



# CHAMBAL FERTILISERS AND CHEMICALS LIMITED

## Q3 FY 2011-12 Results

### Investor/Analyst Conference Call Transcript

January 18, 2012

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**Moderator:** Ladies and gentlemen good afternoon and welcome to the Q3FY12 earnings call of Chambal Fertilisers and Chemicals Limited hosted by Perfect Relations. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Raghavendra Jaipuria from Perfect Relations. Thank you and over to you sir.

**Raghavendra Jaipuria:** Thank you Terence. Good afternoon everyone and thank you for joining us on Chambal Fertilisers and Chemicals Limited Q3FY12 earnings conference call. Today we have with us Mr. Anil Kapoor, Managing Director; Mr. Abhay Bajjal, the CFO and Mr. M. S. Rathore, VP – Legal, Company Secretary and Corporate Communication. 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 would begin the call with the opening remarks from the management. Following which, we will have the forum open for an interactive Q&A session. I would now request Mr. Kapoor to make his opening remarks.

**Anil Kapoor:** Thank you. Good afternoon ladies and gentlemen. With me in the room are Abhay Bajjal, our CFO and M.S. Rathore who is Vice President – Legal and Corporate Communication and Company Secretary. I trust by now you would have had an opportunity to peruse our third quarter results during 9 months ended 31st December 2011. We have done well on the revenue

front with sales increasing by 19% to about 4572 crores against 3839 crores in the corresponding period last year. Chambal's profitability as you all know for the December quarter was affected on account of our deferred tax liability. The shipping business basically has opted out of tonnage tax scheme and is being assessed under the normal tax regime from 1st April 2011. This has resulted in the deferred tax liability of 185 crores required to be accounted for in the last quarters of this fiscal. As a result of this accounting entry, the company has posted a loss of 1.24 crores for the quarter against the net profit of 107 crores in the same period last year, but as you all know this does not affect the cash flow of the company. Deferred tax liability is an accounting entry; it does not impact the cash. You are aware that the company has three business segments; fertiliser, textile and shipping. Textile is a small segment. The fertiliser segment under own manufactured urea maintained its run rate in sales and production and continues to do well. The traded product including fertiliser, micronutrients, zinc, pesticides also continues to do well and is maintaining our increase in the margins as we go forward. As you can also see, shipping was better than the last quarter due to increase in rates towards the latter half of the quarter. I will now request all the participants to ask questions which they have with regards to our results. Thank you.

**Moderator:** Thank you so much sir. We will now begin with the question and answer session. We have the first question from the line of Satish Mishra from PINC Research. Please go ahead.

**Satish Mishra:** Good afternoon sir. A couple of questions. One question is related to the shipping division, possibly the signal what we get is that next couple of years is going to be weak, that is why we are shifting from tonnage tax regime to this regime. Am I correct in interpretation?

**Anil Kapoor:** Yes, you are partly right in the sense that the business is going to be tough in the 2 years, but what we expect as we go forward, the charter rates will start tending to increase. There already a slight firming up is taking place which we have seen in the last quarter and if we have to believe that trend going forward, we can expect certain hardening of charter rates.

- Satish Mishra:** Okay and second question is related to our trading fertiliser like in international market, we have seen fertiliser prices coming down. So are we seeing actual any change in terms of what we are contracting now as compared to what we did in November-December?
- Anil Kapoor:** You put it this way. In the traded segment, we are basically split into two. One is pesticides, bentonite sulphur, zinc, micronutrients. There we do not see any de-growth taking place. There is a substantial growth taking place and that is what gives us the basic margins for Chambal. If you look at the total profits for the traded products, approximately 55 to 60% comes from this segment. Balance comes from our traded products which is basically in fertilisers. Yes, we will face pressures going forward, but we are traders. We will always smell opportunity somewhere and make our money because in North India, we have a very strong segment. Our brand is well established and a farmer needs phosphatic chemicals. When he needs this phosphatic fertiliser, we will be there to supply to him and that is why we will make our margins.
- Satish Mishra:** Correct. Sir next question is related to subsidy like up to what time of this year have you received the subsidy or is there any delay from government side in disbursement of subsidy?
- Anil Kapoor:** There is substantial delay in subsidy payment. In fact as far as DAP is concerned, Abhay would like to...
- Abhay Baijal:** As far as Urea is concerned, we are paid for production up to September and for DAP and other items, we are paid up to more or less October, but after that there is no payment because the government has sort of ran out of funds, but we expect that there will be third supplement in the budget session. In this third supplement, we will definitely get that is what we have been assured by the Ministry; at least 35 to 40% of our outstanding will be liquidated. Balance will be liquidated in the New Year.
- Anil Kapoor:** This impacts the entire industry.
- Satish Mishra:** Fine sir. Sir my last question is related to the new proposed urea investment policy which is in discussion, like what as per our knowledge, the last discussion is that on each capsizes, there will

be floor and cap like number like \$ 6.5 per mmbtu to start with 300 and 330. So even if that policy is it okay with our industry?

**Anil Kapoor:** The floor and cap is okay with us excepting what the government has proposed and which we are in discussion with. They have put us on our ceiling on gas prices up to which this floor and cap will move and if they put the gas price of \$14 per mmbtu but which Industry is not agreeing to because tomorrow if we are not able to get domestic gas and we have to use LNG, this number would breach and let us hope the government listens to us and revises its number upward.

**Satish Mishra:** And sir the energy norm of 5 kcal, is it practical, are the plants running at these norms internationally?

