



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

FY 2013-14 Annual Results

Investor/Analyst Conference Call Transcript May 12, 2014

Neha Patil:

Thank you. Good Evening and thank you for joining us on Chambal Fertilisers and Chemicals Limited Q4 & Year-ended FY 13-14 Earnings Conference Call. Today, we have with us the senior management represented by Mr. Anil Kapoor (Managing Director), Mr. Abhay Bajjal (CFO), Mr. M.S. Rathore (Vice President-Legal, Corporate Communication and Secretary), Mr. V.K. Gupta (Vice President-Marketing), Mr. Anuj Jain (General Manager-Finance) and Mr. Rajveer Singh (General Manager-Legal and 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 interactive Q&A session. I would now request Mr. Kapoor to make his opening remarks. Thank you.

Anil Kapoor:

Good Evening, Ladies and Gentlemen. Welcome to our Earnings Call post declaration of annual results for FY-2013-14. I would like to share with you some of the highlights of the year.

We produced 1.94 million tonnes and sold 2.09 million tonnes of urea during the year. Our revenue increased by approximately 9% to Rs.7,982 crores against Rs.7,341 crores and Profit After Tax has marginally gone down to Rs.303 crores from Rs.306 crores as compared to the last financial year.

As you are aware, we have three business segments – Fertilizer, Textile and Shipping. In the year 2013-14, the revenue of our own manufactured fertilizer went up to Rs. 4,364 crores, an increase of 21% over last year. The revenue of traded goods was down by about 14%, while that of shipping and textile went up by 90% and 4% respectively.

Segment Result, namely - PBIT of own manufactured fertilizer in FY 2013-14 is Rs. 394 crore, traded goods is Rs. 160 crore, textiles is Rs. 26 crore and shipping is minus 13.5 crore. As compared to FY-2012-13, we have done better in textiles; however, both our own manufactured fertilizer and trading segment are substantially lower. While our

shipping business has bounced back slightly, software continues to be a drag.

I now request you to ask questions which you may have with regards to our result. Thank you.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. First question is from the line of Balwinder Singh from Prabhudas Lilladher. Please go ahead.

Balwinder Singh: On the Urea segment, if you can just share what happened in the Q4?

Anil Kapoor: As we had mentioned earlier calls, some of our production is dependent on import parity-linked pricing. In FY 2013-14, we could only produce 1.94 million tonnes because production over the cut-off level was not viable. Therefore, in Q4 we had to curtail production in one of the plants and shutdown our Gadepan-I in the month of March. That is why our production was substantially lower.

Balwinder Singh: On the trading side if you could share the numbers for non-fertilizer and fertilizer contribution for the quarter also for the FY 13-14.

V.K Gupta: For the full year, 1/3rd of our contribution (Net of Interest) has come from Traded Fertilizers and 2/3rd is coming from other traded products. So out of Rs. 43 crores, Rs. 16 crore is coming from DAP, MOP and NPK, and balance is coming from other agri input – Pesticides, etc.

Balwinder Singh: What is the current subsidy receivable pending?

Abhay Baijal: As on March 31, 2014, total subsidy receivable was Rs. 2,971 crores, but if you remove the special banking arrangement of Rs. 809 crores it was about Rs. 2,162 crores. As of now it is about Rs.1,640 crores.

Balwinder Singh: And on the Software side, I believe the EBIT loss is somewhere around Rs. 13 crores. What is the loss at PAT level?

Abhay Baijal: Loss at PAT level is Rs. 34.62 crores.

Balwinder Singh: I know it will be too early to guess, but any feelers on what could be the urea production level for next year?

Anil Kapoor: Balwinder, we have discussed this issue with the Government of India and we are awaiting the modification in the policy. We are quite hopeful that the policy will be modified for this financial year. I think we will have to wait for one more quarter to be certain as to what is the status of the policy.

Balwinder Singh: So the policy that you were talking about is the policy that you had shared in the last quarter that 20% of US\$ 40 per tonne gross margin above 100% utilization.

Anil Kapoor: The same policy; the note has been circulated; it has gone for inter-ministerial circulation. That is about Rs.2300 per tonne gross margin over 100% production.

Moderator: Thank you. Next question is from the line of Satish Mishra from HDFC Securities. Please go ahead.

Satish Mishra: My first question is related to the Rs.350 benefits which CCEA has approved, so from FY 201415 onwards we will be accounting that also in our numbers?

Anil Kapoor: Yes, we will be accounting for it.

Satish Mishra: Sir my second question is related to the Trading business. Like last year, there was a situation of excess channel inventory. So how do you see the situation for FY 2014-15?

