, some companies will get the business right who will deliver it to the farmer on time and grab better market share.

Rohan Gupta: So, this is the time for the strong companies to actually gain market share. However, industry volume may remain flat or may come down, you do not want to comment on that?

Anil Kapoor: I cannot comment on industry, but I can only comment on Chambal Fertilisers.

Moderator: Thank you. The next question is from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

Ritesh Gandhi: Just a couple of quick questions. On your calculation on free cash flow, you have added depreciation to operations free cash flow. But would not operations free cash flow already have adjusted for depreciation and therefore there is calculation mistake in terms of what the free cash flow is?

Anil Kapoor: I was going by last year's numbers. We generated operational profit of Rs. 880 Crores, that is at PAT level. Then you add back depreciation and tax benefit as we are on MAT.

Ritesh Gandhi: The depreciation has already been added back to reach your operational free cash flow.

Abhay Baijal: We have said that our operational cash flow was Rs. 880 crores. We are taking away the effect of that Rs.322 crores of deferred tax recycle. Now, you add back to that about Rs.280 crores of depreciation, that make it Rs.1160 crores and then you see the 50% of the tax is actually cash paid and 50% is basically a deferred tax adjustment which is non-cash. So, 50% of the tax itself is about Rs.200-odd crores. So, that is how Rs.1,400 crores Mr. Kapoor mentioned.

Ritesh Gandhi: I understand the taxation aspect of it, but depreciation has already been added back on reaching operations free cash flow, if you look at your cash flow statement?

Abhay Baijal: We were talking about free cash. We were not talking about anything else and these numbers will come back to the same.

Anuj Jain: We can also calculate from profit before tax. If we start from profit before tax, add back depreciation and reduce the current tax.

Ritesh Gandhi: I will take it offline. The other question was that despite extremely healthy EBITDA numbers and profit numbers, our overall net debt has actually increased. A component of it is legacy CAPEX which we paid for this year. So, how should we be thinking about this going ahead?

Abhay Baijal: Please understand that the legacy CAPEX itself shown is about Rs.640-odd crores and that will fall off. As far as the cash generation is concerned, we will be remaining at more or less the same level. The only lever that remains is something like what is the further built-up in the working capital.

Ritesh Gandhi: Despite that free cash flow, effectively speaking, even if you add back this Rs.600 crores of legacy CAPEX which we have gone for this year, there has not been a reasonable amount of deleveraging, in fact, debt has increased by over Rs. 600 Crores.

Abhay Baijal / Anuj Jain: Please also factor in that we have repaid debt also - Rs.600-odd crores repaid and Rs.482 crores we have drawn.

Abhay Baijal: So, net-net we have actually repaid out for the long-term cash. We paid almost Rs. 440 crores of long-term loans. We also paid some medium-term loans off. So that is where also the utilization of cash happened. What we are saying is, if you see the numbers of debt-equity, they come down to 2.13.

Ritesh Gandhi: If you look at your last slide and when I look at net of borrowing which has increased by Rs.600 crores or whether you look at borrowing in the financial which has increased by Rs.1100 crores, I am saying that even if we adjust for Rs.600 crores of CAPEX which is for this year, we still are not paying down our overall net debt despite having an excellent year and it has not really reduced?

Anil Kapoor: The reason being, our working capital has increased also because from Gadepan-III our subsidy outstanding has increased. That should stabilize going forward.

Ritesh Gandhi: Ok, so how much is the safe assumption for the net debt to reduce as of FY'20?

Anil Kapoor: Assuming the subsidy remains the same then the free cash which we generate, to that extent debt should reduce.

Ritesh Gandhi: I think the concern is that do you expect the subsidy outstanding to remain actually flat?

Anil Kapoor: This is a COVID year. We want to see whatever the government plans. We are quite confident that they will maintain the subsidy which they have provided for in the budget. If they do that, the working capital also is coming down because of the gas prices coming down. So, subsidy burden from government of India will reduce.

Ritesh Gandhi: So, the reason for the overall increase in net debt is a combination of your historical CAPEX being included and paid for this year which is over Rs.600 crores and because your new plant has become operational, your actual working capital has increased but it is not going to materially increase from here. In fact, it will stay flat or maybe slightly go down. Therefore, the deleveraging which we can do in the current year and the next year going forward will be materially higher. Is that the right assumption?

Anil Kapoor: Theoretically, what you are saying is correct.

Ritesh Gandhi: And practically?

Anil Kapoor: Practically, I do not want to count my chickens before they hatch. I personally believe debt burden should reduce this year.

Moderator: Thank you. The next question is from the line of Ravi Sundaram from Family Investments. Please go ahead.

Ravi Sundaram: This being a COVID year, the key question was on the subsidy receivables for this financial year which is FY'21 from the government. Do you have any view on that as of now?