**Anil Kapoor:** Give or take plus or minus 0.1. This number is achievable.

**Satish Mishra:** Thanks a lot sir.

**Moderator:** Thank you. Our next question is from the line of Ajit Dange from SBI Mutual Fund. Please go ahead.

**Ajit Dange:** Good afternoon sir. The question is regarding this change in taxation policy. Have we consulted CBDT while changing its policy or? Basically just wanted to check whether tomorrow CBDT will accept it or raise some objection and get into litigation or is it an accepted practice to allow the changes. Just wanted to have your view.

**Anil Kapoor:** I will let Abhay answer that.

**Abhay Baijal:** Dange, the tonnage tax is an established part of the law under Section 115V and when we moved into the tonnage tax regime, it was as per the Law. There is no question of having a conflict with the CBDT or any department of the Income Tax. The issue is that the tonnage tax provisions also allow for a movement out of tonnage tax by a notice to the Commissioner of Income Tax in the relevant jurisdiction. So what we have done is strictly in accordance with law.

**Ajit Dange:** Okay because I thought that they would raise an objection saying that you cannot do whatever suites you at different points of time, so just wanted to check.

- Anil Kapoor:** Dange, the law permits us to change once. Having changed over once, you cannot change over for next 10 years. The law permits us. Its act is very clear on that.
- Ajit Dange:** Thank you very much.
- Moderator:** Thank you. Our next question is from the line of Varun Guntupalli from Edelweiss. Please go ahead.
- Varun Guntupalli:** Good afternoon sir. My first question is with regard to our capacity utilization of our urea unit, sir what is the kind of gas availability, are we getting the complete required gas quantum for our plants and kind of capacity utilization that we have been having?
- Anil Kapoor:** Varun, we do not have problems regarding gas availability. We are sourcing our 100% gas. In fact a very-very small amount of spot gas was used, but by and large we are getting gas as per our long-term contracts. Regarding the capacity utilization is concerned, I do not have the exact number, but I think it would be upwards of 110-112%.
- Varun Guntupalli:** So it is like similar to the last year production number of 2.1 million tonnes we should be able to achieve in both of our plants together even this year sir?
- Anil Kapoor:** As of now, we are on target.
- Varun Guntupalli:** Okay sir and one more question with regard to this Forex loan sir, we have been having this AS- 11 adopted, now it is like with the recent notification given by the Ministry of Corporate Affairs that it can be extended up till 2020. So we would be going for that and we will be continuing to take it to our balance sheet sir?
- Abhay Baijal:** Yes, that is the consistent policy. We changed over when the AS-11 was modified to the earlier scheduled 6 statement of capitalizing the changes for depreciable assets. That is as per the accounting standard and since this was due to expire this year and has been extended, we intend continuing with this policy.
- Varun Guntupalli:** Okay sir and what is the amount that we have taken into our balance sheet until now sir in that context?

- Abhay Baijal:** In the shipping division where it basically arises up till December 2011, the figure was about 450 crores.
- Varun Guntupalli:** Okay sir and if you can give any indication to us to how our other subsidiaries are doing sir?
- Abhay Baijal:** We have two major subsidiaries. One is the Moroccan joint venture along with Tata and OCP which is in the manufacture of phosphoric acid. This year has been good for them; phosphoric acid prices have been firm. They have also produced more or less to capacities. I will not quote the numbers, but they have done pretty well this year and in so far as the software subsidiary is concerned where we have got almost 61% holding, although the earlier part of the year saw a lot of losses and write-downs in terms of we had certain segments in business which were not performing very well, but later on the business has started to stabilize. Last two quarters that is April-June and July-September have been EBITDA positive and although the last quarter is steady, but we hope that going forward next year we will definitely try and breakeven on the PAT level.
- Varun Guntupalli:** Okay sir. Thank you very much Sir, that is all.
- Moderator:** Thank you. Our next question is from the line of Devang Mehta from Canara Robeco. Please go ahead.
- Devang Mehta:** Actually couple of things. First of all can I get breakup of the volumes?
- Anil Kapoor:** Volumes of what?
- Devang Mehta:** Of urea and the manufactured and traded.
- Anil Kapoor:** See in quarter 3, urea production was 560,000 tonnes and sales was about 558,000 tonnes and DAP sales was 136,000 tonnes.
- Devang Mehta:** Apart from that, I was seeing what does the other operating income in the P&L constitute about?
- Abhay Baijal:** The other operating income consists of items like LD (liquidated damages), write-back, insurance claims, scrap sales and so on and so forth.

- Devang Mehta:** If you can tell me at what level our current plant is running on energy norms means some numbers?
- Anil Kapoor:** These are plant sensitive, but I can tell you one thing that we are approximately best in class. Between the two plants, we are in the range of 5.4 and 5.5.
- Devang Mehta:** Okay on the shipping business, what is the current capacity which we are running at and what are the contracted rates currently and spot rates going on?
- Anil Kapoor:** The ships run at 100% capacity. We do not idle our ships and at this moment, we are looking at working on some long-term charters with reputed international companies basically reputed oil companies which are global in nature, we are working with that and the ships are at this moment in spot business till the time the long-term charters are fixed and the rates as I mentioned earlier have started to inch up and they are in the vicinity of \$13,000 to 14,000 per day.
- Devang Mehta:** Actually in last quarter I think one of the ships was on contract, right now all the ships are on spot basis?
- Anil Kapoor:** Basically one is in the Heidmar pool, otherwise at this moment others are on spot except one ship which is Ratna Urvi which is in the domestic circuit under COA contract.
- Devang Mehta:** And can I get some idea on what is the total outstanding debt as on 31st December and what is the foreign currency out of it and also we have some converted some through swaps, so what amount we have converted?
- Abhay Baijal:** Let me explain. We have got debtors of two types, one is market debtors and the other is debtors related to the subsidy of the Government of India. So market related debtors are in the range almost of 200-250 crores whereas in the case of the government debtors that is several times much more than that, is about 1000 odd crores. As far as the interest rate swaps that you are talking about where we have got mark-to-market losses, this is basically a contract to exchange our floating rate with fixed rate. That means the bank pays as floating and we pay the banks fixed. Now the mark to market refers to the fact that when we

