



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Q2 Financial Results (FY 2012-13)

Investor/ Earnings Call Transcript November 8, 2012

Moderator

Good afternoon and thank you for joining us on Chambal Fertilisers and Chemicals Limited Q2 and H1 FY13 Earnings Conference Call. 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. Before we begin I would like to add that some of the statements to be made in today's discussion maybe forward looking in nature. We would begin the call with opening remarks from the management following which, we will have the forum open for interactive Q&A session. I would now request Mr. Kapoor to make his opening remarks. Thank you.

Anil Kapoor

Good evening ladies and gentlemen. Welcome to the earnings call post-declaration of half-yearly results. I hope by now, you had the opportunity to go through the results. I would like to share with you some of the financial highlights for the period ending 30th September 2012. We have done well both on the revenue and the profitability front. Our revenue has increased by 33% to Rs. 3705 Crores against Rs.2793 Crores and profit after tax has increased by approximately 20% to Rs. 187 Crores from Rs. 155 Crores as compared to the corresponding period last year. Our continued focus on trading segment has yielded good results in the first half. Revenue from traded products had a robust 56% growth as compared to corresponding half year of FY 11-12. It has shot-up from Rs. 978 crores to Rs.1531 crores.

Our SSP plant has also commenced production in this quarter. During the remaining year, we will have our own SSP available to the market.

Shipping business continues to face recessionary trend. The charter rate of Aframex tankers continues to stagnate at about \$13,000 per day. Next one year does not seem very promising. Textile segment has improved its performance in this quarter. Hopefully this trend will continue for the remaining period.

Fertilizer industry as a whole is facing severe cash crunch as the Government has not paid subsidy since July 2012 on imports. Going forward this can have serious financial implication on working capital of the industry. Subsidy payment even on fertilizers like Urea is also under stress. As far as the future is concerned, our fertilizer plant at Gadepan is awaiting Government policy announcement and it is being actively pursued. We will make firm announcement only after the policy is in place.

As regards the software, the business is doing below our expectations but better than first half of 2011. The business has managed to cut its losses. Although the revenue has declined over the corresponding period but margins have improved. The EBITDA during the first half of 2012 was positive though marginally, as compared to EBITDA loss of 5.19 million dollars during the corresponding period last year. This is in spite of the fact that we lost one major account due to liquidation of the client and reduced revenue from another client. We have a new CEO in place - Mr. Ritesh Idnani. He has come to us from Infosys, where he led the BPO business quite successfully.

I will now request all the participants to ask any questions which they have with regards to our results. Thank you.

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

Prakash Goel Sir, I wanted to understand the software business. As you stated the revenue is below expectation primarily on account of loss of one major client. How should we see it, like the full year losses that you are likely to report this year based on the first half and continuing trend.

Abhay Baijal See, when we are talking about Profit After Tax loss, we will be reporting approximately between \$10-\$11.50 million as of now on the total company basis. We will consolidate our appropriate portion in our company account. This is much better than the minus 18 (million) number that we have reported for the last year. This is despite strong headwinds in terms of loss of a client but we have improved and cut down on unprofitable business and improved on margins from others. That is how Software is able to survive.

Prakash Goel Now seeing on QoQ, last quarter the guidance was in the range of full year say about Rs. 30 crore kind of loss which is about Rs. 6 million there is some bit of increase that you are expecting now versus last quarter.

Abhay Bajjal See the downturn was of basically on account of two clients. One of them was Bank of America, as we were expecting it to get back to full operation but it doesn't seem that it will happen. We have won some other clients in place of them but that revenue growth is not to that extent what we have thought of.

Prakash Goel What is the revenue now likely for the full year?

Abhay Bajjal As I said it will be between \$10-\$11 million.

Prakash Goel Losses, no, I am talking about revenue.

Abhay Bajjal Revenue? Full year revenue will be around \$82 million.

Prakash Goel \$82 million versus our expectation was around \$95 million earlier.

Abhay Bajjal Yes, it was a little bit more. It was around 95, 96.

Prakash Goel Right. Now the second question is with regard to the trading segment. Obviously, our strategy so far is working good and what is the kind of credit period that we are getting and what is the kind of recovery period that you see? Basically to understand the working capital impact because extent of your trading is very aggressive so far.

Anil Kapoor We do not take any credit period from the supplier and we are offering credit in the market to the tune of approximately 60 days.

Prakash Goel Zero credit from the supplier, is it?

Anil Kapoor Yes, the industry practice is to have zero credit, except for some suppliers who offer about 15 days to 20 days.