Anil Kapoor: As of right now, I think the government will stand by the commitment it has made in the budget. I have no reason to doubt because in the first quarter they have made that budgeted number.

Ravi Sundaram: My second question was on the recent drop in gas prices. I understand this equation for G-III. But how does it work for G-I, G-II, any color on that sir?

Anil Kapoor: Similar, to that extent, G-I, G-II on the working capital side will benefit more because they are slightly inefficient plants compared to G-III.

Ravi Sundaram: So \$9 per MMBtu that you have mentioned, is it average for all three plants?

Anil Kapoor: That is the pool price for the entire industry.

Moderator: Thank you. The next question is from the line of Sharad Avasthi from SPA Securities. Please go ahead.

Sharad Avasthi: Regarding the numbers, in the current quarter what is the kind of road movement of fertilizer that we are seeing, because most companies that we have spoken to seem to have logistic issues?

Anil Kapoor: I will just share with you how much urea we have sold. We have already sold 5.25 lakh tons of urea. We went with an opening stock of approximately 1.5 lakh tons. We will have no problem in selling whatever we produce, barring what is in transit, and whatever we had opening stock in this quarter. We don't foresee any problem.

Sharad Avasthi: Regarding the new pricing scheme, are we entitled to get this Rs.500 per ton from the urea production that we do?

Anil Kapoor: Rs.350 per ton for G-I and approximately Rs.250 per ton for G-II.

Sharad Avasthi: We are not yet including this in our prices, right?

Anuj Jain: No, this is already accounted for in the last year numbers.

Sharad Avasthi: This is getting accounted right now?

Anil Kapoor: Yes

Moderator: Thank you. The next question is from the line of Ashok Patel from Financial Research. Please go ahead.

Ashok Patel: Can you just enlighten a bit about your debt reduction plan? I just wanted to get a clarity on this.

Abhay Baijal: Debt reduction plan - one is driven by the actually agreed repayment or amortization. When I mentioned sometime back somebody had asked, I said Rs.700 crores will be paid this year. So that is part of that debt reduction anyways. The other part of the debt reduction will come if the government pays on time and we are not required to borrow in terms of our short-term borrowing. These are the only two levers. First has to happen because we have to repay our debts on time. The other part, as Mr. Kapoor said, we will count our chickens once they come home. And if things improve after June, I am sure we will be able to reduce plus the gas prices which are going down that definitely have a salutary effect on the short-term borrowings that we have. So, that is how the debt reduction will happen.

Ashok Patel: So should we assume around Rs.1,000 crores of debt repayment in FY'21 and another Rs.1,000 crores in FY'22? Is that the target sir?

Anil Kapoor: Ideally speaking, it should happen.

Abhay Baijal: Let me put it this way, Rs.700 crores is done and dusted, anyways that we have to pay, it is not a choice. Now the Rs.300 to 400 crores that you are talking is definitely possible, if the government maintains or slightly improve the payment of subsidy. We feel that with the reduction that we are talking about, at least a \$1 or \$1.5, that has a benefit in terms of the reduction in subsidy which the government has to pay. So, whatever budget they have they will stretch a little further.

Anil Kapoor: Two things will happen; one, our working capital will definitely come down because of gas prices having come down. And two, compared to last year, the DAP prices are also lower. So that will also have an impact on working capital.

MOP prices have substantially reduced compared to last year. So, all these three things will definitely have an impact on our working capital.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: My question is more on the strategy front. I mean, you have to tread a fine line between growing by acquisitions and maintaining a rating which are currently quite strong at AA by CRISIL. So, in terms of any acquisition that you plan, how important is to maintain a certain credit rating?

Anil Kapoor: In fact, the target given to Mr. Bajjal is that he has to take it to AA+. I hope that answers the question.

Vivek Ramakrishnan: No, due to acquisition, debt is going to put pressure on the Rating, that is why I wanted to know.

Anil Kapoor: We would not like to compromise our rating. It is with very great difficulty we have gone into 'AA'. We would like to further improve our rating in fact. We are in a commodity business. This year, we are fortunate that with COVID, we have been able to manage our operations. But a good commodity company run a very efficient operation as far as the debt-equity is concerned, if I look at the balance sheet.

Moderator: Thank you. The next question is from the line of Amit Doshi from CARE PMS. Please go ahead.

Amit Doshi: You mentioned that the gas prices are down and the DAP prices are down, so you expect working capital also to reduce. Can you just broadly give in terms of percentage terms how much down is the DAP and the gas? You mentioned USD 9 point something is the pool price but in percentage terms if you can give some idea.

Anil Kapoor: Gas price average for the year, if the crude remain at levels, we should see a gas price reduction between 20% and 30%.

V.K. Gupta: DAP started around \$400 CFR India and it came down as low as to \$290, average was around \$340.