contracted these swap contracts, at that point of time the rates in the market for 5-year swap were something like 3%. Today they are 1.8%, so they are out of the money and because they are out of the money we have to mark a mark-to-market loss, but again let me assure you that these are all non-cash charges. This is merely a recognition of a possible cost of unwinding as on the reporting date. So since we are not going to unwind these swaps, there will not be any losses on that and as by passage of time, these will all be written back into the system over a period of the balance life of the contract.

**Devang Mehta:** And just to get an idea, what will be the tune of this amount for this?

**Abhay Baijal:** We hedged approximately 50% of our notional outstanding which was about \$160 million.

**Devang Mehta:** And one last thing, how do we see your effective tax rate going down in the next fiscal year?

**Abhay Baijal:** That depends of course on the two things. One is the profitability or the loss from the balance two divisions which is shipping and textile which are little hard to predict going forward, but you know that in the case of the fertiliser division because our income tax book had come down pretty much below in fact in several magnitudes below the book value, we were actually suffering a rate of as high as 38-39%. So that definitely will get shielded because of the tax block which has now been merged in terms of the shipping and I am sure that we will run at something like 27-28%.

**Devang Mehta:** Okay, thank you.

**Moderator:** Thank you. Our next question is from the line of Puneet Gulati from HSBC. Please go ahead.

**Puneet Gulati:** Just wanted to understand a few things. One was on this tonnage tax, what really was the benefit when you move from tonnage tax to normal tax and second is it possible to quantify the benefit as well?

**Abhay Baijal:** Tonnage tax is a presumptive tax regime in which if you have a ship let us say of 15,000 LDT. LDT means the tonnage of the



steel of the ship itself. So it is just a flat rate based on the steel tonnage of the ship without any reference to whether you made a profit or you made a loss and under the tonnage tax section 115V, those of you who are chartered accountants would know that all other expenses or normal claimable expenses under section 28 to 43B remain suspended till the operation of the tonnage tax, so that means basically what happens is that you only get the benefit of lower taxation when you make a profit. On the other hand if the company is making a loss or is not operating more than 21-22% EBITDA, then you tend to lose because the tax block that is available on account of shipping is pretty high. Shipping is a business where for every Rs. 3 of investment, you make only 80 or 90 paise of revenue. So you have a huge tax block, but we have low EBITDA, then you do not tend to gain on the tonnage tax. Here is a company like Chambal whereas I just explained we have a huge income, but on the other side we have a low tax block on account of our old plants which are aged. We do not have any depreciation cover. So when we shifted from tonnage tax to normal tax, we definitely will get a big tax shield and this tax shield will help in lowering our tax rates. That was the basic rationale for doing this.

**Puneet Gulati:**

Is it possible to quantify what is the extent of benefit?

**Abhay Baijal:**

I can tell you that if you see the current tax expense for the quarter ending in September 2011 where it was 44 crores 14 lakhs which was the current tax, in the quarter ending in December 2011, it has reduced to 23 crores 16 lakhs. So this clearly a 20-crore benefit in the current tax. This is not basically because of one quarter. There are two impacts of this. One is the impact of this quarter as well as the impact of previous two quarters because we have shifted with effect from 1st April 2011.

**Puneet Gulati:**

Secondly there was a plan of setting up 500 mtpa SSP plant in is Gadepan, is it possible to get what is the scheduling for that, how the progress is?

**Anil Kapoor:**

The project is going on schedule. We expect to commission by May of this year.

**Puneet Gulati:**

Thank you so much.

- Moderator:** Thank you. Our next question is from the line of Gaurav Jain from CRISIL. Please go ahead.
- Gaurav Jain:** Good afternoon. My question pertains to the proposed new urea investment policy where they have mentioned that the cap and floor is fixed at a higher, I think they have increased by \$15 both floor and cap. So will that encourage investment in the sector?
- Anil Kapoor:** As I had mentioned earlier, the floor are 290 with the gas price of \$6.5, not very exciting, but not bad either. Investment can be made at this level.
- Gaurav Jain:** And the floor which they have set is at \$14 per mmbtu right, so you want the cap also to increase for the investment to happen?
- Anil Kapoor:** We want the floor to shift beyond \$14. What happens if the gas is \$16, then between 14 and 16, the gas is not passed through.
- Gaurav Jain:** Right. So where do you see the band going as in, what are the industry's expectations?
- Anil Kapoor:** FAI has given a note asking for band up to \$20. Let us see what the government says.
- Gaurav Jain:** And what is your view, would that happen and will there be investment in the sector in that case?
- Anil Kapoor:** Our view is that government, I do not know whether it will accept up to 20, but there will be some moderation upwards from 14 and if the moderation is decent, then there will be investment in this sector.
- Gaurav Jain:** Okay, thanks a lot.
- Moderator:** Thank you. Our next question is from the line of Manoj Bahety from Edelweiss. Please go ahead.
- Manoj Bahety:** Good afternoon sir. Sir my first question was in fact on tonnage tax, what happens like tomorrow if the shipping industry revives and you start making super normal profits. In that case how it will work like, again you will move to the tonnage tax by doing or like just wanted to understand that whether 10-year you will be stuck with this or will be moving back?

