



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Q1 FY 2014-15 Results

Investor/Analyst Conference Call Transcript August 8, 2014

- Neha Patil** Good evening and thank you for joining us on the Chambal Fertilisers and Chemicals Limited Quarter 1 of FY15 Earnings conference call. Today we have with us the senior management represented by Mr. Anil Kapoor (Managing Director); Mr. Abhay Baijal (CFO); Mr. M. S. Rathore (Vice President, Legal, CS & Communication); Mr. V. K. Gupta (Vice President, Marketing), Mr. Anuj Jain (General Manager, Finance) and Mr. Rajveer Singh (General Manager, Legal & Secretarial). Before we begin I would like to add that some of the statements to be made in today's discussion may be forward looking in nature. We will begin the call with the opening remarks from the management after which we will have the forum open for an interactive Q&A session. I would now request Mr. Kapoor to make his opening remarks. Thank you.
- Anil Kapoor** Thank you. Good evening ladies and gentlemen, welcome to our first earnings call of FY14-15, post declaration of quarterly results. I would like to share with you some of the highlights of the first quarter ended 30th June 2014.
- As you can see from the results, the first quarter has been a decent quarter for Chambal Fertilisers. We have done really reasonably well both on revenue and profitability front. Our revenue has increased by 18% to Rs. 1997 crores against Rs. 1690 crores and PBT has increased by 68% to Rs. 123 crores from Rs. 73 crores in the corresponding quarter of last year.
- You are aware that the company has three business segments - Fertilizer, Textile and Shipping. The revenue of our Fertilizer and agri input segment went up to Rs. 1748 crores, an increase of 18% over corresponding quarter of last year. The revenue of shipping segment went up by Rs. 25 crores and textile by Rs. 12 crores. PBIT of our fertilizer and agri input segment in Q1 is Rs. 176 crores; shipping is Rs. 6 crores and textile is Rs. 4 crores.
- As compared to the corresponding quarter of FY13-14, we have done better in all three segments. The coming months will be challenging for our fertilizer and agri input division, due to not-so-normal monsoon in the country. We expect shipping and textile division to maintain the performance for the rest of the year. I will now request all the participants to ask questions.
- Moderator** Thank you very much Sir. Participants, we will now begin the question and answer session. The first question is from the line of Prakash Goel from ICICI Securities. Please go ahead.
- Prakash Goel** I have couple of questions. First with regard to trading segment. How has been the quarter for the trading segment and what has been the profitability?

Anil Kapoor Prakash, there are few things we will not be able to share during a conference call. These are segment wise profitability of products namely Phosphatic and MOP. But I can share with you the tonnage which we have sold. The quantity of DAP which we sold is approximately 123,000 tonnes. The quantity of MOP and agro-chemicals are in line with our performance of previous year.

Prakash Goel Sir, on the inventory side in P&K, what is your view about the industry?

Anil Kapoor As you are aware - Prakash, Phos-acid prices have not yet been concluded. We expect a higher price of acid than last time. DAP which was ruling at around \$450 to \$460 per ton is now been quoted upwards of \$475 to \$480. So the margins have substantially squeezed in the Phosphatic segment. This coupled with the rupee pressure, the coming quarters are going to be very interesting for the Industry.

Prakash Goel The second part of the question is - how has been the inventory situation in the distribution system?

Anil Kapoor There is hardly any inventory in the distribution channels. The excess which was there in earlier years has all but disappeared.

Prakash Goel So what is the level of inventory as per your estimate, Sir?

V K Gupta Last financial year we had opening inventory of about 40 lakh tonnes of DAP in the channel. This year we have started with about 20 lakh tonnes and most of that has been consumed in the first quarter. So now inventory level would be bare minimum i.e. about 7 – 8 lakhs tonnes.

Prakash Goel What about P&K?

V K Gupta We are not aware of P&K.

Prakash Goel How much subsidy payment have you received and what is the outstanding at the end of the quarter?

Abhay Baijal Prakash, we had a March 14 opening of total of Rs. 2,971 crores which reduced to Rs. 2,581 crores at the end of the first quarter of FY 15. As of today, our outstanding is about Rs. 1,400 crores. We have received substantial amount post June.