Prakash Goel Okay. So, basically predominantly we look at Rs.1300 crore kind of turnover so is it largely driven by DAP?

Anil Kapoor Largely by DAP and there is a small segment coming from Agrochemicals.

Prakash Goel That is the ongoing basis. Now, like what kind of growth you would have seen in the Agrochemical business?

Anil Kapoor We are looking at approximately between 15% and 20% growth.

Prakash Goel What is the likely payment that you would receive e.g. money from the dealer in 60 days and what is the kind of margin that you are extending to the dealer?

Anil Kapoor At present we are offering only standard margins, which is 480 Rupees.

Prakash Goel We spoke to some other companies. We heard that what used to be Rs 275 per tonne now it has become 400. Now we are hearing 480. So is it different from segment to segment? Like north it is 480 and south it is 400.

Anil Kapoor As far as we know, Chambal is giving the least margin in the north. We are at 480. Some of our competitors are even more aggressive and they are giving some volume discounts, etc...

Prakash Goel True. What is your sense, because we heard many other companies in the concall this quarter and there is a significant pain in terms of the volume getting pushed through and the same environment Chambal is able to do a turnover of ₹ 1300 crore in the trading segment. Obviously it is very pleasing from Chambal's standpoint. But are you facing any kind of pain in the recovery at the 60 day? Are you able to recover your money in the 60 days?

Anil Kapoor So far we have got all our money on due date.

Prakash Goel Do you think this trend can continue in the trading segment? What is the full year turnover that you can achieve in the trading? And your expectations?

Anil Kapoor Too early to take a call on that.

Prakash Goel That's all from my side. I'll join the Q&A later. Thanks a lot, Sir.

Moderator Thank you. We have the next question from the line of Balvinder Singh from Emkay Global. Please go ahead.

Balvinder Singh Hi, Sir. Can you give the breakup of the subsidy that is to be received from the Government that is included in the debtors?

Anil Kapoor A subsidiary debtor is to the tune of Rs 1305 crores.

Balvinder Singh This is to be received from the Government?

Anil Kapoor From the government.

Balvinder Singh Is it possible to break it between Urea and Complex?

Anil Kapoor Urea would be approximately Rs. 771 Crore and balance would be Complex.

Balvinder Singh Regarding this, what are the sales volumes for this quarter in urea and also in complex trading?

Anil Kapoor Which quarter are you talking about?

Balvinder Singh Q2, FY13.

Abhay Baijal For urea, the sales was 555,665 tonnes.

Balvinder Singh How does this compare on a YOY basis?

Abhay Baijal On YOY basis, if you see previous quarter - the Q1, almost the same number.

Balvinder Singh Q2, FY12?

Abhay Baijal Q2, FY12 is 567,203 tonnes.

Balvinder Singh What are the complex volumes?

Abhay Baijal Complex for this quarter - DAP was 245,669 MT and in the same period last year was 136,196 MT.

Balvinder Singh Can you throw some more light on profit on sale of ship recorded during this quarter included in other income?

Abhay Baijal We had a ship called Ratna Urvi which we decided to sell off because it has come close to its designed life. We sold the ship at a profit of Rs. 10 crores.

Anil Kapoor We basically scrapped it.

Balvinder Singh It was just scrap sale. And regarding these effects of Rs. 4 crores of Q1FY13, where is that included?

Abhay Baijal This Rs. 4 crores which you are talking about, I think you are referring to AS 16 paragraph 4E. It was a period reversal, it was included by netting off from the interest itself.

Balvinder Singh Why are the margins in manufactured urea lower as compared to last quarter, I mean when you compare it to Q1, FY13?

Anil Kapoor In the previous quarter, the main reason for increase was a onetime subsidy of approximately Rs. 49 crores, which we received in Q1, FY12-13.

Balvinder Singh When you compare it with last year say September 2011, I mean basically the Q2, FY12, margins are lower by around 400-450 bps, what is the primary reason for that in Urea?

Anil Kapoor Quarter 2 margin should be approximately same for both the quarters. Margins of urea should be same.

Balvinder Singh I suppose, last year's margins were somewhere around 16.5%, Q2, FY12.

Abhay Baijal I can tell you, if you compare half year ended September 2011 with September 2012, we are actually up by Rs. 9.90 crore on somewhat similar sales volume because we did 1.1 million tonnes last half year as against about 1.07, there is about 43000 tonnes difference, so more or less the number is matching Rs. 22,290 lacs versus Rs. 23,281 lacs, so there isn't very much difference, there is only a 9-crore difference.

Anil Kapoor That is what we expected.