**Anil Kapoor:** No, we are at this moment stuck with it.

**Manoj Bahety:** So even if the shipping industry revives back like you will keep on paying taxes on your reported profit on the shipping business right?

**Anil Kapoor:** That is right.

**Manoj Bahety:** So sir are we having a long-term view that long-term shipping industry is not going to make significant amount of profit, so the economics will be in favor of paying taxes on reported profit rather than on tonnage basis?

**Anil Kapoor:** Let me answer it very clearly. I would rather pay tax on a profit because that is very comfortable to me. Balance 65% or 67% is an income which is coming to my book, but when I am in a loss situation coming from a fully tax paid company like Chambal Fertiliser which does not have any depreciation; I would like to claim the benefit of the loss. I am quite comfortable in paying tax where I make super profits.

**Manoj Bahety:** Okay my second question is on urea like even in the current investment policy once we cross 100%, we will start getting IPP realization. So just wanted to check like how this IPP works like it is average for the year, average for quarter, it is 85% of IPP right?

**Anil Kapoor:** Yes, above cutoff.

**Manoj Bahety:** Above cutoff like we have to reach at least 105% of that threshold and then we get the entire IPP beyond 100% that is right.

**Anil Kapoor:** I will just explain for the benefit of all of you people who are sitting out listening to this call, how this mechanism works. Firstly the way cutoff was determined, it was taken as a highest production achieved in the period I think if I am not wrong between 2003 and 2006. For each plant, the cutoff is different. For example up to cutoff, you are basically sharing 35-65 of IPP. 35% is to the company and 65 to the Government of India; however, this is subject to a maximum of your Conversion Cost

& Capital related Charges. Now above cutoff is where we get 85% of the IPP.

**Manoj Bahety:** Sir this 35% and 65%, just wanted to understand like up to cutoff, it is a fixed ROE base right, how come it is 35%, 65% that I am not able to understand.

**Anil Kapoor:** What happens there are various types of gases available? Up to cutoff, you can use the cheaper ONGC gas in the computation. Above cutoff, ONGC gas which is known as APM and PMT gases, they are not taken into computation. So it is basically RIL and RLNG which is taken for computation and any other gas which is not APM and PMT. Now this was the policy that between 100 and cutoff, you will take the bundled gas as what you are getting and it is 100% of IPP, there is no percentage sharing on the IPP. The IPP minus the variable costs and 35% of the differential you can take into your books subject to a max of CC/CRC which is what you will get for up to 100%. Above cutoff is where you get 85% of IPP. The way IPP is calculated is on a rolling average basis of previous three quarters. For example for the month of December, anything which qualified above cutoff, the price which will be taken will be November, October and September. There is a rolling average going on both in terms of exchange rate as well as in terms of IPP and the way IPP is calculated, it is an average of FERTECON, FMB, and British Sulphur and also the arrival contracted under the tender system of government of India. Whichever is lower is then taken as IPP number.

**Manoj Bahety:** Right sir, but since this average has taken quarterly, so does this mean that this capacity or threshold is also taken on a quarterly basis or on an annual basis like you will be crossing 100% in the month of March. So for us the applicable IPP rates will always be September to December?

**Anil Kapoor:** No, it does not work like that. The way it works is it works backwards. Supposing the excess capacity of a company for example in our case is 864,000 tonnes. What then we will do is they will divide 864, let us take a case of cutoff. In case of Chambal, the cutoff is 944,000 tonnes say Gadepan-I. They will divide the 944,000 equally in 12 months and then work backwards. So 944 divide by 12 is approximately 78,000 tonnes. Now in a month of March for example, we produce 90,000

tonnes. Then the 12,000 will be qualified and above cutoff, that is all. So it works backwards.

**Manoj Bahety:** So every month we will be doing this like it would not happen.

**Anil Kapoor:** Absolutely, it will be a monthly calculation.

**Abhay Baijal:** Yes, it is a monthly calculation and you allocate the actual production for the month in that particular ratio, till you average it out, but it starts from loading it from the last month and going backwards. So it is a little complicated to understand, but basically the idea is that all the production is slotted into three. First is up to 100% or that is the reassessed capacity, then beyond 100% and up to cutoff, then from cutoff to final quantity. So every month this slotting is done or every quarter, the slotting is done and accordingly the rates are applied.

**Manoj Bahety:** So like if I understood it correctly in the month of April first month of the year if instead of 75,000 tonnes if we are able to produce 90,000 tonnes, so balance 15,000 tonnes will qualify for IPP in the month of April itself, even yearly basis like after April we are not able to achieve the yearly target, then also that 15,000 we will get IPP?

**Anil Kapoor:** You have to cross the numbers, and then only you qualify.

**Manoj Bahety:** First we have to cross that number and then we will qualify.

**Anil Kapoor:** And that is why you accounted for in the fourth quarter because if you accounted in the first 3 quarters and there is some problem which takes place in the plant and you are not able to cross the figure, then you would have accounted and then you would have to reverse it in the fourth quarter. That is the conservative strategy which Chambal Fertiliser follows.

