



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Q1 Financial Results (FY 2012-13)

Investor/ Earnings Call Transcript
August 9, 2012

Moderator Today we have with us Mr. Anil Kapoor – Managing Director, Mr. Abhay Bajjal – CFO, Mr. M.S Rathore – Vice President Legal, Corporate Communications and Company Secretary and Mr. V.K Gupta – Vice President, Marketing to address the call. We will begin the call with brief opening remarks from the management followed by an interactive Q&A session. Before we begin I would like to add that some of the statements that we make in today’s discussion may be forward-looking in nature. I would now request Mr. Kapoor to make his opening remarks. Thank you, over to you sir.

Anil Kapoor Welcome to our first earning call of financial year 2012-13 post declaration of results. I would like to share with you some of the highlights of the 1st Quarter ended 30th June 2012. We have done well on the revenue and profitability front, our sales have increased by 18.6% to Rs.1364 crores, PAT has increased to Rs.77 crores from Rs. 64 crores as compared to corresponding quarter last year. You are aware that the company has three businesses segment- Fertilisers, Textiles and Shipping. The revenue of own manufactured urea went up by Rs. 178 crores whereas the revenue of traded products went up by RS. 14 crores. There were technical glitches in the plant as a result of which the stream days were lower as compared to previous quarter. In addition we had shutdown in the month of April for both Gadepan I and Gadepan II. The traded product including fertilizers, micronutrients, zinc and pesticides continued to do well and going forward we expect to maintain the growth which we have had in the 1st Quarter. Textile segment have shown some improvement and realization has improved as you can see in the revenue. It has registered marginal profit in this quarter. We expect going forward this segment to improve. The charter rates for Aframax tanker continued to stagnate in shipping division. The year 2012 does not seem very promising; the severe recession trend has impacted its performance. I would now request the participants to ask questions you may have with regards to the result. Thank you.

Moderator Thank you very much. We will now begin the question and answer session. We have the first question from the line of Prakash Goel from ICICI Securities, please go ahead.

Prakash Goel My first question is with regard to the urea segment profitability, I understand that there was benefit with regard to the IPP that has been accounted during the quarter. So I would like to understand what has been the difference in terms of what price did we accounted for in Q4 and what got notified and why did the difference emerge?

Anil Kapoor There is a prior period income; because we follow a conservative accounting policy and we had estimated IPP to be slightly lower than what actual numbers have come. So there is some gain coming because of the IPP and then there are also some gains coming up which are miscellaneous in nature. Abhay will further answer that question.

Prakash Goel We just want to know what has been the realization accounted for now, what is in Q4 and what has been the total volume that has been accounted?

Anil Kapoor The total volume has been accounted for and there is nothing pending right now.

Abhay Baijal Normally, what we do that since we know the number which is above the cut-off quantity but we do not really know what the government will notify at the end of year in terms of final IPP number. So we have an estimate at the time of going to the Board meeting in May because normally these things are decided after the Board meeting. One does not want to reverse income going forward because that is a very painful exercise. As a result we normally keep a margin for error. But this time when we did that calculation we found a substantial difference of about \$25-\$30. So that is what has been accounted for overall on the total volume beyond cut-off quantity.

Anil Kapoor And we have a similar gain also coming in the 1st Quarter of last year.

Prakash Goel But the quantum is significantly different between last year and this year?

Anil Kapoor Quantum this year is slightly different as Abhay has mentioned.

Prakash Goel How much is the value?

Abhay Baijal The value is around Rs. 35-40 crore and in this quarter we also got an income tax refund which was adjusted after a lot of pursuit. Because of that there was some interest income on that refund which was also

accounted for. So that comes as part of the income of the company in the segment itself as it is part of the operating income of the company.

Prakash Goel So, how we look at the urea segment profitability on a year basis, we have certain fluctuation in Q4 and now also in Q1 on a static basis how much profitability that we should look forward from this sector, if in production are say to the tune of 21.5 lakh ton?

