



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

FY 2014-15 Annual Results

Investor/Analyst Conference Call Transcript April 30, 2015

R Jaipuria:

Good evening everyone and welcome to Chambal Fertilisers and Chemicals Limited Q4 FY15 Earnings Conference Call today. To address the call today, we have the Senior Management represented by Mr. Anil Kapoor-Managing Director; Mr. Abhay Baijal- CFO; Mr. M. S Rathore-Vice President, Legal & Corporate Communication and Company Secretary; Mr. Anuj Jain- General Manager, Finance; and Mr. Rajveer Singh- General Manager, Legal & Secretarial.

Before we start the call, I would like to mention that some of the statements that we make in today's discussion will be forward looking in nature. I would now request Mr. Kapoor to make his opening remarks. Thank you and over to you sir.

Anil Kapoor:

Thank you. Good evening ladies and gentlemen. Welcome to our earnings call post declaration of annual results for FY 2014-15. I would like to take this opportunity to share with you some of the highlights of the year.

During this year, we produced 1.85 million tonnes of urea and sold 1.89 million tonnes, the difference is due to some carry forward stocks. Our revenue increased by about 11% to Rs. 8,882 crore against 7,982 crore and profit before tax has gone up by about 16% to Rs. 400 crore from Rs. 346 crore as compared to last financial year.

As you are all aware, we have 3 business segments namely Fertilizer, Textile, and Shipping. In the year 2014 -15, the revenue of our fertilizer and other Agri-input division went up to Rs. 7,749 crore, an increase of 11% over last year. The revenue of Shipping went up by 22% and Textile marginally went up by 3%.

Segment result, PBIT in financial year 2014-2015, our Fertilizer, and other Agri-input is Rs. 632 crore, Textile is 15 crore, and Shipping is 39 crore. As compared to FY 2013 -14, we have done better in Fertilizer and Shipping, however, we are lower in Textile segment. While our Shipping business has bounced back, Software continues to be a drag. I now request you to ask questions which you may have with regards to our results. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Jignesh Surti from Crisil Research. Please go ahead.

Jignesh Surti: Sir my question is on the freight subsidy policy front. We have been reading a lot now a days that freight subsidy policy for P&K fertilizer manufacturers has been changed or subsidy is abolished. Can you tell us what this is exactly and what are the implications of the same?

Anil Kapoor: Thank you, Jignesh. The policy has not yet been announced, it has to go to cabinet. We are not fully aware of the contours of the policy, hence I will not be able to comment. But the discussion which we had with the Secretary (Fertilizer) was that we will be reimbursed a normative freight for P&K. There will be a number given to each product. For example, DAP will have a certain number to be given to every company for sales in every district in the country. Similarly, you will have a different number for every other product. The government has derived this number based on the average for the previous year. Since we do not know the number and the same has not been approved by the cabinet, I will not be able to comment on this.

Jignesh Surti: But by when do you expect this to be approved or notified?

Anil Kapoor: Jignesh, we are hearing a lot about this, but I do not know when the cabinet will take decision on it.

Jignesh Surti: And Sir for 2015-16, NBS rate has also not been announced?

Anil Kapoor: It has not been announced. The same is part of the freight subsidy policy we discussed. Since the policy is not announced, we do not even know how the rate is going to be taken forward too.

Jignesh Surti: Sir if you can just walk me through - at what prices are we selling our products - DAP, MOP and SSP?

Anil Kapoor: We are selling DAP in the range of Rs. 23,700-24,000; MOP is approximately Rs. 16,000. SSP varies from state to state, and anyway we are a small player in SSP.

Jignesh Surti: Last year around same time, the prices were low, right?

Anil Kapoor: I agree with you.

Moderator: Thank you. The next question is from the line of Satish Mishra from IDFC. Please go ahead.

Satish Mishra: Sir, any development on IPP linked production?

Anil Kapoor: Just like the previous question which was asked, we are told that a policy in this regard has been formulated and the same is going to cabinet.