Anil Kapoor: So last year average, was \$340 - 350. This year, we are now at around \$315 - 320. You can talk of about 10%.

Amit Doshi: If this situation remains, then probably Rs. 800-1,000 crores of savings on working capital could happen?

Anil Kapoor: I will have to do my calculations to check.

Amit Doshi: On the G-III, you are planning for additional approval for the quantity to be produced from 12.7 lakh ton to higher. So what is that percentage because you mentioned same as G-I and G-II?

Anil Kapoor: I will tell you what we get in case of G-I and G-II. In G-I & G-II, we are reimbursed approximately Rs. 2000 per ton gross margin. That's what we should aim to get in Gadepan-III.

Amit Doshi: I was talking in terms of the higher production. So, what would be in terms of percentage? Like current capacity is 12.7 lakh MT what you are allowed to produce and which you actually have produced despite that 25 days of shutdown?

Anil Kapoor: Approximately 9-10%.

Amit Doshi: So in that case we need not go for maintenance shutdown, etc.,?

Anil Kapoor: More important is that we do not go through the shutdown because the start-up cost we save and that is quite substantial.

Amit Doshi: Of course, our margins have significantly improved and the biggest contribution should be of G-III plant. Would you want to say that what are the other parameters which also improved our margin apart from contribution from G-III?

Anil Kapoor: G-III and marketed products.

Amit Doshi: So what could be our share of branded agri inputs?

Anil Kapoor: Our share in the marketplace is around 10% in DAP. India sells approximately 10 million tons of DAP. We have sold 9.5 lakh tons. It is 9-10% is what we sell, but we are predominantly a western and northern company, we do not sell much in south. So in our territory, we have a market share of approximately 14-15%.

Amit Doshi: This recent fertilizer policy which is proposed to ban around 27 types of chemicals, anything that we sell and if at all what could be percentage or any impact do you believe in?

Anil Kapoor: I do not think so that will have any significant impact on Chambal Fertilisers because if you look at from our gross EBITDA to the margins which we make because of agri products, like 27 chemicals which you have just mentioned, it will be very miniscule for Chambal, nothing substantial.

Amit Doshi: Sir, you mentioned, we believe that FY'20-21 will have a better volume and margin. So, one is, of course, whatever the lost production of G-I, G-II of Q1'19 issue. Another reason could be this additional approval if at all from government comes in. Apart from that, what could be the other trigger for increasing volume, apart from these two?

Anil Kapoor: Volume would be marketed products you have mentioned. We should do better than last year.

Amit Doshi: Like 10% higher or something?

Anil Kapoor: It is not fair to tell you on a call. There is competition also at this time.

Moderator: Thank you. The next question is from the line of Sarang Agrawal from Old Bridge Capital. Please go ahead.

Sarang Agrawal: Just a couple of follow-ups sir. Once the approval for operating G-III beyond 100% comes through, my sense is there would not be any impediments in pushing these volumes, right?

Anil Kapoor: I agree with you.

Sarang Agrawal: Second, sir, you spoke about substantial shutdown and start-up costs that the plant has to undertake when it is not operating. Could you give a color in terms of what ballpark amount could that be?

Anil Kapoor: Rs.10-20 crores.

Sarang Agrawal: Just wanted to confirm in terms of CAPEX breakup for FY'21, what is the breakup between milestone and maintenance?

Anil Kapoor: Our major CAPEX which takes place is in Gadepan-I and II. Gadepan-III is a new plant, so we are not going for any CAPEX. This is all basically routine capital maintenance. It is an old plant; 1994 vintage and 1999 vintage. So, basically it is replacement of assets.

Sarang Agrawal: So the Rs. 100 crores figure that sir alluded to, that is mostly for G-I and G-II on a per annum basis?

Anil Kapoor: Rs. 80 Crore to Rs. 100 Crore. Mostly for G-1 and G-2.

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

Deepak Chitroda: A couple of follow up. So, about this fixed cost which the industry has got a reimbursement of Rs.350 per ton. So, the entire amount we have factored in for last year and there will be no further provisioning on that, right?

Anil Kapoor: We have already accounted for last year and we will continue to account for this year.

Deepak Chitroda: Write-off which we have taken around Rs.62 crores about the SSP plant and machinery and all. So, if I understand it correctly, as of now we do not have any further write-off in that side?

Anil Kapoor: We have completely cleaned up our books.

Deepak Chitroda: And same goes with the software business which we had, right?

Anil Kapoor: Yes.

Deepak Chitroda: On the new product which has come especially from the competitors like for example IFFCO, KRIBHCO about the nano fertilizer. Of course, I understand it is very early stage to comment on that?

Anil Kapoor: Let us not talk of competition on nano. I would not like to discuss nano in an open forum.