Balvinder Singh Any ships to be liquidated further?

Anil Kapoor No, balance of our ships are fairly new.

Moderator Thank you, we have the next question from the line of Trilok Agarwal from Birla Sunlife Insurance, please go ahead.

Trilok Agarwal Can you please tell us, what is happening on the policy front, because we haven't heard anything of late and nothing has been probably decided from the government, could you just brief us on that?

Anil Kapoor At this moment, we have nothing to add.

Trilok Agarwal Neither on the price hike nor on the new industrial policy?

Anil Kapoor Absolutely.

Trilok Agarwal Any time-frame that you could give us in terms of when we can expect an announcement?

Anil Kapoor I cannot make any guess at this moment.

Moderator Thank you, we have the next question from the line of Sathish Mishra from HDFC, please go ahead.

Sathish Mishra I have questions related to your trading segment, will it be possible to give the breakup in terms of fertilizers and non fertilizers in PBIT? Just a rough idea?

Anil Kapoor Fertilizers and non fertilizers in PBIT?

Sathish Mishra PBIT or revenues, just to get a sense.

Anil Kapoor Abhay, do you have it?

Abhay Baijal No we will have to get them. Exactly if you want split between what we did on the NPK and agrochemicals, we will come back to you.

Sathish Mishra How you are seeing the actual off take, like earlier in the June, there was price hike for complex fertilizers. So definitely, there were some sales boost that time again and like other competitors are talking, there is a problem in off take, so what is your sense, you are going very aggressive on trading of complex fertilizers? How the farmers have actually reacted, to the kind of price hikes all the players have taken?

Anil Kapoor I will let Mr. V.K. Gupta take that question, because he is head of our marketing.

V.K. Gupta We had opening stocks of about 2 million tonnes with trade and institutional buyers in April 2012. Although these stocks were liquidated and now fresh material is moving in the market. There are certain pockets, where still some remnant of old rate material is there, but it is moving. So both the materials are moving in the market.

Anil Kapoor The industry is having head winds at this moment; sufficient stocks do exist in the market place, but Chambal has its own brand and

strength in certain pockets and certain markets namely Punjab, Haryana and we should be in a position to liquidate our stocks.

Sathish Mishra Can you give details related SSP? When we started production, how much was production?

Anil Kapoor We have just commenced our productions and expect sales from our plant to the tune of 15,000 tonnes this month.

Moderator We have the next question from the line of Jasdeep Walia from Kotak, please go ahead.

Jasdeep Walia I just wanted to find out if trading of fertilizers is a viable business, considering the fact that margins on traded fertilizers are low, in my knowledge close to Rs. 500 to Rs. 600 a tonne and on top of that the company is on a huge FOREX risk. This year, you started offering credit period of 60 days plus you are also saying subsidy payments on imported fertilizers have not been coming from the government. So what are the kind of profitability levels on traded fertilizers that you are currently enjoying?

Anil Kapoor We have declared our results and you can see from the revenue segment we have made a profit before interest and tax of Rs. 125.90 crores

Abhay Bajjal Let us talk of this quarter, actually segment wise if you see the number for September 2012 is Rs. 83.84 Crore as compared to previous quarter of Rs. 42.05 crore.

Anil Kapoor If you see the segment results, profit before interest and unallocable expenses and tax from traded goods, we have made Rs. 126 crores in the half year.

Jasdeep Walia What kind of margins do you have on traded fertilizers?

Anil Kapoor That is a confidential subject, I will not be able to discuss.

Jasdeep Walia With regard to your SSP plant, can you please tell us whether it is a brown field or a green field plant and what kind of CAPEX have undergone in the plant?

Anil Kapoor I can tell you the capacity. It is 200,000 tonnes capacity per annum.

Jasdeep Walia 200,000 tonnes, is it a green field plant.

Anil Kapoor It is a brown field plant. We have put it in the same site as that of our urea facility.

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

Prakash Goel With regard to this SSP plant commencing production, have you accounted for the tax benefit on this?

Abhay Baijal I will just explain. We have commissioned the plant as of 30th September and as a result we have taken benefit of the new section - 35AD (of Income Tax Act) for fertilizers because it gets included in infrastructure. So we have taken that under 150% benefit and that is why on the current tax, you see a big reduction from the previous quarter.

Prakash Goel But you have provided for a corresponding deferred tax?

Abhay Baijal Yes, you get a corresponding deferred tax.

Prakash Goel On the volume side, what is the kind of guidance you would like to give for this full year in terms what is the number that you are likely to achieve in the urea manufactured volume going by the trend so far?