**Manoj Bahety:** So the entire benefit will come in the fourth quarter, though we may be calculating at the prices of the respective quarter right?

**Anil Kapoor:** Absolutely.

**Manoj Bahety:** Thanks a lot sir. It was very good clarification. It was very helpful. Thanks.

**Moderator:** Thank you. Our next question is from the line of Atul Rastogi from RBS. Please go ahead.

**Atul Rastogi:** Good afternoon sir. What will be the current MRP of DAP, what you will be selling at?

**Anil Kapoor:** DAP today is selling at 18,200 per tonne and each tonne has got about 20 bags, so 910 plus taxes.

**Atul Rastogi:** So compared to last quarter, has there been any significant price increase?

**Anil Kapoor:** This is a sort of a dynamic thing in the last quarter October - December, it was 18,200 and in the quarter July-September, it started at 12,000 and moves for a brief period up to 15,600 and from October onwards, it had been 18,200.

**Atul Rastogi:** And from 18,200, it has gone up to 19,800 you are saying right now?

**Anil Kapoor:** No, I did not say that. I said the price rates are 18,200. Some of the companies did try to revise the price to 19,000; however, they have not been able to sell in the market place as one of the leaders in the market place has not revised the price and they are still selling at 18,200.

**Atul Rastogi:** So despite the rupee depreciating, so in terms of trading margins, are they under pressure or?

**Anil Kapoor:** In trading, you smell an opportunity and move towards that. There will be opportunities in every type of market. For example, DAP prices have also come down substantially.

**Atul Rastogi:** So is there a chance for price cut also; do you think that is possible?

**Anil Kapoor:** Price cut will not take place right now because of subsidy is fixed. There are companies who have made not so great profits in certain months. So they will try and compensate that, but going forward coming from April, I do not know what government stands is. It is quite possible that they may reduce the subsidy amount.

- Atul Rastogi:** And secondly this is a broader question, we keep hearing that there is a considerable slowdown in rural markets and are you witnessing that in other agri inputs like pesticides because you also sell those products?
- Anil Kapoor:** Good question. There is a general slowdown in the market place. In fact in phosphatics, there is a substantial slowdown taking place. Sales are hardly taking place; however, urea sales are quite robust. Farmer is tending to switch from phosphatics to urea. As far as pesticides are concerned, the farmer needs those chemicals. Put it this way, the first priority of farmer is urea and then he uses pesticide and DAP as and when he requires it. So pesticide sales, we are on target as far as the company is concerned and I think we are exceeding our target for the year.
- Atul Rastogi:** Phosphatics is witnessing a significant slowdown you are saying.
- Anil Kapoor:** Phosphatics, there is a slowdown, no doubt about it.
- Atul Rastogi:** Considering the prices have remain the same, it was last quarter when the price went up, so after that we did not see any slowdown, but now why there is slowdown?
- Anil Kapoor:** You put it this way. Companies have contracted DAP under the long-term contracts at \$677 per tonne. Even at the rate of Rs. 51 a dollar, it has reached 50.5 today, in fact current is around 51, 50.8, etc. At that level for them to sell at 18,200 per ton is itself is a stretch. The margins are literally zero. So bringing the price down below 18,200 is a difficult task. So I do not see prices coming down going forward unless the DAP prices have to crash.
- Atul Rastogi:** Thank you sir.
- Moderator:** Thank you. Our next question is from the line of Tarun Surana from Sunidhi Securities. Please go ahead.
- Tarun Surana:** Good afternoon sir. Sir on MOP, will we be receiving any shipments during Q4 and at what rate \$ 490 or \$ 530?

**Anil Kapoor:** Tarun, we had contracted our entire annual quantity at the rate of 490. So we do not get any shipment of \$ 530. Now we will not be getting any shipment in this quarter. We have extended our plan and we will receive the shipment somewhere in April or May.

**Tarun Surana:** But at 490 itself?

**Anil Kapoor:** At \$490.

**Tarun Surana:** You have pushed the quantity to Q1 from Q4?

**Anil Kapoor:** There is no sale Tarun. I will be bringing it and just stocking it and paying stocking cost.

**Tarun Surana:** But pushing the contracts to next month, does that have any cost or that is the understanding between buyer and seller because the relationship is for so long?

**Anil Kapoor:** I think there is a relationship going in the picture.

**Tarun Surana:** And in DAP, any shipments in Q4?

**Anil Kapoor:** Yes, we are getting a few shipments in Q4 and contracted at attractive prices.

**Tarun Surana:** But the sales would happen in the Q1 itself, mostly....

**Anil Kapoor:** Sales would take place in Q4.

**Tarun Surana:** So we do not envisage huge inventory is going at the year-end in the next year?

**Anil Kapoor:** We do not expect huge inventory. There may be some inventories or subsidies payable on receipt. So we would receive subsidy as per the current formulation of Government of India.

**Tarun Surana:** And what is the typical hedging strategy that you do while contracting, would you open the hedge while the shipment is being loaded or is it 3 months, 6 months?

**Anil Kapoor:** Before the shipment is loaded, we hedge it completely.



**Tarun Surana:** Can you just guide me what would be the cost of gas till cutoff and the cost of gas that you used for IPP and what is the landed cost of term LNG that you get?

**Anil Kapoor:** I will have to look at the numbers. At this moment for me to really answer your question up to cutoff what is the gas price and above cutoff, I do not have the numbers readily available right now.