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

Madhav Marda: I had a quick follow-up. So, when we look at doing any sort of M&A in the fertilizer space, could you just give us a sense of what is the synergy, what is the value add we bring on the table – is it the ability to run these plants much more efficiently versus existing people or what can we do to revive the plant and make it profitable versus what it is right now?

Anil Kapoor: We do two, three things which Chambal has demonstrated over the years. One is, we do capital investment in a most efficient manner than anybody else in the industry. We did this project in flat 31-32 months and for us to do such a large project and to run it in the first year of operation at 100% capacity is no mean achievement. Two, I am very proud to say that our quality of urea is best-in-class. In a marketplace, you can check with any of the farmer. I think that Chambal urea is a best-in-class product. In our plants, we know how to manage products. That is the core strength of Chambal Fertilizers. Now, what else do I look for in a new acquisition? What new markets will it give me? In North India, we have got a fair dominance of urea. We are increasing our market share as far as DAP and MOP is concerned. So our next strategy should be to improve our market share in new domains in India where we are absent today. That is what we should look at going forward.

Madhav Marda: Is there also anything on the efficiency metrics because our Gadepan-III is one of the most efficient urea plants like if not globally, at least in India.

Anil Kapoor: Today, Gadepan-III, according to KBR - Kellogg, Brown & Roots who is our licensor, is the most efficient plant in the world.

Madhav Marda: Which is why I thought that can we also add the efficiency metrics to these plants which we buy out because the legacy asset it will not be that easy?

Anil Kapoor: I agree. We should always make investment if there is a payback. There is no point making investment for energy saving when there is no payback. It should make financial sense. You will appreciate that. In financial sense, we will definitely invest.

Moderator: Thank you. The next question is from the line of Siddarth Mohta from Principal India. Please go ahead.

Siddarth Mohta: My question is on IMACID. If I have to see the IMACID performance in FY'20, it has sharply gone down as compared to FY'19. I do understand that we have considered 15-month in that year. So how we should look at our performance in FY'21 or what are the steps that we are taking to make it more profitable?

Anil Kapoor: I think IMACID now will have slightly better performance than last year. You will appreciate IMACID sells acid mainly into India and some of the Indian companies have not done so well. But however, this year should be better for IMACID. And we are also looking at some minor tweaking by debottlenecking and increasing our capacities in IMACID. But you will appreciate that in IMACID-Chambal has 33% share, so it is only one-third of the profit which comes into our books.

Siddarth Mohta: Second question is on our Gadepan –III plant. At what GCal level that particular plant was operating in FY'20 and if there is any further scope of efficiency in FY'21?

Anil Kapoor: We operated that plant approximately at around 4.98 to 4.99 Gcal per MT of Urea and we should definitely operate better than that this year. It all depends on that we do not get unexpected shutdowns. Every shutdown impacts us by about 0.03 to 0.04 (in energy terms).

Siddarth Mohta: Assuming that the plant continues to operate at 100%, so this 4.98 or 4.99?

Anil Kapoor: Definitely it should do better.

Siddarth Mohta: Sir, a bit difficult question for you, but if you can just put a range, is there any scope to reduce by like 10 to 15%?

Anil Kapoor: No, 10% is too much.

Sidharth Mohta: Sorry, 0.1.

Anil Kapoor: 0.1 improvement (in energy) is definitely possible.

Siddarth Mohta: Sir, any change in our IPP number or for the capacity beyond 100% for G-I and G-II or government is still sticking with the same formula?

Anil Kapoor: The government reimburses us a fixed amount and I do not anticipate that we will not get that amount this year. The way the IPP is ruling, the first shipment which have come in this quarter is at around \$250/ton and with gas prices dropping, we should be able to get the margin which the government allows us to make.

Moderator: Thank you the next question is from the line of Ravi Sundaram from Family Investment. Please go ahead.

Ravi Sundaram: I just have one clarification. You mentioned that there is a guideline not to produce beyond 12.7 lakh tons for G-III. But we are a net urea importing country. Just a general question, not probably on your business. What is the rationale just for us to understand to limit?

Anil Kapoor: The limit has been set because that is a sort of reimbursement to the company for the CAPEX which we go through. So that is why the margins are reasonably high so that we can make money and repay our loans. And government had then set up 100% at 12.70 lakh tons. That was the logic for setting up the number.

Ravi Sundaram: If you can operate a little more, you will actually be able to repay a little faster, by that logic?

Anil Kapoor: Government will allow us most probably. Let us wait for the policy. But not at the same level of margins what they would allow up to 100% capacity. For upto 100%, Government has more or less committed to give us the margin. Beyond 100%, the margin would definitely come down.

Moderator: Thank you. That was the last question. Ladies and gentlemen, on behalf of Chambal Fertilisers and Chemicals Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.