Moderator Thank you. Next question is from the line of Balwinder Singh from Prabhudas Lilladher. Please go ahead.

Balwinder Singh Sir, I understand that you will not be able to give us the EBIT of the trading segment. But if you could just give some colour as to how the bulk fertilizer sales was and how the non-subsidy business was within the trading business?

Anil Kapoor As far as the profitability is concerned, the bulk of the profitability comes from fertilizers. The agro-chemical business of ours is a very steady business. Annually we generate approximately Rs. 50-60 crores of PBT on our agro-chemical business.

Balwinder Singh You have clubbed both your trading and urea revenues under one segment in this quarter. So what I wanted to understand was that within this segment, there are two elements - one is your fertilizer trading and one is the non-subsidy business trading. Since, in this quarter monsoons have not been good and were delayed. So if within this segment, if you could just throw some light on the non-subsidy business trading?

Anil Kapoor The subsidy bulk business i.e. fertilizer profitability is definitely better than the non-subsidy, because non-subsidy business is a very traditional business of Chambal Fertilisers. As I had mentioned, we generate about Rs. 12 crores to 20 crores profitability per quarter.

Balwinder Singh Would you be able to share any kind of margins on this non-subsidy agro-chemicals?

Anil Kapoor No.

Balwinder Singh Okay, what is happening on the IT / software front?

Abhay Baijal The IT/software division has been facing lot of headwinds, because the origination market in the US has been going down due to rising interest rates. We are currently at 14 years' low in terms of new house purchases and refinance business. This has negatively impacted our product mix. We are now changing course in terms of technology and servicing businesses which are steadier and more value accretive. The first two quarters have not been as per our expectations. Our EBITDA for the first two quarters has been roughly minus \$0.43 million.

We have just about managed to stay on keel despite a severe erosion in the revenue. That is because of aggressive cost cutting and shedding bench strength. With our focus is on technology and servicing, we will definitely see an improvement in the profitability and EBITDA from the next year onwards.

Balwinder Singh So in fiscal 16, things should turnaround?

Abhay Baijal Yes.

Balwinder Singh On a Fiscal 15 perspective, for the whole year - what kind of losses can we make in this business?

Abhay Baijal We cannot really commit at this point of time. Some of the things are in process, we have made a couple of big wins but they are yet to translate into revenues. So we will rather wait till September before we can make a comment.

Balwinder Singh Last year we made a PAT loss of Rs. 35 crores. So just wanted some direction as to whether it is going to be higher than that or lower than that?

Abhay Baijal We cannot really comment at this point of time.

Moderator Thank you. Next question is from the line of Falguni Datta from Jetage Securities. Please go ahead.

Falguni Datta I just had two questions. First is - if the monsoon situation were to remain as it is now then how much do you think the urea off take could decline for us in percentage term?

Anil Kapoor Urea off take would be in lines with the previous years. I do not think urea offtake will decline because monsoon has substantially improved. In North India, except for Punjab and Haryana monsoon is fairly normal and Punjab and Haryana are 100% irrigated.

Falguni Datta You mean to say - given the present situation we should be flat if not gain over last year?

Anil Kapoor I agree there would not be an increase, but we do not see a decrease happening.

Falguni Datta And Sir, second question is - What has been the progress on that policy of \$40 per ton for production beyond cutoff, which is still pending with the Government?

Anil Kapoor Nothing has moved so far on that front. And in case the Government does not come out with the policy soon, every fertilizer company will have a problem in the fourth quarter. And you will see major closures happening.

Falguni Datta But closures on what account, since this will be beyond cutoff?

Anil Kapoor Yes beyond 100%. In fact, companies will find it very difficult to even produce beyond 100%.

Falguni Datta Sir, with whatever interactions you had with the Government so far, what is your sense that would it happen or not happen this year?

Anil Kapoor We have been having discussions with government for last one-and-half year. Even though the industry can produce below import parity, the sad part is that we continue to import at the expense of domestic production.

Falguni Datta Sir, but then where are they stuck i.e. why are they not doing it soon?

Anil Kapoor That question is best asked to the Government of India.