Anil Kapoor Urea production is likely to be 2 million 60-65000 tonnes.

Prakash Goel Okay, it is slightly lower than what we were expecting earlier like about 20.9?

Anil Kapoor We were expecting 20.8384 lac tonnes, it is down by about 20,000 tonnes because we have had problems in the plant in first quarter.

Prakash Goel What about the gas cost? What is the gas cost you are paying now?

Anil Kapoor The average gas cost of Gadepan-1 is \$9.37 per million BTU and for Gadepan-2 it is \$10.07 per million BTU for the first half of this year.

Prakash Goel Would it be possible for you to give us a breakup in terms of which are the gas forces that you are buying it from and what price?

Anil Kapoor I will not be able to give you the breakup, but I can only tell you that APM-PMT we buy around 20%, RIL is around 30% and RLNG is the balance quantity.

Prakash Goel RLNG is what price?

Anil Kapoor RLNG is on a 5-year moving average and currently it is approximately between \$13.5 and \$14, landed cost.

Prakash Goel When do you the accounting for IPP benefit, except for APM, Reliance and everything else get clubbed together, right?

Anil Kapoor That is right.

Prakash Goel So if I am taking about \$11 cost for the IPP related benefit, is that wrong now because your RIL cost average should be around \$7.5 to \$8 which is 30% of the gas?

Anil Kapoor You are nearly there; if you want we can fine tune the numbers and give it to you.

Moderator We have the next question from the line of Manoj Bahety from Edelweiss, please go ahead.

Manoj Bahety My question is basically on the industry at Rs. 24000 to Rs. 25000 (per tonne price) of DAP and complex fertilizer prices which have risen almost 100% vis-à-vis last year, are you seeing a significant amount of demand destruction from the farmers and also if you can touch up on the inventory position for the industry as of now?

Anil Kapoor I will let the industry question be answered by V. K. Gupta. As far demand destruction, I would like to mention that yes; there is a significant demand destruction, which we are seeing in the market place.

V.K.Gupta Compared to last year till October, there is a less sale of about 1 million tonne and stocks are to that tune higher here, so that means out of 6 million, 5 million tonne sale has been realized, so about 16% is the drop at the end of October.

Manoj Bahety How is the inventory position; still we have started the year with around 3.5 to 4 million tonnes?

V.K. Gupta Currently inventory position is about 1.2 million tonnes and we started the year at approximately 2 million tonnes inventory with trade. So more or less, similar type of inventory would be there at the close of the year because sales are still continuing.

Manoj Bahety What is your feel about Rabi season, , everybody is expecting good amount of off take during Rabi season because of the delayed monsoon, good amount of moisture in soil, so have you started seeing that happening at ground level?

Anil Kapoor There is a delayed season this year. Rabi plantations has not yet started in UP and Haryana. It just started in Punjab. It is thus slowly picking up. What will be the level of demand destruction is yet to be seen. We are anticipating a demand destruction of 20% to 30%.

Manoj Bahety 20% to 30% right. Basically this 20% to 30% you are talking about is on non-urea side?

Anil Kapoor It is on non urea side, country is importing approximately 7 million tonnes of urea.

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

Gauri Anand Sir, you just mentioned that the demand destruction could be in the order of about 20 to 30% and on the other hand we have seen such a increase in our trading. I just wanted to understand, are there some cooperative who are out of market or who are under supplying and if we have taken over their market share? When the market is de-growing, how is that we are able to push so much? That is one thing I would like your view on and the second is our trading EBIT has considerably gone up this year and perhaps for the year, so what are the levers for '14, what are the growth drivers in '14 over '13 if you can on this higher base, if you can just explain us that?

Anil Kapoor If you can kindly repeat your second part, I will answer the first part.

Gauri Anand This year trading will be substantial earnings driver of the total and on this higher base, what are the growth drivers in '14 because I think urea prices of rupees also weak, may not be the case next year, so I just wanted your thoughts on this?

Anil Kapoor If you recall, we had clearly indicated in the earlier investor call that trading is going to be a strategic initiative of Chambal Fertilisers. You are seeing the fruits of our efforts which we are putting in the market place. The volume of complexes which are sold in our territory, Chambal is trying either to retain or achieve is rightful share. I can tell you, we are still not there, we have miles to go and that would be the growth driver from next year.

Gauri Anand You mean trading on this higher base you will grow in 2014, is that the guidance?

Anil Kapoor We should.

Gauri Anand When market is de-growing, who are the players whose market share you are eating into?