**Tarun Surana:** Fine sir. I will get back to Mr. Abhay later. Thanks.

**Moderator:** Thank you. We have a question from the line of Falguni Dutta from Jetage Securities. Please go ahead.

**Falguni Dutta:** Good afternoon sir. Globally the prices of fertilisers have come off like urea I was just tracking. So what could be the reason for this sharp decline in prices?

**Anil Kapoor:** This is normally the offseason as far as global trade is concerned. If you look at last year also somewhere in March, I am just going by memory, we had contracted DAP at around \$350 per MT.

**Falguni Dutta:** Sir this is just a seasonality issue.

**Anil Kapoor:** This is a seasonality issue. In fact Pakistan tender which is going to be opened anytime will really determine what the prices are.

**Falguni Dutta:** You mean to say we can take some cue from that as to how will it be through the year?

**Anil Kapoor:** No, it is a demand and supply situation.

**Falguni Dutta:** I just wanted to understand that there is some change in demand supply which has led to this correction or it is more of a seasonal thing?

**Anil Kapoor:** Prices coming down is a seasonal issue, but what will happen for the balance period of the year, it will be very difficult for anybody to conjuncture.

**Falguni Dutta:** Okay sir, fine sir. So that was all from my side.

**Moderator:** We will take the next question from Rohan Gupta from Emkay Global. Please go ahead.

**Rohan Gupta:** Good afternoon. Sir couple of questions. One is on trading of complex fertilisers. You just mentioned that even at a current currency rate of 51 and global DAP prices of almost \$670, the selling price of Rs. 18,200 companies are hardly making money in terms of margin in complex fertiliser. We have seen a very strong margin in our company's results for this quarter at 6% EBIT margins and especially in the third quarter when we have seen DAP at significantly higher prices and also currency at almost Rs. 53 per US Dollar. So one thing is that what we are doing something different from the industry that which is allowing us to make such good margins of almost 5-6% and going forward, what is going to be our trading policies on complex fertiliser?

**Anil Kapoor:** Put it this way. We follow particular practice for hedging. I do not know what industry does because each one has its own strategy. Some people hedge, some people do not hedge. People who do not hedge and in a depreciating rupee can take a beating. So we really do not know how others are operating.

**Rohan Gupta:** Basically you must be doing something extra because you just mentioned that at a current currency rate at Rs. 18,000 DAP prices, industry will not be making very good margins or hardly making any margin and situation has just improved in terms of currency has just appreciated.

**Anil Kapoor:** Our shipments of DAP when they came they were at USD 677 per MT and the Dollar was between Rs. 47 and 50. So it is not that we contracted our material at exchange rate of Rs. 51 and in this quarter there is an opportunity of getting DAP at a slightly lower prices also which we can sell it at Rs. 18,200 per MT.

**Rohan Gupta:** So going forward in the fourth quarter, you do not see that there will be any kind of price correction in DAP in the market to the farmers. It may continue to prevail at 18,000 plus.

**Anil Kapoor:** Yes, I do not think. There is no way the prices will come down.

**Rohan Gupta:** But DAP prices in the global market has come down from \$670 to almost \$610 now?

- Anil Kapoor:** I agree with you, but firstly at \$610, there is not too much quantity available. Everybody has also started with some long-term contracts whether the prices are coming at \$677 minus some amount of discounts.
- Rohan Gupta:** So as an industry, there is hardly any chance that we would see any kind of drop in DAP prices in the market in Q4?
- Anil Kapoor:** No, there will be absolutely no chance of prices falling down below Rs.18,200.
- Anil Kapoor:** Actually I do not foresee if some players in the industry drop it, it is to be seen, but as far as we are concerned, we do not see ourselves dropping any prices.
- Rohan Gupta:** Because sir DAP prices have also corrected from 670 to almost 610 and currency has once again appreciated now almost comfortable zone of almost 50.5 to 51. So we were expecting that there may be some drop in prices of complex fertilisers?
- Anil Kapoor:** It is very difficult at this moment to get the material at \$610. Even if it is \$610-620 is available in the market, contract it, ship it, receive it at the port, tag it and dispatch it to the sites and to the farmers before March 31st because after March 31st, the subsidy levels are likely to go down.
- Rohan Gupta:** So you are anticipating that the government will cut or reduce subsidy rates for next year?
- Anil Kapoor:** That is what we are expecting.
- Rohan Gupta:** Any idea sir what kind of percentage reduction can happen?
- Anil Kapoor:** No, we have no idea. I think discussions are still going on and at this moment, we have no idea as to what prices are going to cut.
- Rohan Gupta:** And sir what is the timeline you are expecting the government will announce the subsidy rates?
- Anil Kapoor:** With Government I cannot tell anything.

**Rohan Gupta:** So because there is a Q1 for complex fertilisers is the major quarter and you have to prepare yourself in terms of contracting for the finished product supply for next quarter for Q1. So either you will put on hold unless government disclose that subsidy amount or you will go on contracting with the global supplier to prepare yourself for Q1?

**Anil Kapoor:** We are traders, wherever we will smell opportunity, we will contract.

**Rohan Gupta:** Right sir. The second question is on urea. Can you just give us the number, total urea produced in 9 months?