Abhay Baijal Firstly I think, our production would be slightly down from 21 Lakh ton, we expect the year to end at anywhere between 20.6 to 21 lakh ton, that is our expectation.

Prakash Goel And this is primarily lower because of?

Anil Kapoor Because of the shut down, we took in the month of April. We had annual shutdown both in Gadepan I and Gadepan II this year.

Abhay Baijal But going forward in the next nine months we expect profitability from urea to be robust.

Prakash Goel When the de-bottlenecking happened, we were under the impression that in a good year company can do volume of 21.4 lakh ton so that number stands or we should re-look at that numbers because annual shutdown will happen every year?

Anil Kapoor I think in a good year we can have a number between 21 and 21.2 lakh ton, 21.4 is a stretch.

Prakash Goel So that is how we should look at it, beyond 21 and 21.2 is the stretch?

Anil Kapoor Yes.

Prakash Goel Second question is with regard to the SSP, where do we stand now? What is the status of the facility that we were putting up?

Anil Kapoor In SSP front our plant is more or less ready and we expect to start the powder section this month.

Prakash Goel And all the distribution and marketing setup is in place?

Anil Kapoor We are already trading SSP, we have sold approximately 15,000 tonnes of SSP, in the month of July. I just like to mention to all our participants in this earning call that trading is now a focus area for Chambal Fertilisers. We are intending to de-risk our operations through trading and we are confident, going forward with sustained growth as far as trading is concerned. By the trading what I mean is DAP, MOP, SSP, agrochemicals, seeds, zinc, bentonite, sulfur - the entire spectrum of Agri-input required by the farmers.

- Prakash Goel** Coming to the trading segment like now, while the turnover was flattish Y-o-Y, there was a sharp jump in profitability and we understand it is primarily on account of DAP profitability, is it the right way to look at it or basically the question is how sustainable or unsustainable is this kind of margin in the trading segment?
- Anil Kapoor** Margins may come down but profitability may be sustained.
- Prakash Goel** Okay basically you would do higher volumes in case of the lower profitability?
- Anil Kapoor** Yes, because agrochemicals is seasonal and in certain segments in certain months we get higher contribution. I think, for us to sustain that on a yearly basis, would be a tough call but we should be closing on it.
- Moderator** We have the next question from the line of Himanshu Nayyar from Quant Broking, please go ahead.
- Himanshu Nayyar** Just following up on the previous question, could you give us some numbers which can explain this Rs. 180 crore year-on-year jump in manufactured fertilizers revenue from Rs. 700 to 880 crore, you said that Rs.35 to 40 crore would be on account of prior period income but the rest Rs.140 crore, if you can just give us some broad number. This amount is quite big, you were talking about that IT re-fund but this number is quite big for that?
- Anil Kapoor** We get our gas in terms in dollars and dollar has appreciated, rupee has depreciated, to that extent there is an input cost increase which is a pass through so we showed as sort of revenue.
- Himanshu Nayyar** So that would explain this broadly.
- Anil Kapoor** Despite the lower volume in production but sales has been maintained because we were carrying stocks from previous quarter.
- Himanshu Nayyar** Secondly, if you can just give us some update on the performance of IMACID and IT business?
- Anil Kapoor** As far as IMACID is concerned, the plant was shut down, as there was no agreement between the buyers and the sellers till May, we started the plant at May end and since then we are going full blast. For the year I personally foresee a breakeven type of a scenario.
- Himanshu Nayyar** And IT business?
- Anil Kapoor** IT business has improved substantially over the last year. Every quarter we are EBITDA positive. We now have CEO who was earlier

Head of Infosys BPO business- Ritesh Idnani and we expect the company to go great guns under him.

Himanshu Nayyar If you can just give us some CAPEX plan for the next two years and if you have finalized?

Anil Kapoor As far as Chambal is concerned; our CAPEX plan is centered around Gadepan III. We expect the new investment policy to be approved in the next one or two months and we have already started an early work job as far as off-site facilities are concerned. So for us as an organization a new plant is a biggest CAPEX, I do not want to spend energy into small CAPEX.