Moderator Thank you. Sir, we got a follow up question from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel Couple of years back, we were trying to demerge the shipping business and there were plans to focus on the core segment. How are we progressing on that front? We are seeing that the software business is not turning around, the way we were expecting. So what is the long term plan now, Sir?

Anil Kapoor There is no long term plan right now. With the current condition of the shipping industry right now, I do not see Chambal demerging in near foreseeable future.

Moderator Thank you. Next question from the line of Chandan Gehlot from Deutsche Asset Management. Please go ahead.

Chandan Gehlot Sir, just wanted to know what is the total debt outstanding at this point?

Abhay Baijal Total debt outstanding, as of June quarter was Rs. 4,119 crores.

Moderator Thank you. Next question from the line of Jasdeep Walia from Kotak. Please go ahead.

Jasdeep Walia Sir, in one of your earlier comments you mentioned that DAP prices have increased from earlier levels of \$450 to \$475-480, but still you expect margins to be squeezed in the Phosphatic segment. Why is that Sir?

Anil Kapoor Margins will definitely be squeezed substantially, because DAP prices have gone up from \$450 to \$480 and the MRP is remains the same.

Jasdeep Walia What is the reason, Sir? Why is the industry not taking price increase?

Anil Kapoor There was plenty of stock in the market in the last three months. If there is a dual pricing market then there will be sort of a confusion in the market place.

So I do not see MRP going up but what we can see is that the shrinkage of the market margin i.e. network margin will reduce substantially.

Jasdeep Walia What do you mean by 'shrinkage', I did not get that?

Anil Kapoor See, we were giving substantial margins to the network, which will reduce.

Jasdeep Walia That was anyway Rs. 500 per ton if I am not wrong, so it is reduced from that level also?

Anil Kapoor No, it was substantially higher. It was in four figure numbers.

Jasdeep Walia This is for the entire sales channel including the distributor and the retailer?

Anil Kapoor That is right.

Jasdeep Walia So what about the distributor margin Sir, where are they? Earlier they were at Rs. 500?

Anil Kapoor I mean that will reduce depending upon the industries, it is too early to tell right now. It is going to reduce because people are finding very difficult to make profits at these prices. I do not see MRP increasing as of now unless the rupee were to take a dramatic turn.

Moderator Thank you. The next question from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta Sir, you gave the DAP number 123,000 tonnes. Can you also share MOP number traded during the quarter?

Anil Kapoor We sold 36,000 tonnes of MOP.

Rohan Gupta So, the purchase of goods traded is roughly Rs. 640 crores. So Sir, how much inventory are we carrying right now and how much we were able to liquidate during the quarter?

Anil Kapoor We will be able to liquidate all our stocks, in terms of trading. What we are carrying right now is a sensitive number.

Rohan Gupta Sir, just to get some sense on that?

Abhay Bajjal Rohan, the value of the stock that we are carrying is about Rs. 260 crores, excluding in-transit of about Rs. 60 crores as at June 2014 quarter.

Anil Kapoor And there are enough stock coming in pipeline and some of them have been contracted at old rates.

Rohan Gupta Sir, you have started this year with a very encouraging trading number. So last year I think you did close to Rs. 1900-2000 crores; this year also you expect ending up the same number?

Anil Kapoor Yes.

Rohan Gupta And last year also saw huge pressure on trading margins and also in DAP because of the high DAP inventory. What are the margin expectations in our trading business for the year, Sir?

Anil Kapoor See, for the year we do not know at this moment. As I said, two or three imponderables are there. We do not know how the rupee is going to move. We do not even know at what price DAP will come in future - some of the

clients are asking for upwards of \$485 per ton. And I can tell you at \$485, the industry does not make any profit.

Rohan Gupta Sir, let me ask the direct question - at what level of margin per ton you will be comfortable trading?

Anil Kapoor In the trading business, we have a market share and we will retain the market share at all cost, even at a loss.

Rohan Gupta I understand that last year we hardly made any money. In fact, we would have made loss if we consider the working capital and the delays in?

Anil Kapoor No, we made approximately Rs. 60 crores profit in trading last year.

Rohan Gupta After accounting for interest cost?