**Anil Kapoor:** That I can tell you. Total urea produced in 9 months would be 15,85,000 MT.

**Rohan Gupta:** And this quarter production happened closer to 5.6 lakh tonnes right?

**Anil Kapoor:** This is closer to 5.6 lakhs.

**Rohan Gupta:** So if we can repeat the similar quarter Q4 also, then we can achieve a production of almost 21.5 lakh tonnes plus or roughly 21.5 lakh tonnes.

**Anil Kapoor:** In life I do not know whether you have read that poem of Tennyson. I think you should read that.

**Rohan Gupta:** Are you expecting a maintenance shutdown in this quarter or you will continue that is what I want to know?

**Anil Kapoor:** We do not have a plant maintenance shutdown this quarter.

**Rohan Gupta:** So if that is what my question was. If you continue with the similar rates.

**Anil Kapoor:** You can do your own calculation.

**Rohan Gupta:** Thanks for answering the questions.

**Moderator:** Thank you. We have the next follow up question from Falguni Dutta from Jetage Securities. Please go ahead.

**Anil Kapoor:** I have now with me Mr. V. K. Gupta, he is our Vice President – Marketing. He will answer your question the one which you had.

**Falguni Dutta:** So I was just wanting to know I came across an article that stated that from 1st of January, Fertiliser Ministry has started electronically tracking every kg of fertilizer till it is eventually getting sold and like this is that system whereby ultimately the subsidy would be directly going to the farmers but that at a much later stage. But the second phase of this which is going to start in June where it states that wholesalers and retailers will be buying the fertiliser at unsubsidized rate directly from the companies and then they in turn will be getting subsidy once they are uploading the data and the ministry is coming to know about it. So I just wanted to know once the system comes in like what are the difficulties. Will the company be worse off because getting money from wholesalers and retailers who I do not know how much capacity will they have to buy the fertilisers paying full price to the company. So just wanted to know more about it as to how will it impact the company from June once this comes in?

**V. K. Gupta:** Basically now what government is doing in Phase-I, they are going for transparency so that material flow to the retailer is mapped. So subsidy would be given directly to the manufacturers or suppliers. Phase-2, the detailed report is yet to come, they have given a deadline that from 1st June 2012, they would go for direct subsidy to the retailer.

**Falguni Dutta:** If this kind of a system work, in your sense like retailers and wholesalers where will they get such money from to like immediately pay and buy the fertilisers and then wait till he get a subsidy?

**Anil Kapoor:** I will answer that question. As Mr. V. K. Gupta did mention right now if the material reaches the retailer, he has to send an SMS that the material has reached and the entire mapping process takes place and then the subsidy to the company is released. Now can you imagine the entire trade if the subsidy is given directly to the retailer, today government has not paid us and will not pay us for last 5 months, can you do that to the retailer by one week also, he will get choked.

- Falguni Dutta:** That is what I was like wondering that in such a scenario how is that system going to work?
- Anil Kapoor:** Our view is, let the government first settle down the existing system which they are going for trial and then they should have funds available on a dynamic basis given to the retailer and dealer because the companies will not be selling to the retailers and dealers on credit. We have credit limit for each dealer and we cannot exceed the limit because then the companies would start to be exposed and the dealer would not get too much big credit lines from their bank. It is a difficult call, but let us see how the phase I progresses before going into Phase-2.
- Falguni Dutta:** Fine sir. Thank you.
- Moderator:** Thank you. Our next question is from the line of Devang Mehta from Canara Robeco. Please go ahead.
- Devang Mehta:** Actually one more question. What will be source of our DAP supply?
- Anil Kapoor:** Put it this way. We have certain long-term contracts and then we look at what is available in the market place.
- Devang Mehta:** And what price would be appropriate to look at if we are doing on a spot basis?
- Anil Kapoor:** At this moment to contract DAP and bring it into the country is going to be very difficult as I have been mentioning because I have two contracts today or tomorrow, we are on 19th January. Most of the contracts are over and there will be no shipment available before middle of February. There are no prompt shipments available right now. Middle of February that means material will reach our port and discharged by first week of March and that gives us very little time to take the material out and deliver at the country side.
- Devang Mehta:** I understand that, but I was just looking at what price would be appropriate to look at from which area we have been importing?
- Anil Kapoor:** At this moment, we cannot. Whatever has been contracted has been contracted. Companies which will be contracting now

would be doing at their own risks. We will certainly not be doing any more contracting.

**Devang Mehta:** Thank you.

**Moderator:** Thank you. Our next question is from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

**Dhiresh Pathak:** Good evening. Just to confirm a few data points that I collected when you were answering other questions. The landed price of DAP now at current spot price would be closer to \$670, right?

**Anil Kapoor:** No, under long-term contracts.

**Dhiresh Pathak:** Although one is not available right now, you are not doing one as you said.

**Anil Kapoor:** But some of the spot rates we have contracted which we cannot disclose the price for competitive reason, but those were done in the first fortnight of or the last fortnight of last month, but we cannot disclose it right now.

**Dhiresh Pathak:** Don't disclose the specific contracts, but what is at current spot prices seeing on board and whatever is just freight and insurance that included what would be the landed cost for DAP? Don't disclose your specific contracts I just wanted a broad sense.

**Anil Kapoor:** I will give you the calculation, you can then do your own calculation. The way to do the calculation is you take the DAP price, multiply by 6.18% which is the duty, multiply by the exchange rate, add to that all the fixed costs and the delayed period interest because when we sell right now, we will not get money from the market place and from the government. Money will only come by May, add to that the interest cost, the stevedoring charges, LC charges, the banking cost and you plus add some profits to the company and you determine the price.