- Satish Mishra:** Sir in the last quarter, you discussed some number over IPP. So is there any change to that, if you can just give us some idea about it? Last time, I think you said \$50 above IPP during the discussion?
- Anil Kapoor:** The policy, as we understand and which has been communicated to us for the previous year was IPP plus Rs. 1,500. So it is basically \$23-24.
- Satish Mishra:** Sir post this gas pooling, what is the situation now? Has it been implemented or what is the current reality as of now?
- Anil Kapoor:** It has not yet been implemented and we do not know when it will be implemented. Even though earlier indications were that it might be implemented from 1st May, but I do not think that is going to happen.
- Satish Mishra:** Sir in Shipping segment, previous two quarters were slightly better but this quarter again there is a disappointment. So if you can just give us a sense, what is the situation in the sector?
- Abhay Baijal:** There has been an improvement in shipping freight rates compared to the previous quarters. But we had a big dry-dock expense in this quarter and that was the main reason why we did not do as well.
- Satish Mishra:** So basically this quarter is not the normal quarter and going forward we should see some improvements from these levels.
- Abhay Baijal:** Yes, definitely.
- Satish Mishra:** Sir what is the outlook on the IT business. 2 years back we said there will be improvement from the current levels that we achieved last year but again this year, there is a disappointment. So what is the situation going forward?
- Abhay Baijal:** As we have been saying that the Company has been focusing away from the KPO-BPO business and moving towards the technology segment. They have come with couple of products which will take time for the market to respond to. Initial expectations are good. So we have seen reduction in the turnover side but corresponding reduction in SG&A expenses and cost of manpower. They are stabilizing but we have not reached the certain volume. So outlook is that once these product start going to the market, some improvement may be possible in the third or fourth quarter this year. They have good IPR which can be valued as quite positive.
- Satish Mishra:** Very last question sir, there have been some unseasonal rains in the Rabi. So what is the current inventory situation into the system for complex fertilizers?
- Anil Kapoor:** Of Chambal fertilisers?
- Satish Mishra:** Yes Sir, just wanted to understand your trading business, how will it be in Kharif?

Anil Kapoor: Too early to tell. Sales will depend on number of factors. Inventory as such is not very high but how El Niño factor will impact it, we don't know. But as far as our market is concerned, we have enough stocks to cater to the demand.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Sir just have couple of questions. First I just want to get a broader idea on the diversification. We initiated the process with the textiles unit. Is there any thought process behind also looking at the technology business or the shipping business? And the second question is within Agri-inputs, fertilizers, are we looking at any further line extension in the Agri-inputs value chain?

Anil Kapoor: As we had indicated, we have formed a committee to look into various divestments of the organization. The committee is actively looking at various options. As and when anything fructify, we will definitely inform to the stock exchange.

Viraj Kacharia: Any idea about the timeline, when we can expect that.

Anil Kapoor: I will not be able to comment on that right now because those are price sensitive information.

Viraj Kacharia: Understand and when you say non-core, it will mean Ex fertilizers, right?

Anil Kapoor: That is right and from the second part of your question, Chambal does an extensive sales of non-fertilizer agri-products. We have substantial sales of pesticide, seeds, zinc and other chemicals.

Viraj Kacharia: So how much would this be as a proportion of Agri-inputs roughly for the full year?

Anil Kapoor: For the full year, I do not have the exact number.

Viraj Kacharia: No I just need a ball park.

Anil Kapoor: This should be in the order of Rs. 500-600 crore revenue.

Viraj Kacharia: So how much roughly the pesticides, any idea?

Anil Kapoor: Pesticides would be upwards of Rs 300 crore for the full year.

Viraj Kacharia: What is the strategy going forward in this particular segment? Any target we have in mind for the next 2-3 years?

Anil Kapoor: You will appreciate, I will not be able to share any price sensitive information.

Viraj Kacharia: Just couple of more questions. One is about the inventory which you mentioned before. What is the inventory in the system for the industry as a whole for DAP and other complexes? Any rough indication?

Anil Kapoor: I do not have the exact number right now but as far DAP is concerned, the inventory is very thin.