Anil Kapoor: FY- 2014-15 looks to be more positive than FY 2013-14. The stocks are lower in the market except in UP where there is a slight excess inventory, but in our other territories namely Punjab, Haryana, Rajasthan, and Madhya Pradesh, we are very comfortable.

Satish Mishra: Earlier we were sitting with some high cost material also. So are we completely done with that?

Anil Kapoor: We are done with it right now. Last year, we had procured high cost DAP in the first quarter. This year, we do not have similar issues.

Satish Mishra: Last question is about the Software business; this year is definitely very encouraging. I believe your number is basically upto December quarter, so how has been this quarter which will give us sense for FY-2014-15?

Abhay Baijal: There are a lot of headwinds on the revenue front. We have improved our gross margin by at least 200 basis points to 32% but the turnover was less. We have just about broken-even at the EBITDA level at about 1% to 2%.

Satish Mishra: So basically at EBIT level, we will have this depreciation and interest cost?

Abhay Baijal: Yes, beyond that we have depreciation, interest and tax.

Satish Mishra: So at EBIT it is in the same range – around Rs.10 crores kind of loss which I think you mentioned earlier also?

Abhay Baijal: Yes.

Moderator: Thank you. Next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: With regards the subsidiaries, there is some small loss in Software business, below the EBIT level. What are the other costs that are there

i.e. what is the absolute quantum of the other cost that is there e.g. the depreciation and interest, all subsidiaries combined?

Abhay Baijal: As far as finance cost for Software is concerned it is about Rs.8.46 crores. For IMACID which is JV, there is hardly any because it is a debt-free company. So these are the two major numbers in the consol figure.

Falguni Dutta: And sir, what would be the depreciation at the Software business and other subsidiaries?

Abhay Baijal: As far as Software is concerned it is about Rs. 41 crores. At IMACID level, the depreciation is more or less not there because the total depreciation is about Rs. 33 crores and only 1/3rd of that gets incorporated since IMACID is a 1/3rd joint venture between ourselves, Tata Chemicals and OCP. Similarly, there is no interest for IMACID because it is a debt free company. Depreciation, amortization expense for the Software subsidiary is about Rs.41 crores, so 41 plus 11= Rs. 52 crore.

Falguni Dutta: Lastly, just wanted to know - will we be seeing consolidated and standalone profits at the same level next year considering all the subsidiaries combined?

Anil Kapoor: Too early to tell, we probably may do well in some of the subsidiaries, may face some challenging issues in some other; the main challenge is going to be Fertilizer and for that the policy is important. The government should come out with the policy directions very clearly, that will help us to plan the production for the year.

Falguni Dutta: Assuming that standalone remains where it is, and like consolidated-how much improvement do we see next year over this year?

Anil Kapoor: It is too early; acid prices have just been finalized for the second quarter as far as IMACID is concerned, and next three quarters are going to be very crucial for IMACID's performance.

Falguni Dutta: In terms of meaningful subsidiaries, we would have one of this software business and this JV?

Anil Kapoor: Software we are not expecting any great shakes.

Falguni Dutta: So any material difference would be made into the consolidated numbers only from this JV then?

Anil Kapoor: Absolutely, material difference would only come from IMACID.

Moderator: Thank you. We are going to take a follow up question from the line of Balwinder Singh from Prabhudas Lilladher. Please go ahead.

Balwinder Singh: Sir Phos-acid price negotiations have been done at what price?

Anil Kapoor: The current one is at \$715 per tonne.

Balwinder Singh: So this has increased from \$680 last quarter?

Anil Kapoor: Yes.

Moderator: Thank you. Next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta: My question is on this urea production which was 1.94 million tonne for this year. I believe that we have total production capacity of close to 2.1 plus. So what kind of gas prices you think that we will be able to operate our IPP, looking at the current international prices?

Anil Kapoor: Current international prices are likely to fall substantially. We are expecting urea to be imported at around \$290 to \$300 in this quarter and at that price, we need consolidated pricing of gas to be approximately \$10. The problem is not the gas price. The Government's policy today gives us 85% of IPP above the cut off level. It does not give us full IPP pricing. When Government imports Urea, it spends additional approximately \$70 for taking it to the farm gate. If it was to pass on that entire \$70 plus IPP to us, our entire production would be viable, even at the increased cost of gas assuming RIL gas price is doubled.

Rohan Gupta: And Sir, right now you have to meet the additional gas requirements through LNG only, right?

Anil Kapoor: Absolutely.

Rohan Gupta: So that is \$15 to \$17?