Anil Kapoor After accounting for all expenses. And this year will be better than that. So we will retain our market share and the way you have to see trading is what will be the annual profit. You cannot work on shift wise profitability so in the first half of the year we would have got DAP at decent prices. It is quite possible in the third quarter we may get a DAP where we will not make any money. But those will average out.

Rohan Gupta So Sir, even as you also mentioned the environment in DAP trading still remain very volatile in terms of DAP prices?

Anil Kapoor DAP trading; I am talking of as a Phosphatic industry.

Rohan Gupta Phosphatic industry as a whole so environment is very volatile, the prices are shooting up and even the currency volatility has increased in last couple of months. In that scenario, do you think that there are other players like you who are also willing to protect their market share at the cost of margins and profitability? How the industry will take this situation, will we enter once again in a similar kind of situation what we have faced couple of years back with a huge inventory in the market?

Anil Kapoor This year the inventory will be tight, but Chambal will retain the market share. As to other players of the industry, you should ask them whether they are willing to fight it out in the market place.

Rohan Gupta Sir, you mentioned a debt number, can you also share your cash number i.e. what is the cash on book right now? Rs. 4,119 crores I think is the gross debt?

Abhay Baijal There is hardly any cash. See, there may be intermittent funds availability for a short while. If you ask me say for today, that is a different number. But we are talking about June quarter.

Rohan Gupta Sir, what sort of credit we are giving right now to our dealers and distributors i.e. how many days?

Anil Kapoor In DAP, we are offering only 30 days' credit at this moment.

Rohan Gupta Has it improved in last 6 months?

Anil Kapoor It has reduced substantially in the last 7-10 days. DAP has gone up in the last 15 days from \$465 - \$470 to \$480 - \$485.

Rohan Gupta This reduction in DAP price is possible because you mentioned that the inventory situation have improved significantly in last two-three months, right?

Anil Kapoor Yes, inventory has reduced substantially.

Rohan Gupta You also mentioned that there may be slight pressure on margins of dealers and distributors. You were talking about their going back to the previous level of Rs. 400 or Rs. 500, what is left on the plate for these dealers and distributors. Earlier the case was different when the DAP prices were Rs. 8000 - 9000 per ton. Now at a cost of Rs. 24,000 of DAP, if they are just getting Rs. 400 per ton margin, do you think that they will be interested in doing this business anymore?

Anil Kapoor When we were giving Rs. 250, DAP price was Rs. 9,300. Now DAP price is Rs. 22,000, so we are giving approximately Rs. 500. It is in line with what we were giving in the past. Earlier there was a glut situation, as a result of which the margins improved. But now with the market tightening and the whole chain not making that type of money, everybody will have to do belt tightening. Last year was a skewed market. In fact the dealer, retailer network was making more money than the industry. And in certain places DAP was selling below MRP. Now that will not happen. Everything will go at MRP and a rational profitability will be taken by each segment of the business.

Rohan Gupta Sir, can you also share the number of DAP market this year. How much demand you expect in the current scenario?

V K Gupta We expect the total consumption of about 80 lakhs to 90 lakhs tonnes of DAP during the year at an all India level. The way monsoon is improving, the number would be close to 90 lakh tonnes otherwise it will be close to 84-85 lakh tonnes.

Rohan Gupta Mr. Gupta, what according to you this number would have been last year?

V K Gupta Last year, the total sales were about 72 lakh tonnes; 20 lakh tonnes came from the pipeline. So almost 92 lakh tonnes was consumed. I am giving this estimate based on the last year's consumption.

Rohan Gupta Even last year consumption was also 92 lakh tonnes?

V K Gupta Yes, and that was a normal monsoon.

Rohan Gupta Sir, despite normal monsoon last year the consumption was only 90 lakh. This year also you are not expecting any growth in DAP in the normal case scenario i.e. suppose the monsoon remains okay.

Anil Kapoor Definitely, there won't be any growth.

Rohan Gupta Any particular reason Sir. I think we used to do 11 million tonnes of DAP and now it has come down to 9 million tonnes. Will we ever achieve that kind of number?

Anil Kapoor This year one of the reasons for lack of growth could be paucity of material in the market.