Himanshu Nayyar And no plan as such in your other subsidiaries or other JVs?

Management1 CAPEX of 40-50 crores keeps taking place and that is not major. Chambal itself has a CAPEX plan of Rs. 50-60 crore ever year for some energy improvement, some equipment replacement, etc.

Himanshu Nayyar But otherwise Gadepan III is the only big project that you are looking at?

Anil Kapoor Not the only, it is a Rs. 4500 crore project, it is a big one.

Moderator The next question is from the line of Rohan Gupta from Emkay Global, please go ahead.

Rohan Gupta Just taking from the very first question which you answered about the fertiliser having a additional revenue related to previous year of almost 35 crore on account of IPP revenue which we have booked in current quarter. The amount which you didn't mention of the IT refund what was sir, that amount in this quarter?

Abhay Baijal That was Rs. 6 crore because what happens is you get interest back that was pending for quite some time - about 3 to 4 years. So the amount is also fairly large - about Rs.75-80 crore. Actually the cash was never given to us because it was adjusted against the future demand but we have to account for the interest which is paid.

Rohan Gupta So Rs. 35 crore on IPP?

Anil Kapoor No, it is not 35; it is around Rs. 40 crore.

Rohan Gupta On trading, your purchase of goods for trading is roughly Rs. 650 crore, interest is Rs.85 crore while trading sales is roughly Rs. 300 crores. Is it fair to assume that we are sitting on a Rs. 350 crore plus sort of inventory? And second because I believe that most of this inventory will be of DAP and MOP, all the companies have taken

effect of price increase in the market. Is it going to be fair to assume that when we liquidate this inventory in the system, we can make even better margins what we have reported in the current quarter?

Anil Kapoor Firstly, at this moment we are carrying no inventory. Whatever inventory is there, it is at the port. We already have indent from the marketplace so as soon as we can pack it and ship it, it will be in the market. Small amount of inventory here or there, is nothing to talk about.

Rohan Gupta On the trading sales, can you just give a small breakup of the Rs. 300 crore trading sales between the complex fertilizers and agrochemicals and other specialty?

Anil Kapoor We will come to you with the numbers at the end of the conference call.

Moderator We have the next question from the line of Varun Guntapalli from Edelweiss Securities, please go ahead.

Varun Guntapalli My question pertains to investment policy you are saying that it expected to come in the next month or so. So it is like the final policy is more or less what they have discussed some time back and we were reading in some of the article that beyond \$14, the government is okay to consider a lower band and not the higher band for the IPP linked pricing. So is it the same format or any other changes that are happening to the policy?

Abhay Baijal The policy being formulated is the same which was there earlier and there is no such thing as below \$14 and above \$14, I do not recall. I have not had the opportunity to read the policy because they are confidential in nature but we do have discussions with government and I do not recall anything that below \$14, you are going to get one number and above \$14 is going to be another number. As far as I recall, it is one IPP number over a floor and ceilings and energy is a pass through.

Varun Guntapalli Pass through between \$6.5 and \$14 what they have indicated?

Anil Kapoor It is between \$6.5 and open-ended. They could keep a cap at may be \$18 or something I do not know.

Varun Guntapalli Because initially they were mentioning \$14 would be the cap with the floor and ceiling and the industry's demand at that time was \$20, to increase it to \$20.

Anil Kapoor The devil is in the detail we do not know till the final policy comes out, our understanding is that \$14 is definitely not the cap, the cap is

substantially higher. I think we should be able to contract for gas comfortably.

Varun Guntapalli The other policy, any clarity on the pricing policy that has been pending?

Anil Kapoor The pricing policy - I cannot say anything right now. The entire industry has told the department that a substantial cost push has taken place for the industry from 2002-3 to now. Your company - Chambal Fertilisers has managed to stay above board because we did CAPEX of about Rs.450 crores at the right time for which we have got benefits in the last three years, some money has been generated above cut-off and our trading strategy is now paying off. We started it five years back and now it is paying off. But otherwise for the urea industry as a whole, production up to 100% is seeing profitability shrinking year by year.

