



## CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Quarter 2 FY 2015-16 Results

**Investor/Analyst Conference Call Transcript**  
**November 4, 2015**

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**Neha Patil:** Good morning and thank you for joining us on Chambal Fertilisers and Chemicals Ltd, quarter 2 of FY 2016 Earnings Conference call. Management is represented by Mr. Anil Kapoor - Managing Director, Mr. Abhay Baijal - Vice President - Finance, Mr. Anuj Jain - Assistant Vice President - Finance, Mr. Rajveer Singh - Assistant Vice President -Legal and Company Secretary and Mr. V.K. Gupta – VP - Marketing. Again, 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, thank you.

**Anil Kapoor:** Thank you. Good morning Ladies and gentlemen. Welcome to the Earnings Call post-declaration of half yearly results for financial year 15-16. I would like to share with you some of the highlights for the half year ended 30<sup>th</sup> September `15. In the first half of financial year 15-16, our revenue increased by 13% to Rs. 5106 crore against Rs. 4504 crore last year and Profit before tax has increased by 33% to Rs. 394 crores from Rs. 296 crore as compared to the corresponding period of last year. In the first half, the revenue of fertilizer and agri -inputs segment went up to Rs. 4771 crore against Rs. 3988 crore in corresponding period of last year. The revenue of shipping segment went up to Rs. 335 crore against Rs. 313 crore in corresponding period of last year. Profit after Tax in first half of the year increased by 42% to Rs. 279 crore against Rs. 196 crore during the corresponding period of financial year 14-15. During the quarter, the Profit

After Tax was Rs. 137.45 crore against Rs. 114.82 crore during corresponding quarter of last year.

I am also happy to inform you that our board has approved the proposed expansion of manufacturing capacity of urea at Gadepan. The new unit at Gadepan will add 1.34 million ton of urea to our existing capacity. I will now request all the participants to ask questions, you may have with regards to the results. Thank you.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Viraj Kachariya from Securities Investment Management. Please go ahead.

**Viraj Kachariya:** Is it possible for you to give P&K sales for the quarter and for the first half, on both value and volume wise?

**Anil Kapoor:** DAP sale in the first half of the year was 4,92,000 tons and MOP sale was at 89,209 tons against 298,000 tons DAP and 111,000 tons of MOP last year.

**Viraj Kachariya:** Value wise, how much will be non-urea sales in fertilizers? Will it be only DAP, MOP and is there any NPK sales which we do?

**Anil Kapoor:** Yes, we do a very minor sales of NPK. About 16,000 tons we did in the first half against nil of last year and we did SSP sales of 9,133 MT, which is traded. We also have our own manufactured SSP now.

**Viraj Kachariya:** Okay. So that will be on stream from this year ?

**Anil Kapoor:** No, we are already on stream and making money.

**Viraj Kachariya:** Ex- fertilizers; what will be your value of non-fertilizer sales, in non-subsidy businesses basically?

**Anil Kapoor:** You are asking me the sales of non-urea or non-fertilizer?

**Viraj Kachariya:** Non fertilizer, in agri-input.

**Anil Kapoor:** In the first half it is Rs. 241 crore.

**Viraj Kachariya:** Versus?

**Anil Kapoor:** Rs. 259 crore of last year.

**Viraj Kachariya:** Ok. I just have one more question. You have announced plans to set up new urea facility at Gadepan. So, is there any thought process to also look at CAPEX in the P&K segment? I mean, from a long term strategy perspective because you have been primarily trading. So is there any plans of setting up own facility?

**Anil Kapoor:** Not at the moment. This itself is a very big project. It will cost us upwards of Rs. 5900 crores and setting up a 1.34 million ton capacity of urea in next 36 months is going to be an interesting task.

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

**Satish Mishra:** First question is related to the inventory situation for complex fertilizers. If you can just give some highlights about the industry?

**Anil Kapoor:** I will give you a broad perspective of the industry without going into the margins as that is quite confidential in nature.