Rohan Gupta But Sir, traders are always there?

Anil Kapoor Where will material come from? China is running out of stock; and the West does not have any stock.

Rohan Gupta That may be interesting situation. You are hinting that there is unavailability of raw material as well as finished goods in the global market. Do you think

that the customized fertilizer or complex fertilizer will go up significantly in the current year?

Anil Kapoor

Has the total yield of our crops come down? No. the tonnage which the country produces is increasing. The farmers nowadays are using DAP or the Phosphatic fertilizer more effectively. Earlier there was a tendency to waste fertilizer which is not happening now.

Moderator

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

Abhijit Akella

Sir, just a couple of questions regarding the industry outlook that you were projecting. First of all I was just hoping to understand this tightness in the global inventory situation for Phosphatics. Why exactly is this happening Sir, because we were under the impression that crop prices are falling globally and even weather has not been very kind. So we would have expected a subdued kind of demand environment. So why this reduction in inventories globally?

Anil Kapoor

Two reasons. One is China cut down the production this year and second the typhoon in China has taken away something like 400,000 to 500,000 tonnes of supplies.

Abhijit Akella

This is in which category?

Anil Kapoor

It is mainly phosphate DAP and also MAP. So this MAP was to go to Brazil and US markets. Now because of the typhoon, some 400,000 to 500,000 tonnes of material has been damaged. Since there are ships already waiting at the port, the commitment for those customers have to be met first.

Abhijit Akella

And how long do you expect this tightness to persists Sir, because this seems like a temporary kind of weather related disturbance?

Anil Kapoor

The DAP requirement is also temporary. We consume DAP basically in the month of September, October and some amount in November. After that DAP season is over.

Abhijit Akella

Whenever our fresh shipment comes, which you were saying you expect in 3Q?

Anil Kapoor

Chambal has locked its quantity, so Chambal is assured of receiving its supplies.

Abhijit Akella

And by when do you expect the material that has already been placed in the channel at lower prices to be cleared out, so that you can start taking price increase as the new shipments comes?

Anil Kapoor

I do not expect price increase in this Rabi season. That is my personal view.

Abhijit Akella

By Rabi you mean extending in to 4Q also?

Anil Kapoor

See no sale takes place in 4Q, it is only placement. The sale of Phosphatic fertilizer gets over by November. After that, the sale of nitrogenous fertilizer will start.

Abhijit Akella

And from the government's point of view, has there been any pressure from their end to sort of keep the prices under check or you think that will not be a factor with this new government?

Anil Kapoor I do not know. That is a question best answered by the producers of Phosphatic – if there is any pressure on them.

Moderator Thank you. We are going to take a follow up question from the line of Jasdeep Walia from Kotak. Please go ahead.

Jasdeep Walia Sir, in your earlier comment, you had mentioned that DAP prices have gone up and MRP on the ground is not increasing, so margins for traders will be going down. Is this situation same for manufacturers also or will they have an edge in this kind of a scenario?

Anil Kapoor I think that is a question best answered by manufacturers. But as I mentioned in my earlier statement, manufacturers produce Phosphatic from Phosphoric acid - which is imported. In the last quarter, the acid was concluded at \$735 per ton and in this quarter we can see an upward revision of that price even though the price has not been concluded, but whenever it will be concluded it will be from first July.

Jasdeep Walia So logically the price increase in DAP is just a function of increase in phosphoric acid prices, so manufacturers should be in a similar boat?

Anil Kapoor You will appreciate I should not answer that. Even though we have a trend analysis on that, but that is a question best answered by manufacturers.

Moderator Thank you. We are going to take the next follow up question from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta Sir, just a quick question. Mr. Gupta mentioned about DAP demand this year. Sir, can you also share other complex fertilizer demand and MOP what you expect this current year?

V K Gupta MOP demand is about 22 lakh tonnes for direct consumption. That is besides the MOP which goes for making NPKs. Given this scenario, we don't know the quantity that will go for manufacturing. However MOP demand would be fairly stable.

Rohan Gupta And for complex Sir?

V K Gupta Complex we do not know, because it does not sell in our area and we do not deal in this.

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