Moderator We have the next question from the line of Tarun Surana from Sunidhi Securities, please go ahead.

Tarun Surana Question is regarding decontrol fertilizers, your trading and profitability has also been good in this quarter. However, with new contracts coming in not less than \$580 in DAP, how difficult would it be to maintain margins and do you see any possibility of hike in subsidies. Now so many Chief Ministers are demanding from the government to reduce fertiliser prices - is the only way to basically hike subsidy?

Anil Kapoor Regarding the hike in subsidy and regarding what the Chief Ministers are asking, I think you have to ask the Chief Minister and government of India. I will not be able to answer that question for you. As far as we are concerned, we have maintained that trading is going to be our focus area and in my opening remarks itself I have said that trading will continue to be Chambal's focus area. In North India, rightfully our market share is what we will attain which we had slipped in the past. If you see what the phosphatics fertilizer which is sold and what the percentage of micronutrient fertilizer which is sold in North India we should have a rightful share in the market place and we will achieve it. But trading is not only phosphatics. We have a very large presence where our margins are very good. We continue to grow in non-phosphatic agrochemicals, seeds, sulfur, zinc, and there is a large profitability margin for Chambal Fertilisers.

Tarun Surana Out of Rs. 300 crores, I assume about Rs.125 crore would be non-bulk fertiliser trading and whenever you have the number ready just share it?

Anil Kapoor Maybe you can give a call to Abhay and ask him later on. He would share it with you.

Moderator The next question is from the line of Phalguni Datta from Jet Age Securities, please go ahead.

Phalguni Datta Could you just give me the urea production volume and sales volume for Q1 and versus Q1 of last year?

Abhay Baijal The production for this quarter was 427,675 ton as against 4,79,793 ton in the corresponding period last year and sales were 522,099 ton as against 554,275 ton.

Phalguni Datta Has the industry as a whole, consumption of phosphatics declined or how do you see it would have and by what percentage and how about urea?

Anil Kapoor Firstly for urea, there will be no demand destruction. On the contrary there will be lot of pull in the market for urea.

Phalguni Datta Despite this entire monsoon and whatever issue?

Anil Kapoor Yes, there will be a pull in the market for urea, if it has to cut down they will cut down on imports because India has got substantial volume of urea. As far as DAP is concerned, yes, there will be demand destruction. I think, that is where a company which has good brand and supplies good quality material in the market place, where the farmer has got faith, will be the one which is going to survive in the long run.

Phalguni Datta April to date, can you just give a broad percentage decline in DAP and may be increase in urea?

Anil Kapoor Too early to tell, we have not received market figures so far. Too early to tell because the monsoons had been delayed and there is a delayed crops also.

Moderator We have next question from the line of Gauri Anand from MF Global, please go ahead.

Gauri Anand This other expenditure has gone up by about 10% on a year-on-year basis. Is there any shutdown related expenses which we have accounted because we have shut our plants for about 34 days or there about. That is the first question. And the second question is on IMACID. You indicated that basically you are guiding for a break even this year. Now that we are operating at a normalized capacity since may be May or there about. We have lost a month of production so what is that you are indicating? Are you expecting margins to

contract, is that the new agreement that we have entered into with our rock supplier? Could you just give us some sense there and only shut down related expense?

Anil Kapoor

At IMACID, we are accounting for on a calendar year basis. Let me check by the numbers which I can come back to you. But as far my memory goes, they had lower production in the 1st Quarter due to plant shut down in the 1st Quarter. There was problem in reactor too. So we had a bad 1st Quarter and not a very good Q2. So Q3 and Q4 is basically recovering the losses of Q1 and Q2 and that is about IMACID. The other question, I will let Abhay answer.

Abhay Baijal

If you see, the other expenditure does not include repair and maintenance. Repair and maintenance is other part of thing. We had some premium on forward contracts which was amortized. We do lot of hedging. Also this year, the hedging cost has been higher than the corresponding period last year. For the second part, freight and forwarding charges for the railway rakes were also increased so these are two major impacts because of which the costs have gone up.