**Dhiresh Pathak:** Now what I am asking is the price that you pay for buying a tonne of DAP?

**Anil Kapoor:** So I am giving you a calculation, you take the DAP at \$600 and apply the formula which I given you.

- Dhires Pathak:** I was looking for some sort of a broader thumb rule wherein DAP plus \$50-70 of freight plus insurance something like that?
- Anil Kapoor:** It will be very difficult as certain numbers are confidential in nature.
- Dhires Pathak:** The typical duration from the time you put the purchase order and the time you actually end up selling in the Indian market is what 1.5-2 months?
- Anil Kapoor:** From the time we put the purchase order, it can be two months.
- Dhires Pathak:** For urea subsidy, the time that the government takes to pay you that is typically what 5 months?
- Anil Kapoor:** Typically the agreement and with the government has calculated our subsidy where we have a contract with the Government of India is for example what we sell in the month of January, we should receive the money by 10th of March. That is the contract with we have with the Government of India.
- Dhires Pathak:** So you should get within 45 days, but what are you actually getting at in?
- Anil Kapoor:** As Abhay had mentioned earlier, we had received the September subsidy and I do not know whether I will get anything October onwards. October I may get something or I may not get something, I do not know. There is no money.
- Dhires Pathak:** Alright, thanks.
- Moderator:** Thank you. Our next question is from the line of Nithya Gosar from Religare Asset Management. Please go ahead.
- Nithya Gosar:** Good afternoon. Just wanted a broader sense on what you just commented and while replying to one of the questions that one of the biggest player in DAP is maintaining the price of 18,200 even at \$670, may be the broad sense is that going forward from 1st of March or may be end of 31st March, government may reduce down the subsidy and he might be fearing that kind of quantity off take may not be visible. Is the kind of reference I am making is what the larger player would be thinking of and could that deteriorate the overall realization for the industry?
- Anil Kapoor:** I cannot tell about the industry. Let me be honest with you and when the price was determined at 18,200, I think the lead players thought that beyond that anywhere the prices the farmer



would not be able to absorb and farmer is definitely having difficulty in absorbing prices and that is why as I had mentioned earlier, demand destruction is substantial. In fact as I am on the industry, I will not be able to foretell.

**Nithya Gosar:** But the broad outcome here would be like if the subsidy rates have brought down from hereon at least on DAP front, you miss your further demand destruction. From farmers' point of view, they are not in that position to absorb those kind of further rate hikes?

**Anil Kapoor:** If the subsidy has to come down, then two things can happen. One is DAP prices should substantially fall further because typically India contracts at the lower price than the spot price. So if DAP prices do not change and rupee remains at 50-51, then industry will be able to sell it at 18,200, but now look at the case scenario, the DAP does not fall below and it maintain or hovers at 600-610 and the rupee also remains same. If the subsidy has to come down, then the industry will have no choice but to increase the MRP. So one will have to wait it out and see how the scenario breaks out.

**Nithya Gosar:** Thank you.

**Moderator:** Thank you. Our next question is from the line of Sageraj Baria from Equitorials. Please go ahead.

**Sageraj Baria:** Good evening sir. I just wanted to know about this mapping of retail in which government is thinking. How is it on the infrastructure side? Is it ready as the retailers mapped and everything that is what I would like to know?

**Anil Kapoor:** On the mapping, infrastructure is ready. There are some teething problems taking place.

**V. K. Gupta:** Retailer dealer, they have been mapped, they have been given identity numbers and the application has been uploaded on their mobile systems. So mobile-based SMS is running. There are teething problems, but more or less now invoicing is being done and that is being captured through mobile-based SMS. System is up and running.

**Sageraj Baria:** This is we talking about across India.

**V. K. Gupta:** Yes, across India.

**Sageraj Baria:** Fair enough, thank you.

**Moderator:** Thank you. Our next question is from the line of Atul Rastogi from RBS. Please go ahead.

**Atul Rastogi:** Sir my question was on subsidy. You said it has not been paid from September and October, but there was supplementary grant of Rs. 13-14,000 crores which was granted in December. So you have not heard after that.

**Abhay Baijal:** That is what was supposed to be paid, otherwise it was finishing in August itself. So it was divided between Rs. 13,800 crores odd that was given. Of this, about 13,000 crores is to be distributed. A large part is being reserved for imported urea -about Rs. 3000-4000 crores. The balance is split, I would say 30% for urea, 70% for other phosphatic and NPKs. So that is how the split was there. That money I understand is more or less over only about 500 crores remains for urea which will be used to pay some balance quantities in certain preferences .....

**Atul Rastogi:** Just broader thing for the year whatever total subsidy was approved is around 65,000 crores and that has only been sufficient for half the year. So you are talking about total subsidy bill of what 120,000 and 130,000 crores?

**Abhay Baijal:** Yes around Rs. 90,000 crores.

**Anil Kapoor:** There was some carryover of last year also.

**Atul Rastogi:** Okay that is it.

**Moderator:** Thank you. Our last question is from the line of Rohan Gupta from Emkay Gobal. Please go ahead.

**Rohan Gupta:** Sir just only one last question. Sir what is the total subsidy pending right now from the government?

**Abhay Baijal:** About 1000 crores for Chambal, both phosphatic and urea combined.

**Rohan Gupta:** Okay fine sir, thank you.

**Moderator:** On behalf of Perfect Relations that concludes this conference. Thank you for joining us. You may now disconnect your lines.