Viraj Kacharia: For the industry you mean, right?

Anil Kapoor: For the industry.

Viraj Kacharia: How are we placed, with respect to inventories?

Anil Kapoor: We have contracted enough quantities for the first quarter from reputable suppliers.

Viraj Kacharia: For NPK and complexes, any rough indication about the inventory in the system?

Anil Kapoor: We do not deal much with NPK but you can go on to fertilizer management system and check it. There must have been some production in January, February and March which would form the opening inventory and Indian production has been by and large in the NPK segment.

Viraj Kacharia: We primarily deal in trading of DAP and complexes. Going forward, do we have any plans to actually engage in manufacturing of any of these products?

Anil Kapoor: We do not have any plan to manufacture these products, but as you are probably aware, we have partnership with OCP and Tata Chemicals in Morocco to manufacture phosphoric acid.

Viraj Kacharia: But that pertains to purely for phos-acid, not for the any other product.

Anil Kapoor: Yes, I hope you are aware that we already have a phosphoric acid investment.

Viraj Kacharia: Just one last question on the pricing front. On year on year basis, the pricing has improved. Now given that the overall cash flows from the farmer perspective is already quite weak, if the overall international prices are going to increase from the current levels, do we have any ability to pass on the prices?

Anil Kapoor: DAP prices have substantially increased from the same time last year. Last year in the months of April, May and June, the DAP price was hovering between \$450 and \$460 per ton. This year, it is between \$480 and \$490. Rupee has also depreciated by about 7-8% and subsidy has not changed.

Viraj Kacharia: Exactly.

Anil Kapoor: So there is no option but to increase the price.

Viraj Kacharia: Understand, but this eventually might lead to more preference towards urea.

Anil Kapoor: That is the possibility.

There would some diversion to urea but you know our soil's condition is such that we need P&K as well. As you are all aware the condition of soil is deteriorating and use efficiency for nitrogen in India is reducing.

We are one of the few countries in the world where the use efficiency is reducing. It was reducing in China but it has now plateaued.

Viraj Kacharia: If we look at FY 2015 in that perspective, given that you already have bad monsoons and other challenging conditions, if you assume that farmers kept DAP and P&K for this particular year, how much room does the farmer have to further postpone for another one more season before impacting yields.

Anil Kapoor: As such the ratios have become so skewed. If the farmer were not to use the P&K, the yields I believe will start falling quite a bit.

Moderator: Thank you. The next question is from the line of Badrinath Srinivasan from Credit Suisse. Please go ahead.

B Srinivasan: Two main questions. Firstly on gas pooling, I realize it is a little low on details at the moment, but do we have any clarity in terms of how existing contracts are to be dealt with? And second while we wait for gas pooling to be implanted, are our gas suppliers giving us any levy in terms of the contract obligations?

Anil Kapoor: We still do not know how the mechanism will work but what we understand is that it's going to be a notional pooling. The contracts will remain with the company. So if there are any take or pay issues or supply or pay issues, those will rest with the company.

B Srinivasan: Right. As we wait for the pooling to set in to sort of certain, do we get any levy in terms of the long-term gas contracts at the moment.

Anil Kapoor: No we are not getting any rebate on long-term contracts. We are just following the same formula which had been agreed upon.

B Srinivasan: Second question sir is on subsidy receivable. Could you please share the number right now and are we seeing any change in the pace of the payments? So when it was last paid and are we seeing a change over the past year or two?

Anil Kapoor: We started the year with an opening subsidy receivable of approximately Rs. 2,500 crore and the current subsidy outstanding from Government of India is approximately Rs. 1,600 crore. We have received some amount during the month. We expect to receive decent amounts in the month of May and June.

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

Manish Mahavar: Sir just on CAPEX front, what is the status of the new urea plant we want to set up?

Anil Kapoor: We are in the stage of negotiation with the Lump Sum Turn Key suppliers and as soon as we finish the negotiations, we will take a call on the project.

Manish Mahavar: So what do you think, how much time it will take to start?

Anil Kapoor: I think we should be fairly certain in the next couple of months.