Anil Kapoor: \$15 to \$18.

Rohan Gupta: Assuming this 85% is not met. I mean, the government continues the way it is, then probably we would not be able to produce, or is there any chance of any other utilization? Can we utilize this plant for making Complex Fertilizers or converting it into Ammonia? Is there any thought process like that?

Anil Kapoor: No, I will put it this way. If the Government does not come out with any change in policy, the company will not be able to produce more than 1.73 million tonnes. Not only Chambal Fertilisers, the entire Indian fertilizer industry will not be able to make any production over assessed capacity. We are then talking of substantial volumes that are more than 3 million tonnes production being lost by India. So the government is serious about it, and that is why we are very confident that the new policy will be in place.

Rohan Gupta: Sir what industry is putting forward that industry wants 100% of IPP?

Anil Kapoor: There has already been a discussion with the Government, and industry has agreed for a formulation which is Rs. 2300 as a gross margin over 100% of production, and energy price is pass-through.

- Rohan Gupta:** This Rs. 2300 gross margin are as against roughly Rs. 1300-1500 gross margin on our existing production below cut off?
- Anil Kapoor:** No, existing gross margin below 100% is approximately Rs. 2600 to Rs. 3300.
- Rohan Gupta:** There you are not including the Rs. 350 the capital subsidy which has been announced?
- Anil Kapoor:** If we increase Rs. 350, it will become Rs. 2950 and Rs. 3500-3600?
- Rohan Gupta:** But sir, we don't see that kind of number, it does not come like Rs. 2600 EBIT per tonne on our existing production?
- Anil Kapoor:** It is gross margin, expenses have to be taken out from that. Above 100% production, the expenses are already factored in production up to 100%.
- Rohan Gupta:** Second question on this Complex Fertilizer. Chambal Fertilisers have always been very aggressive about Trading business and Complex Fertilizer Trading. This year also, do you see the similar kind of opportunity – will you beat the last year's numbers in terms of overall volume trade with the rising price scenario of acid prices and DAP, would you continue with the trading in the current scenario?
- Anil Kapoor:** Trading is now one of Chambal's core businesses, and we would not only continue to maintain our market share but also try and increase it.
- Rohan Gupta:** Sir, last year we made almost Rs.160 crore in total trading EBIT and you mentioned roughly 1/3rd only came from the fertilizer trading?
- Abhay Baijal:** The gross level is Rs. 160 crores, of that the Traded Fertilizer segment is Rs. 120 crores and Rs. 40 crores is non-Fertilizer.
- Rohan Gupta:** Interest cost would have gone in meeting the working capital because our total interest cost was total Rs. 200 crore and I think that is because of the delays from the government subsidy?
- Anil Kapoor:** This year we will do substantially better.
- Abhay Baijal:** I would also like to point out that quite a bit of it is on account of Urea.
- Rohan Gupta:** No, I am not contributing the whole interest cost on just only on Complex Fertilizer. The point which I am trying to make is that what kind of actual PAT margins we make in Trading business. Is there any point in keep doing this business just to boost our top line and without contributing any significant amount in PAT level or what kind of ROCE basically this Trading business generates for us?
- Anil Kapoor:** At PBT level, this business will contribute significantly to our bottom line.
- Abhay Baijal:** Rohan, last year we have made Rs. 80 crores at PBT level in Trading business. This is not an insignificant number.

- Rohan Gupta:** The government payment would be much faster this time and our working capital requirement will come down this year; are we expecting those sort of thing or we are expecting overall margins will be better in Trading?
- Anil Kapoor:** As far as trading is concerned, we are expecting overall margins to be better.
- Rohan Gupta:** EBITDA per tonne on DAP when you do Trading, so what kind of numbers you are looking for Rs. 1500?
- Anil Kapoor:** I will not be able to share that number; it is confidential.
- Moderator:** Thank you. Next question is from the line of Viraj Kachria from Securities Investment Management. Please go ahead.
- Viraj Kachria:** If we see sales in the Trading business, one of the reasons was that lower DAP volume. So is it primarily because of staying away from the discounting theme in Q4 or?
- Anil Kapoor:** I will answer this way - our sales of DAP were in line with the sales in 2012-13 on an annual basis. Last year we lost money on two accounts - one in the beginning of the year we had contracted DAP at the right price. However, the rupee depreciated before we could hedge it, because the material had not yet arrived. As a result of which the company could not make money in the first few shipments, and that was the one of the major reasons why we lost money in the first half of the year. We did pick up appreciably in Q3 & Q4, but if you see our results on the segment in Q1 & Q2 we did not do well. This year we do not have that problem.
- Viraj Kachria:** Second question was on recent government directive on exports of SSP. I do not know if you are aware. If you can just provide some information because we manufacture SSP at Gadepan.
- V.K. Gupta:** Government does allow export of SSP; earlier Bangladesh was taking some quantities but then they do not take it now.
- Viraj Kachria:** This is a fairly recent development. I think in 1st week of May they came up with a circular. The companies who have been manufacturing phos-acid in India, and if they are looking to export SSP, they just need to intimate the government.
- Anil Kapoor:** We need to track that, but the way international prices of SSP are, I do not think the country would be able to export it. At those prices it will be very difficult to export SSP as it is a very low-grade fertilizer. Any freight on a low-grade fertilizer, it will be difficult to put it in the cost.
- Viraj Kachria:** Just one more question was on the sense of inventory in the system right now. I think by the end of third quarter, you indicated that P&K inventory would be around 3-3.5 million MT as of FY-2013-14. If you