**Satish Mishra:** Yes sir. Basically the inventory situation is what I am more interested in. Broad numbers will work.

**Anil Kapoor:** I will ask Mr. Gupta to give you the inventory position, but let me tell you that in the North, in the territory in which we operate, we are now coming into a season where the material is consumed. In DAP, we are confident that the material which is there will be liquidated. Headwinds will be faced by the industry in MOP, as what we are seeing; there is a reluctance of farmers to purchase.

**Satish Mishra:** Sir, rains were bad. So, is there a situation that even in NPK and DAP also we are going to see some issue?

**Anil Kapoor:** Yes, there will be issues but Chambal Fertiliser will be able to sell the quantity which it has sourced.

**Satish Mishra:** Sir, at an industry level, can you give some number, what was the opening inventory on 1<sup>st</sup> October for the Rabi season?

**VK Gupta:** Mr. Satish, the opening inventory if we take of DAP was about 1.5 lakh tons and now at this moment is about 8.5 lakh tons. Sales are up by about 13 lakh tons because there were no pipeline inventory in the beginning of the year. Because of that, the sales in the books are higher for the country, till September. And in case we look into MOP, opening inventory was about 3 lakh tons and at this moment it is about 4.5 lakh tons. So, there is some increase in the inventory. Sales compared to last year, is down by about 1.5 lakh tons in MOP and like I said in DAP it is about 13 lakh tons up. Urea sales are also up.

**Satish Mishra:** Sir, second question is related to our new CAPEX plans. So far, have you made any tie-up for natural gas?

**Anil Kapoor:** See, with the pooling of gas, there is empowered committee and we have to now make an application to the empowered committee, for sourcing of Gas.

**Satish Mishra:** Correct me, if I am wrong. My earlier understanding was that there were more than 10 players who are interested in putting up new facility and the situation will be like this, all will put applications and few will be selected. So, where are we right now?

**Anil Kapoor:** The procedure now is; any company which is serious has to furnish a bank guarantee of Rs. 300 crore. Chambal will be making an application to government and will be submitting the bank guarantee of Rs. 300 crore. There is no first come first serve criteria. Anyone can put up a capacity of urea plant.

**Satish Mishra:** Can you give any idea how many players are for it?

**Anil Kapoor:** I think, you should be telling me which are the companies, which are looking at investing in a Urea plant and which balance sheet will allow this and which company will be financed by Bankers in today's environment. I think that is the question which I would be asking you.

**Satish Mishra:** Sir, coming to other question. So, returns will be the same what was discussed in the last policy. There will be band of 12% to 20% based on gas price. There is no change in those policies right, for the new investment?

**Anil Kapoor:** Policy was never 12% to 20%. That used to be in the 1990s. Now, the policy is based on IPP with a floor and a cap, with the energy being pass-through up to \$14 / MMBTU and above \$14, there is no ceiling, you just come on to the floor price. Policy which was announced last year is still the same.

**Satish Mishra:** And Sir, last question is related to subsidy situation; subsidy receivable situation. Till what month have we received subsidies and how you see the situation going forward, like always in the second half we see the problem of high subsidy receivables?

**Anil Kapoor:** At this moment, the outstanding from Government of India is upwards of Rs. 1, 700 crore. We have received money for Urea up to July. Part payment for Urea for August is what we expect. The P&K, we expect that Government will be able to release subsidy up to September, maybe some quantities of October 2015.

**Moderator:** Thank you. Next question is from the line of Pratik Tholiya from Emkay Global. Please go ahead.

**Pratik Tholiya:** If you could just help us with; what are the contracted prices for DAP?

**Anil Kapoor:** Pratik, those are confidential numbers but I can give you a broad number at which the industry is sourcing today. It is in the range of \$435 and \$450 per ton.

**Pratik Tholiya:** I missed out on the CAPEX of Gadepan

**Anil Kapoor:** We made an announcement yesterday. It would cost \$900 million, which is approximately Rs. 5940 crore.

**Pratik Tholiya:** And Sir, for the quarter, if you could just help me with the fertilizer volumes.

**Anil Kapoor:** Urea sales during July to September 2015 was 5,23,000 ton and phosphatic fertiliser sales which includes DAP, MOP, MPK and SSP is 3,85,000 ton.