Manish Mahavar: Sir secondly, Mr. Baijal said in the call that the freight rate in our shipping business improved on a quarter-on-quarter basis. So how much has the rate improved on Q-o-Q basis?

Abhay Baijal: This quarter that is January-March, the average rate was USD 19,500.

Manish Mahavar: Last quarter.

Abhay Baijal: Currently, it is a little better than that.

Manish Mahavar: So you said it has improved actually in April and you said the dry-dock expenditure came in during this quarter. So how much is the quantum?

Abhay Baijal: It is about Rs.10 crore.

Manish Mahavar: Sir what is the gross debt number as on 31st March?

Abhay Baijal: The gross debt number is Rs.3,950 crore as on 31st March 2015.

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

Falguni Dutta: Sir I just wanted to confirm my understanding on Note 8 of the results which you have mentioned. So now this technology business becomes a 100% subsidiary of Chambal and the assets have been revalued and thus we have taken Rs.107 crore hit in this quarter.

Anil Kapoor: I will just read out to you the note 8. During the quarter, one of the subsidiary of Chambal namely CFCL Overseas Limited (COL), Cayman Island, has gone into voluntary liquidation. In pursuance of voluntary liquidation, all assets of COL including the entire holding of COL in CFCL Technologies Limited has been transferred to Company. So CFCL Technology does not become wholly owned subsidiary. All the shares of COL in CFCL Technology will now come directly under Chambal Fertilisers.

Falguni Dutta: Yes, but they were not 100%.

Anil Kapoor: They were not 100%. We have got a JV partner namely NEA and others and as a part of this liquidation exercise, the fair value of such asset is being lowered by Rs.107 crore.

Falguni Dutta: We have taken that amount.

Anil Kapoor: That we have taken into the P&L.

Falguni Dutta: Yes, Sir just how much is our shares in that?

Anil Kapoor: Our shares in CFCL Technology is 72%.

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

Rohan Gupta: Sir just a small understanding. First on the shipping business, Abhay sir mentioned that dry-docking was Rs.10 crore for the quarter while overall you mentioned the scenario has improved in Q4. So then also there was a Rs. 4.5 crore losses even if we adjust for 10 crore because in Q3, you have reported almost Rs. 16 crore EBIT from shipping business. So then also it looks like the scenario has deteriorated only from Q3, it has not improved. Is it so or there was any other expenses also which are included in the shipping business losses?

Anil Kapoor: Yes, there were some in-chartering losses which are also factored in.

Rohan Gupta: Since April month rates have gone up further, so going forward, what we are expecting? That the shipping business should contribute roughly Rs. 20 - 25 crore every quarter or are we looking for Rs. 80-100 crore EBIT on annual basis, from the shipping business?

Anil Kapoor: This is confidential information. Any price sensitive information we will not be sharing in the conference call.

Rohan Gupta: No sir, it is not a price sensitive information. You mentioned that USD 19,500 was a shipping chartered rate.

Anil Kapoor: You can do the calculation yourself.

Rohan Gupta: I understand, Sir. Q4 average rate you mentioned USD 19,500. April you said is slightly higher. So can you give the quantum or the running rate for April?

Anil Kapoor: April rate would be in the range of USD 22,000-23,000. So now you can do your own calculation?

Rohan Gupta: Sir now that April has ended and the new contracts for DAP and phos-acid in the global market are in the process of concluding. So where you see the phos-acid and DAP prices settling this year when the new contract will be revived?

Anil Kapoor: Phos-acid price has been concluded long time back.

Rohan Gupta: So that will remain at \$480-490 only.

Anil Kapoor: It was for two quarters, so the price will remain firm for two quarter.

Rohan Gupta: So it is \$480-490. What was for DAP?

Anil Kapoor: I said phos-acid has firmed price for India for two quarters.

Rohan Gupta: So when then government will come with the new rates on a nutrient-based subsidy, then you see that the global prices will be revised further

based on those nutrient prices or we have to adjust the prices in our market accordingly?