Gauri Anand

There are no shutdown related expenses?

Anil Kapoor

No, shut down related expenses are part of repair and maintenance, there is another head in which we expensed that and in not in this particular head. There is not much variation as compared to the last year. If you see on a line to line basis in the last year, we had a shutdown in the same period last year so there is that much variation on that account.

Moderator

We have the next question from the line of Trilok Agarwal from Birla Sunlife Insurance, please go ahead.

Trilok Agarwal

In the last concall we have highlighted about Neem coated urea and we are selling 5% over the market price and nearly 30% odd or so. Are we planning to increase our proportion to the overall sales of that particular product that is the first question? The second question, I also wanted to direct towards software business. I believe in the last quarter, we had mentioned about nearly your breakeven at EBITDA and marginal uptake in volumes will lead to a profitability so want to check the status. Have you improved in the software business sine last 3-4 months?

Anil Kapoor

On the first part, government has restricted us from Neem coated urea to 35% of our total production. Even though Chambal brand is a very strong as far as Neem coated urea is concerned. There is lot of pull coming from the market, however, we are restricted to 35% from government. So even if I want to, I cannot increase the quantum. And as far as software is concerned, we continue to maintain our guidance

that going forward by the end of the year we should start seeing breakeven on net profit basis.

Trilok Agarwal So basically we are trying to say is FY13 will see no profit no loss at best?

Anil Kapoor No, I am not saying that. I am saying by the end of the year as on a run rate basis, we can see the company meet breaking even on net profit basis. But for the year, there will be a loss but would be substantially lower than last year.

Trilok Agarwal The other point I want to check, you had already mentioned about the volumes in that business kind of picking up so how has been the overall progress on that?

Anil Kapoor US market continues to give problem at this moment as far as the housing segment is concerned and if at all, we will do marginally better than last year as far as volumes are concerned. I do not see a substantial jump in the volume for this year. May be for next year yes, with the new CEO in place and we expect things to improve substantially.

Moderator We have the next follow-up question from the line of Prakash Goel from ICICI Securities, please go ahead.

Prakash Goel The first question is with regard to what is the farmer price for the DAP that you are selling currently?

Anil Kapoor Rs. 24,000 per tonne.

Prakash Goel I was speaking to various companies and there is a significant variation across companies, what does it decide like who decide the prices, for example Gujarat State Fertilizer Company sells at Rs. 23,200, RCF sells at Rs. 24,500, Coromandel is selling around Rs. 25,000 and you are selling at Rs. 24,000. So what is the competitive dynamic which decides the price in a particular market?

Anil Kapoor It is a free marketplace. We do not sit together and decide the price. In each of the product segment, we have different prices but let me be honest with you. IFFCO and IPL are the market leaders as far as P&K and DAP is concerned. As far as Chambal is concerned, we tend to follow what price we set in the marketplace but we do not talk to each other and that is why you see each one's price being different.

Prakash Goel That is the healthy sign, you are saying.

Anil Kapoor Yes.