can just provide some clarity or any thought on how much inventory is there in the system?

VK Gupta: Inventory would be now about 2 million tons; last year it was about 4 million tons of DAP countrywide. So there is a drawdown of about 2 million tons. In some states, there are excessive inventories, but in other states situation is much more comfortable.

Moderator: Thank you. The next question is from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel: Sir, I have two questions; one question is with regard to the unallowable expenses in the segmental at a consolidated level has gone up very sharply, what is the reason? And the second question with regard to the SSP operation. How much volume we could push through and what has been the experience so far?

Abhay Baijal: I will take the second question first. In this year, we have sold about 64,000 tons of SSP, which is about double the quantity that we did last year. As far as the production was concerned, our own production has touched about a lakh of ton. can I clarify first question from you?

Prakash Goel: The other question was with regard to the unallocable expenses in the segment at a consolidated level, which have gone up very sharply. What is the reason? Basically, what I am trying to understand is the difference between the standalone and consolidated. Earlier it used to be meaningless number, it has become a very significant number this time, which is separate from interest cost. It means subsidiary has contributed something a large number in unallocable expenditure.

Abhay Baijal: We take the expenses, then we net off the income from there. Last year was about Rs. 124 crores to Rs.127 crores, in this year, it is Rs.27 crores Vs Rs.82 crores, and it is mostly because of dividend.

Prakash Goel: So, how do you account for the dividend if you can clarify that to us?

Abhay Baijal: In this unallocable expenditure, we are taking those income or those expenses which are not specifically to any business. Let us say there is a big number-'X' and whatever is the income out of that, that is the difference between the two. We can share with you the calculation separately - offline.

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

Amit Murarka: Just a question on the quarterly numbers; other expenses have moved up 16% Y-o-Y, it is not too high sequentially, but given that the production was lower, I would have expected those number to be lower than this one. So, any specific one-off item in this or is it a normal operating expense?

Anil Kapoor: What happened, Amit, we had earlier planned our Gadepan-I shutdown in the month of April, which we brought forward to month of March as we could not achieve production over cutoff level. This resulted in expenditure of approximately Rs. 13 crores in excess.

Abhay Baijal: Amit, are you talking about sequentially or you are talking on Q-o-Q?

Amit Murarka: Both Y-o-Y and Q-o-Q, I mean talking of the overall number, I would have expected the other offering expense number to have been lower given that the production was curtailed in the quarter....

Abhay Baijal: You are talking of Rs.1013 crores versus Rs.1264 crores?

Amit Murarka: I am talking the March Quarter operating expense number.

Abhay Baijal: That is Rs. 316 crores to Rs.323 crores.

Amit Murarka: That number should not have been lower given that we have curtailed production?

Abhay Baijal: No, some of the costs here are more in the nature of fixed cost plus Rs.13 crores extra debit on account of repair and maintenance.

Amit Murarka: And does other income include any dividend?

Abhay Baijal: For this quarter, it includes one dividend from IMACID of Rs.15 crores.

Moderator: Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Sir, a few questions from my side; first, on the new urea investment policy. We were in the state of readiness to set a plant, so I am just trying to understand where we are today. Is there any expected change in policy, we have not started anything?

Anil Kapoor: The policy has been approved by the cabinet; however, it was referred to the election commission, election commission has stayed the declaration of the policy, and as soon as the new government is formed, I think the policy would be announced.

Rakesh Vyas: But the issue is around guaranteed buyback, etc., all that has got resolved now?

Anil Kapoor: The new policy does not envisage guaranteed buyback. But to clarify your point, there is no guaranteed buyback even today. So, a company produces urea, and if the government wants they can avoid buying high cost fertilizer.