Anil Kapoor: We will have to adjust the prices to the market accordingly. Global prices will not adjust to India's condition. Latin America opens up right now, so there will be a good demand from Latin America in the month of May-June.

Rohan Gupta: So what is our expectation? Are we looking that the subsidies will remain there or government will further reduce the subsidy?

Anil Kapoor: We are expecting the subsidy to remain at the same level.

Rohan Gupta: Sir third question is on the urea front. So in fourth quarter, you did not operate you're Gadepan Plant-II at all. In the last conference call you mentioned that because of the unfavorable policy above cutoff that Gadepan Plant-II was not able to operate, right?

Anil Kapoor: That is right. We shut it down for 52 days.

Rohan Gupta: So what is our expectation on this above cutoff urea production for FY 2015-16?

Anil Kapoor: Rohan, two things are important for Chambal's plant for production above cutoff. One is the new policy. The government is coming out with a new policy which is expected to go to cabinet any time and that is based on the condition that pooling will take place. So if pooling were to happen and quickly, then Chambal should be able to produce from both the plants above 100% production.

Rohan Gupta: So under pooling, it will be profitable that's what you want to say.

Anil Kapoor: That is right.

Rohan Gupta: Assuming whatever the gas pooling prices are.

Anil Kapoor: But there could be some surprises as far as the policy itself is concerned. So we do not know the policy contours yet. There were some talks going-on on some energy mop up, etc. We are not very certain on what the policy is right now.

Moderator: Thank you. The next question is from the line of Gauri Anand from PhillipCapital. Please go ahead.

Gauri Anand: So sir, let us assume if the gas prices were to be pooled today, what will be the pooled price like and what is your cost today? Can you run us some theoretical numbers as to how much can this come down by and thereby what is the saving that can accrue 1- on the working capital front and 2- if this energy is mopped up assuming part of the energy benefit, which comes to you? Can you just give us some theoretical numbers just to get a perspective of how this could look like?

Anil Kapoor: The first part, we are looking at a pool price of somewhere near \$11 - 11.5 per million btu. Our current price for Gadepan-II is between \$14 - 15 per million btu.

Gauri Anand: For Gadepan-I and Gadepan-II blended.

Anil Kapoor: This is for Gadepan-II. We produced as per capacity in Gadepan-I and the prices were between \$11 - 12.

Gauri Anand: So the blended cost to you would be about \$11-12?

Anil Kapoor: It was between \$11 and \$12.

Gauri Anand: So then pooling effectively does not change? At the company level, it does not really get your working capital dramatically down?

Anil Kapoor: For Gadepan-II it helps. It was Gadepan-II which we shut down last year maybe due to non-viability of policy, but were the gas to be pooled, we should be able to produce with the current IPP, which is between \$270 and 280.

Gauri Anand: What is the energy saving over the Group? If can you give us a rough sense of is it 1 Gcal or 1.5 Gcal?

Anil Kapoor: The present savings from actuals is approximately 0.25 million kcal per ton in Gadepan-II which is marginal gain.

Gauri Anand: And Gadepan-I?

Anil Kapoor: Gadepan-I as I said is about 0.06-0.07.

Gauri Anand: Sir, Can you give us some sense on how should we look at your volumes next year? Because you are also in a binding agreement for 'take or pay' on gas. So can you give us some guidance on how should we look at the volumes? How much should it go up by next year?

Anil Kapoor: Were the new policy on urea production to go through, we have given our plans to Government of India, within which we have said we will put this over 2 million tonnes.

Gauri Anand: Fine. Sir, can you give us some sense on this timeline? There is a lot of restructuring that you have stepped upon. So in terms of guidance or some milestones by when you think all of this restructuring will be over, will it be this calendar year or next quarter?

Anil Kapoor: I had indicated in one of my conference calls, wherein I said that we are looking at some restructuring. You will appreciate that one restructuring has already been taken place and we have already announced to the stock exchange which is divestment of the textile division.

Gauri Anand: This should be through by third quarter?