- Prakash Goel** I have been reiterating it for a while because software and IMACID forms a significant part of the full profitability. Even if we can get a statement of the status more on official communication for the quarter what has been the number in terms of the sales and bottom-line, in case you are not able to put out the consolidated result on a quarterly basis that will be really helpful?
- Anil Kapoor** We will keep in mind next quarter when we have a conference call I will keep it in my opening statement.
- Prakash Goel** Many companies in other space is this what they do?
- Anil Kapoor** If for IMACID, Tata Chemicals have given the results, you pick it from there, that would be the same as ours.
- Prakash Goel** The software company just published the top-line and bottom-line for the quarter or the preceding quarter whichever is available so that we have a pointer to look at throughout the year. So that there are no surprises in the software segment per se that tends to be an historically something which has been destroying profitability and we are hopeful that the things will improve drastically out of there.
- Anil Kapoor** It is not destroying profitability or put it this way, Chambal Fertilisers on a standalone basis because on a yearly basis our investments now have substantially reduced as at the moment. BUT yes we will keep in mind and when we do the next quarter result, we will keep your suggestion in mind.
- Moderator** We have the next follow-up question from the line of Rohan Gupta from Emkay Global, please go ahead.
- Rohan Gupta** I will like to understand the balance sheet position as of now because we had huge debtors at the end of last year, I mean, March. So I believe that a large portion was pending from the government subsidy. What is your current position in terms of debtors and cash in hand?
- Abhay Baijal** Cash in hand today is of the order of about Rs. 500 crores and the borrowing as of end on 30th of June was of the order of about Rs. 2900 odd crore. That includes of course, the revaluation of the shipping debt, which got revalued because of the depreciation of the dollar which come to about Rs. 1245 crores and about Rs. 1600 to 1700 crores of buyers credit roughly there in the system. Now what has happened is that some amount of money which has come from the government has got invested into the mutual funds, liquid schemes because they are yielding rather better returns than what we are paying out of debt.
- Rohan Gupta** So what is the investment in liquid opportunities now?

Abhay Baijal Above Rs. 500 crores is the investment.

Rohan Gupta As of now our debtors stands at roughly some Rs.1500 crore or they are less than that?

Abhay Baijal If you want to do a net position it is Rs.1600-1700 minus 500 crore around 1100 crores will be the outstanding debt. It is quite a bit of reduction from what we had.

Anil Kapoor Going forward in this quarter, after this quarter there will be further reduction.

Rohan Gupta Because a huge cash which we have Rs. 500 crore, investment in liquid options of Rs. 500 crores, this Rs. 1000 crore investments, it is not showing accordingly in other income so it has been done at the end of the quarter, tail-end of the quarter so we can see other income?

Anil Kapoor Yes, it is in the tail-end, the effect is basically for one and one and a half month.

Rohan Gupta So the next quarter we can see sharp improvement in the other income.

Anil Kapoor Hopefully.

Rohan Gupta One more question on IMACID. Can you just elaborate a little bit more what sort of arrangement we as a company and IMACID has and what was the reason for the IMACID production, I mean IMACID operation was effected during the quarter?

Anil Kapoor Our arrangement is that we are investors in IMACID, we hold 33% of IMACID shares. We, Tatas and OCP are the three shareholders. IMACID then sells acid to India on an India pricing basis. As far as DAP is concerned there is no such thing as India pricing. We all negotiate and agree we will buy \$580 this year. But as far as acid is concerned, there is an India pricing concept and the same price is given to everybody in India. So that is the arrangement which we have. Unfortunately what happened this year was that in the month of April-May, talks broke down between the buyer and the seller and as a result of which the plant had to shut down. Because acid was not being lifted by the buyer but I hope that these things are of the past and it will not happen in future.

Rohan Gupta I fail to understand that the two out of three partners, Tata Chemicals and Chambal, you are only the producers also the JV and also taker of the phosphoric acid both of you companies?

Anil Kapoor We are not taker.

Rohan Gupta In terms of Zuari only.

Anil Kapoor Zuari is a separate company.

Rohan Gupta Okay understand but the both the consumers are Indian and also having almost equivalent 33% stake in this JV. So is the group or the IMACID as the entity was trying to squeeze higher profit from the phos acid because it is not like that phos acid has not been sold in this current quarter in the market. There was other entity in the global market who were selling phos acid in the market. They must not be selling at losses so those companies must have made some profit. Why the contract was not able to produce or why the contracts were not able to work out between you and company at the JV?

Anil Kapoor When we sit on IMACID Board we will just think of IMACID. We do not think of anything else but IMACID and that is what corporate governance is all about. At the price what it was being negotiated and if IMACID had agreed to that price we would have lost substantial amount because the rock price at what we were getting at that time we would not made any money at that price so it was a decision of IMACID to curtail sales.