**Pratik Tholiya:** And Sir, what was the numbers last year, same quarter?

**Anil Kapoor:** Same quarter, Urea was 5,36,000 tons and phosphate and potash , etc., were 2,56,000 tons.

**Rohan:** On complex fertilizers, in the current quarter, have you made a very thin margin in complex fertilizers business in trading because if I look at the overall fertilizer business profitability, Urea business profitability should itself have contributed the whole EBIT which you have reported.

**Anil Kapoor:** I will put it this way. In the last quarter, two things happened – one, pricing of DAP by Chambal and the industry was at a higher level. We have sourced DAP in the range of \$475 to \$480 per ton. Rupee also de-valued and came down to Rs. 65 to Rs. 66. At these levels, margins have deteriorated substantially, but the DAP prices have come down substantially and hence our margins should improve.

**Rohan:** So it is basically, deterioration in complex fertilizer margins in current quarter which has affected.

**Anil Kapoor:** That is right.

**Rohan:** And what sort of inventory numbers. You are holding DAP inventory of 1.5 lakh ton which you have mentioned, is for the industry, right, which increased to 8.5 lakh ton?

**V.K. Gupta:** That was in the beginning of the year.

**Rohan:** So, it is for you or industry you are talking about?

**V.K.Gupta:** All India numbers.

**Rohan:** All India.

**Anil Kapoor:** The inventory, which Chambal is holding at this moment; as on 1<sup>st</sup> October was 2,21,000 tons of DAP.

**Rohan:** So, given a huge inventory of DAP in the system and a weakness in MOP which you have just hinted, would you be still doing trading in the second half or you just want to focus on reducing the inventory whatever you have?

**Anil Kapoor:** Chambal is always in the market to buy.

**Rohan:** Even whatever the competitive environment in the market and huge inventory in the system, you are not worried that probably second half will be muted for the trading activity for the industry as well as for the company?

**Anil Kapoor:** For the industry, it is going to be a tough battle ahead and we are gearing up for that. We should be able to liquidate our inventory.

**Rohan:** And you are still hopeful that trading activity will not come down?

**Anil Kapoor:** No.

**Moderator:** Thank you. We have next question from the line of Balwinder Singh from BNK Securities. Please go ahead.

**Balwinder Singh:** Sir I joined in late, so I missed the initial comment on the complex fertilizer inventory on a Pan India level, so if you can just repeat that?

**Anil Kapoor:** Pan India inventory as of when?

**Balwinder Singh:** As of September end.

**Anil Kapoor:** We will tell you Pan India inventory as on 1<sup>st</sup> October.

**Balwinder Singh:** Yes, no problem.

**Anil Kapoor:** But Balwinder, you are an old hand in the industry. Inventory is a very difficult term. There are 2 types of inventory - one is unsold inventory and one is sold inventory. We can only give you unsold inventory because lot of sales also take place, which have actually not gone into the soil. Let Mr. V. K. Gupta tell you, what is the inventory in the country as on 1<sup>st</sup> October.

**V K Gupta:** DAP inventory was about 8.5 lakh ton and MOP inventory was about 3 lakh ton.

**Anil Kapoor:** 8 lakh ton is nothing for a country like ours.

**Balwinder Singh:** And MOP was how much?

**V K Gupta:** 3 lakh ton.

**Balwinder Singh:** So, overall complex fertilizer inventory in the system is close to 1 – 1.2 million tons.

**V K Gupta:** System would be having slightly more.

**Anil Kapoor:** This is unsold inventory.

**Balwinder Singh:** Ok. So system will be carrying how much of inventory?

**Anil Kapoor:** We do not know.

**Balwinder Singh:** So, inventory you will say; that this is kind of a normal in the system or higher than the normal?

**Anil Kapoor:** This is normal inventory.

**Balwinder Singh:** And the next question; if you can throw some light on your non-core businesses - IT and shipping, what is happening there?

**Anil Kapoor:** Shipping has done exceptionally well in this first half. I will let Abhay Baijal answer this question. As far as software is concerned, we are facing challenges but shipping has done well.