Rakesh Vyas: And given the scenario that exist today, I am just trying to understand what would be our thought process because as we are seeing we are not producing more than 100% today given the pricing that exist internationally versus gas prices, etc., So would we be still keen investor in this new policy?

- Anil Kapoor:** There is an anomaly, I did mention in the beginning. With that present gas mix, and even if RIL gas costs have to double, we can compete at the marketplace if there is no policy. If it is a pure market-related activity, we can compete with imports; however, the industry is given only 85% of import parity and government does spend \$60-70 to take it to farm gate, which is not given to the industry. So, if the price were to be \$300 at IPP, CFR, we are talking of \$105 or \$115 disadvantage to the Indian industry. Pass that on to the Indian industry and we will be competitive with imports. When we come to new policy, at a gas price of \$12-13, we will be competitive, even with the new investment.
- Rakesh Vyas:** But my only point Sir, is in new investment policy there is again no guarantee of a domestic gas supply. So effectively the buyer will have to find or the producer will have to find a cheaper source for a longer period of time, which if there is no guaranteed buyback could have some issues on the economics of the project?
- Anil Kapoor:** We have done a global calculation, and according to us, the production internationally is not viable, large capacity closes below \$350. The entire Ukrainian capacity closes down. Even if you have to take the new American capacities, which are coming and at the CAPEX, which they are talking about, and at \$5 or \$4½ dollars of gas, we would be competitive even at \$14-15 of gas.
- Rakesh Vyas:** My next question pertains to the DAP pricing at retail end. So have we seen any change in price in last six months in the areas that we operate? And also a related question to that is our FX hedging policy. So you are hedging based on the arrival of shipment. Is that correct, and why not based on the ordering?
- Anil Kapoor:** To answer your first question, there is no change in DAP pricing as far as market is concerned. We expect the discounts to come down this year, because the availability of stocks in the market is lower. As far as hedging strategy is concerned, we do hedge it even when the material is loaded. What I mentioned was - last year we had contracted material in the month of May and it was to be shipped in August. 2-3 months before we do not hedge, because our hedging cost is 8-9%
- Rakesh Vyas:** But we typically fully hedge sir?
- Anil Kapoor:** We typically fully hedge.
- Moderator:** Thank you. The next question is from the line of Manish Mahawar from Edelweiss. Please go ahead.
- Manish Mahawar:** Sir, I have 2-3 questions; one is your Shipping division, what is the outlook for FY-'15, what is the outlook on the industry front?
- Abhay Baijal:** Shipping outlook is currently soft; in fact quarter-on-quarter we have seen 3-4% reduction in the TCY, which currently is about USD14,000. So what we are told is that this situation is likely to remain till at least

September quarter. I am talking calendar quarter. So we hope that only by the third quarter of our financial year things will look up. We keep talking about the adjustment of scrapping and the new capacity and so on, but as of now market continues to remain soft.

Manish Mahawar: Are all the six ships are on a spot basis, right?

Abhay Baijal: No, there are five ships, three are spot and two are on time charter.

Manish Mahawar: And second question, Mr. Kapoor, you said I think urea prices are expected to come down in may be in one or two quarters. Any specific reason you see for this at a global level?

Anil Kapoor: You see; there is excess capacity in China at this moment. And China window will open around mid May, and when China window opens, the next tender which is likely to be announced by Government of India, we envisage for the softening of prices.

Manish Mahawar: And Mr. Baijal, I have a question in your balance sheet; if you look at inventory number of Rs. 700 crores as on 31st March, there is a substantial reduction in your inventory if you look at the last year and two years before the number, is there any significance we are carrying very low inventory right now or something?

Abhay Baijal: No, I think compared to last year we are 150,000 ton lower in terms of Urea inventory and that is the major reason for reduction.

Manish Mahawar: And Sir, last question, industry inventory front, what you said is that 2 million metric ton is inventory right now as the industry front as a whole. As a whole it is a DAP inventory or it includes like MOP and Complex as well of 2 million inventory?

V K Gupta: This is only DAP inventory.

Manish Mahawar: Including all what will be the numbers?

V K Gupta: It is about 2 million tons of DAP total inventory in the country. But my guess is NPK would be about 1.5 million tons.

Manish Mahawar: 2 million ton is a roughly DAP, and 1.5 million tons in another, basically your NPK number, 3.5 million tons?

V K Gupta: Yes.

Moderator: Thank you. Ladies and Gentlemen, that was the last question that concludes this conference call. You may now disconnect your lines.