Rohan Gupta If you can just give me the phos acid prices which you are contacted with the IMACID now because the plant operation has started.

Anil Kapoor 885 dollars per ton.

Moderator We have the next question from the line of Dewang Mehta from Canara Robecco, please go ahead.

Dewang Mehta I was trying to understand the trading in this quarter, so out of the total traded fertilizers it would be mostly DAP?

Anil Kapoor As I said earlier and maybe next time I can meet you investors in Bombay. Trading is going to be a long-term strategy for Chambal Fertilisers. It is not only DAP, we will broad base our portfolio and it would be agrochemicals and the entire spectrum of input which the farmer requires. Our network in North India is second to none and our brand is second to none. We have a very strong brand as far as Chambal is concerned and we supply to the farmers the best quality. In spite of drought conditions, in spite of everything which is happening in the market place, your company can stand today and keep its head high as far as trading is concerned.

Dewang Mehta I was trying to understand on the perspective of the cost. I would like to understand what would be the admin expense or the freight and packing expense on DAP, some idea?

- Anil Kapoor** Those are nitty-gritty's, we look at what is the money we make and let me be honest with you there may be some shipments where we may not make money and there may be some shipments where we may make more money. As far as our marketing expense is concerned, it is minimal. We have been selling urea and we practically use the same work force what we use for selling urea. We would have increased our workforce here and there by 10% but nothing major. The admin expenses basically come from the procurement level where the admin expenses have gone up but nothing earth shattering.
- Dewang Mehta** Going forward the margins on the traded products would look similar.
- Anil Kapoor** Margins may not be similar. Margins would reduce but volume will increase. I cannot at this moment tell what would be the number which we will achieve at the end of the year because it is very difficult, it is a trading business. But the company would try its best to improve upon the numbers which we achieved last year.
- Dewang Mehta** One last thing on the hedging side of the traded products, what would be the policy like?
- Anil Kapoor** We completely hedge it. We do not keep open positions on credit even if we have to make a loss. So the company is completely protected from the profitability in the long run. We will not give the investors any shock as far as currency fluctuation is concerned.
- Moderator** We have the next question from the line of Satish Mishra from HDFC Securities, please go ahead.
- Satish Mishra** Just to understand how is the subsidy disbursement across the industry for the last quarter, Q4 of last year.
- Abhay Baijal** The subsidy disbursement on urea is okay because the amount for the total urea is about 25,000 crores and there is money which should last at least till October bills which means we will get paid up to December. There is some worry on the DAP side because what happened, last year there was a lot of overhang of the previous year which has got liquidated now. Estimates vary but my estimate is that we will get up to July billing. But we have been assured that they will make some arrangements going forward.
- Satish Mishra** As of now till what month have we received the subsidy for the complex part, for the trading part?
- Anil Kapoor** See for example, for April month we got it this month and we expect that for June month we will get that subsidy in August

- Satish Mishra** So there is no prior subsidy pending?
- Anil Kapoor** At this moment there is prior, rate and freight and other matters are pending and we expect substantial amount of money to come in this month.
- Moderator** We have the next question from the line of Manoj Bahety from Edelweiss. Please go ahead.
- Manoj Bahety** My question is on the monsoon side. How are you seeing that impact of monsoon especially on the demand of urea and non-urea fertilizer as I believe that monsoon has picked up during last 2 weeks especially in the northern part of the country?
- Anil Kapoor** The monsoon deficiency has been quite severe in our territories especially in Rajasthan, Haryana and Punjab and on top of it the trade was carrying substantial stocks which were coming from last year at a lower price. What has happened now in the Kharif season is that old stocks have got liquidated and new stocks have started to arrive in the market place at the price of Rs. 24000. Last year if you will recall the DAP I had sold for Rs. 18000. Now we can see new stocks coming in. There will be demand destruction, I will not deny it. But in Rabi the farmers in Punjab, Haryana, Western UP and MP they have done very well last year, they made a good amount of money, they would use DAP. If a farmer was using three bags he may use two bags but he will not do without DAP. And Chambal Fertilisers being a strong company as far as the market is concerned we will get a due market share.
- Manoj Bahety** Are you seeing this year to be a year of de-growth for urea as well as non-urea because of monsoon and it is also likely to have severe impact during Rabi season also because we may not have sufficient water reservoirs for the Rabi season? Just wanted to get your views on the industry as a whole.
- Anil Kapoor** Put it this way. You may be right. I do not know what will happen for the general consumption. As far as urea is concerned, India imports about 7 million tons of urea. So, there is a huge cushion available for urea industry. This is one product, the farmer prefers domestic urea to imported urea. He does not want imported urea because of various factors at the port handling which spoils the quality of urea. Domestic urea production is preferred by the farmer over imports. So, there will be no problem for domestic production as far as selling of urea is concerned.
- Manoj Bahety** But the same thing is there for DAP also.