**Abhay Baijal:** Balwinder, you can see from the half year and quarterly numbers that generally the performance has been much better. We are tracking good TCY numbers at the moment and we expect that to last at least for next quarter because we are going into the cold season. As far as IT is concerned, we have not seen much improvement in 9 months' period. We are tracking the same kind of PBT, PAT, and EBITDA.

**Balwinder Singh:** Same as last year?

**Abhay Baijal:** Yes.

**Balwinder Singh:** And what is your expected loss in Year 15?

**Abhay Baijal:** It will be of the same level of around \$9 million to \$10 million as we saw in last year.

**Balwinder Singh:** PAT loss?

**Abhay Baijal:** Yes, PAT loss.

**Balwinder Singh:** And I think you have made some further investment of around Rs. 10 crores, if I am correct?

**Abhay Baijal:** That is right.

**Balwinder Singh:** And what is this related to?

**Abhay Baijal:** This is just some kind of working capital requirement that they have.

**Balwinder Singh:** Would it be possible to share cumulatively till date, how much you have put in this IT business?

**Anil Kapoor:** We will have to look into those numbers. We do not have it at this time.

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

**Viraj Kachariya:** What is the inventory of NPK?

**Anil Kapoor:** We do not track NPK inventory.

**Abhay Baijal:** NPK is not sold in North India that much.

**Anil Kapoor:** As far as Chambal is concerned, we have the inventory of approximately 60, 000 ton because of the new territories in which we have entered, namely West Bengal and Maharashtra.

**Viraj Kachariya:** You have mentioned about margins in this quarter on trading being low. As approximately 25% of the inventory in DAP is because of you, so you still expect margins to improve in coming quarters.

**Anil Kapoor:** Yes, because the new sourcing which we have done, has come at very low pricing. So the margins will improve.

**Viraj Kachariya:** And this 60, 000 tons inventory which you mentioned in NPK, which you said that you have entered in the new territories. So, is this still viable? The margin is still attractive to move out of core areas?

**Anil Kapoor:** See, put it this way; unless we enter new territories, we will never be able to grow. Bihar is one area where we entered 4 - 5 years back, but now we do not call Bihar as a new area. We are now fully entrenched in Bihar and we have substantial sales in Bihar. Those are the risks of expansion. Gadepan III coming in, we would need newer territories to sell.

**Moderator:** Thank you. Next question is from the line of Nitin Gandhi from KIFS Securities. Please go ahead.

**Nitin Gandhi:** On shipping, can you guide us whether it will be remaining like last year where second half is generally 1.3 times of the first half.

**Anil Kapoor:** That ratio we may not be able to tell you whether it will be 1.3 times. As Mr. Baijal did mention, it will be in line with what we have done in the first half.

**Nitin Gandhi:** So are you saying that it will be same as first half or it will be like last year where second half was better than the first half?

**Anil Kapoor:** It will be similar to first half.

**Nitin Gandhi:** And this CFCL Technologies, can you guide us something, some more color on it; what business and how are we shaping on that?

**Anil Kapoor:** See, we would be looking at divestment into these areas. As and when the time arises, we will look into it.

**Nitin Gandhi:** It will be grateful, if you can share because somebody has asked total investment also in past, if you can share little later.

**Anil Kapoor:** That number, we do not have at this moment. We will be able to give it to you later.

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

**Amit Murarka:** Regarding the new Gadepan capacity, how much time financial closure will take and after that how much time will be needed to commission or set up the plant?

**Anil Kapoor:** We have kept an internal target for financial closure in next 2 months and we would be commencing our project activities post that and will complete it in less than 36 months.

**Amit Murarka:** And any target debt-equity mix for this?

**Anil Kapoor:** For the project as a whole, the debt-equity which Gadepan III is looking at is 3.5:1.

**Amit Murarka:** Any initial feedback whether lenders will be interested in such a high leveraged project?

**Anil Kapoor:** We have already received term sheet from two leading bankers in the country.

**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 and you may now disconnect your lines.