Anil Kapoor: This will be through before third quarter. We have also taken a sort of a valuation hit on our Cayman Island subsidiary by liquidating CFCL

Overseas. So, the strategic committee is actively looking at all the options for divestment/bringing in additional partners for the software business.

Gauri Anand: Right. Any timeline sir by when we could look forward to an announcement to this effect?

Anil Kapoor: As and when anything fructifies we will definitely make an announcement.

Gauri Anand: Again you seemed to have invested again in the subsidiary this quarter. Is there any guidance on how much more needs to be invested in this business sir?

Anil Kapoor: That was a minor investment which we have made in one of our energy companies, which we have made from a strategic perspective. It is about Rs. 4.45 crore.

Gauri Anand: So it is not in the technology.

Anil Kapoor: It is not in the technology. It is basically in our power sector, in case we have to diversify. It is just a strategic investment.

Gauri Anand: Sir last question. In IT, do we need any further funding sir?

Anil Kapoor: As of right now we do not foresee any additional requirement. As and when they require funds and since we hold 72%, we will have to provide.

Gauri Anand: Sure. Sir when can we expect some policy announcements for existing urea, maybe quantities beyond cutoff. Can we expect it in the first fortnight of May?

Anil Kapoor: We ourselves are very keen that it be announced and we hear rumors of it being taken to cabinet every day, but nothing so far has happened.

Moderator: Thank you. We have a follow on question from the line of Satish Mishra from HDFC. Please go ahead.

Satish Mishra: Sir, can you share the sales volume for complex fertilizers, for DAP, NPK, MOP, and SSP for FY 2015?

Abhay Baijal: In DAP, we did 6,39,000 tonnes and about 2,00,000 tonnes in MOP.

Satish Mishra: How much was SSP and NPK sir?

Abhay Baijal: There was no NPK. There was small amount of traded SSP which was about 22,000 tonnes. Our own manufactured SSP was about 165,000 tonnes.

Moderator: Thank you. The next question is from the line of Balwinder Singh from B&K Securities. Please go ahead.

- Balwinder Singh:** This year I see that your IT business has posted some losses close to around Rs. 40 crore. What kind of numbers can we model as losses in FY 2016?
- Abhay Baijal:** Difficult for me to say but it will be around this number, that is what my feeling is.
- Balwinder Singh:** Regarding the trading business, how do you see this business shaping in FY 2016?
- Anil Kapoor:** You see since we marketed branded Agri products to the market, there are number of factors which determine the margin. (A) At the price we buy. (B) How is the rainfall and the capacity of the farmer to purchase the DAP. Hence for us to give a forward-looking call on that would be very difficult and especially in the month of April with El Niño staring at us.
- Balwinder Singh:** Sir given that rural India has been under a lot of pressure because firstly your Kharif yields are lower, than your crop prices are lower in Rabi and now this unseasonal rains and given that El Niño forecast is also there. So from a farmer's perspective, things are pretty worse. So how do you see Agri-inputs consumption shaping out in FY 2016, not necessarily related to Chambal but more from Agri-inputs perspective?
- Anil Kapoor:** See the rainfall is good even if it is 93%, the consumption will take place. It is not that the consumption is going to dry up. There is hardly any opening stock of DAP in the market. So the requirement will have to be met by various companies. Put in this way, there may be a marginal reduction of 5-10% of consumption but nothing more than that. It all depends on the rainfall. If the rainfall is 70%, then we have had it.
- Balwinder Singh:** But then obviously a farmer does not have money to spend, because he has been suffering and also there is no MSP increase going to happen as per the policy of the new government. Then there will be some modest single digit MSP increase. So from a farmer perspective, his incomes will continue to remain under pressure and do you think, he will still spend on Agri-inputs?
- Abhay Baijal:** Let me put it in this way. The poor farmer will have no option but to use the Agri-input because without the Agri-inputs, his yield will drop further. I do understand from a lot of debates going on in the newspapers that they are looking at 50% margin from input cost. So let us see how the debate fructifies?
- Moderator:** Thank you. Ladies and gentlemen that was the last question. On behalf of Chambal Fertilisers and Chemicals Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.