Anil Kapoor For DAP, the degradation does not take place at the port. DAP is a much harder material than urea. Urea is a soft material. So what happens with multiple handing it crushes at the port. Secondly urea is white, DAP is black. By and large we get brown and black DAP. Urea gets discolored at ports therefore urea import is not liked by the farmer.

Manoj Bahety You are not seeing any demand destruction so far as manufactured urea is concerned?

Anil Kapoor No.

Manoj Bahety But for DAP or for non-urea it is likely to have an impact?

Anil Kapoor As far as Chambal Fertiliser is concerned we will face the market conditions but I do not think we will have problems.

Moderator We have the next question from the line of Balvinder Singh from Emkay, please go ahead.

Balvinder Singh How is the current environment in the shipping business and what is the current charter rate as such?

Anil Kapoor Current environment in shipping business continues to be bad, charter rates are plus or minus \$1000 in the range of the \$14,000.

Balvinder Singh What is the current subsidy receivable in the fertilizers business?

Abhay Baijal The current subsidy receivable is around about Rs. 700 odd crore that includes both DAP and urea.

Balvinder Singh Would you be able to break it between urea and complex?

Abhay Baijal The urea part is at least around Rs.450 crores, after assuming that about 200 odd crores will come in the next 15-20 days.

Balvinder Singh And this whole of Rs. 700 crores is of FY13?

Abhay Baijal No, this is now for the current.

Anil Kapoor No, what happens in urea, there is an escalation that continues to take place. When the gas prices goes up, the subsidy is given in the subsequent year literally. Increase in gas prices of last year, the escalation claims are not yet been processed which we should get in a 2nd Quarter or the 3rd Quarter. So out of the Rs. 700 crores which is right now as far as phosphatic is concerned, May bills have been cleared, it is only the June bill; and as far June bill is concerned there would be payment to the extent of 50-60 crores and then there would

be some freight bills which are pending so substantial amount of money is coming because of urea and we will get this money because in urea there is no problem of funds.

Moderator We have the last follow-up question from the line of Phalguni Datta from Jet Age Securities, please go ahead.

Phalguni Datta Could you just tell me the outstanding subsidy figure at the end of Q4?

Abhay Baijal Q4, that means last year, I have to check back and give it to you. That was quite a big number but you can give me a call, I will give you number.

Phalguni Datta Normally what time does it take to get the subsidy money from the government?

Abhay Baijal Suppose if the money available with the government, normally the cycle is of 60 days. That means you sell and you raise the bill in the following month and in the following to following month you get the money. That is 60 day cycle but as Mr. Kapoor was explaining, there has been a big escalation which normally takes at least 9 to 10 months on the date and that is what takes you to the next year. But last year, because of the appreciation of the rupee as well as the price increase in the RLNG which we use quite a bit, the escalation claims also got bunched up and they increased quite a bit.

Phalguni Datta How are they now - like 60 days?

Abhay Baijal For the current year we are getting subsidy on time as far as urea is concerned. Phosphatic also we are getting on time.

Moderator On behalf of Chambal Fertilisers and Chemicals Ltd that concludes this conference call. Thank you for joining us.