Anil Kapoor This year some cooperative companies did not enter into the import segment and basically we have taken some of their share. In urea, we can only grow once we have put up our new investment plan. Some growth will come from SSP segment. But next year we will have our full capacity from SSP Plant. Balance growth has to come from Traded

Products. It will be a tough challenge, but there is no other alternative for Chambal Fertilisers.

Moderator We have the next question from the line of Himanshu Nayyar from Quant Broking, please go ahead.

Himanshu Nayyar First of all, I would just want to know, I understand that your new urea expansion is contingent on the policy being finalized, but how soon we will be able to start once that gets finalized in terms of whether our funding plan and sources are ready?

Anil Kapoor The funding plan is absolutely ready. We have got environmental clearance, we have got clearance for water from the state government, and some state tax benefits have also been given to us and are in place. The moment the government announces its policy, we will announce the fertilizer plant, subject to board approval and we should commission the plant in 36 months.

Himanshu Nayyar Are you confident of getting sufficient gas for this plant?

Anil Kapoor Yes.

Himanshu Nayyar Secondly you said that the government has not paid subsidies since July for imported fertilizer, so when are these expected or would we have to carry these over till say one or two more quarters?

Anil Kapoor At this moment, we are expecting government to come with a additional budget allocation in the winter session, which normally happens. So sales for the month of July, August, September we are expecting to be paid by January. If it does not happen, then it will go to April of next year.

Himanshu Nayyar Lastly, I believe your inventories, which have gone up significantly, a major portion of that would be complex fertilizers, right?

Anil Kapoor Yes.

Himanshu Nayyar Which you are expecting to get liquidated fast in this quarter?

Anil Kapoor Yes, we are in the thick of the season right now and we expect it to be liquidated.

Himanshu Nayyar So if not receivables, at least inventory level should come down by the end of December quarter, right?

Anil Kapoor They should come down, we may make some strategic purchases during this quarter to feed the market in the Q1 of next year.

Moderator Thank you. We have the next question from the line of Prakash Goel from ICICI Securities, please go ahead.

Prakash Goel I have two more questions, first with regard to IMACID how is the performance now?

Anil Kapoor IMACID is performing well and we expect the year as a break-even situation.

Prakash Goel You continue to maintain the breakeven situation for this full year? What is the price that you are buying DAP today, just wanted to understand the dynamics like when you import, the freight from the port to your location is paid, or a pass through by the government or you have to pay?

Anil Kapoor At this moment, the country is buying a \$580 per tonne and freight is the pass through mechanism.

Prakash Goel So freight is the pass through whether you bring it any part of India from the port?

Anil Kapoor Government at this moment is restricting freight to a distance of 1400 km.

Prakash Goel 1400 kms which is good enough for you to cover your area?

Anil Kapoor Yes.

Prakash Goel But I would like to understand, is there any mechanism wherein government want to restrict the volume of the DAP - that is to be sold. Because at the end of the day, government has to give subsidy on the DAP that is getting sold? I am just trying to understand, because basically where will it stop? Will the self-discipline because of the huge outstanding force, or because we are seeing one side the payment is not coming on time from the government side because of lack of subsidy support, on the other side, people, not only Chambal, everybody is getting into the trading segment in a major way. So what can curtail the volume going forward, that is what I am trying to understand?

Anil Kapoor I really don't know what would be the plan of government, but I can only say that if the market forces will decide, which company will do well and which company will not do well. Each company which is there in India has its own strength in certain pockets in which they are very strong. I think in those pockets, those companies will continue to do well. Every company in India has its own pockets, where they are very strong. All our competitors are strong in certain regions. The

companies will consolidate in their own regions first and then move in to other regions.

Prakash Goel At the moment, what would be the landed cost, when you say \$580 what are the other charges that company needs to pay. Obviously the transportation cost is picked up by the government. What are the other cost being paid by the company, not picked up by the government, such as transport?

Anil Kapoor If you take the MRP of 24,000 and there is a subsidy element of approximately 14,350 per tonne, not including freight, the total cost with the industry is at Rs. 3000 per tonne.

Prakash Goel Basically you are saying that \$580+ Rs. 3000 per tonne is the element against which you get 24,000 and 1434?

Anil Kapoor \$ 580 and then there is an import duty of 6.18%, so that is also a cost.

Prakash Goel And what about the port charges and other things?

Anil Kapoor That will all come in that Rs. 3000.

Prakash Goel Basically when you say Rs. 3000, it also includes the dealers' margin and everything? Incidentally

Anil Kapoor Everything, they also include estimated interest cost.

Prakash Goel Just give us the 3000 without the interest cost because that incidentally depends on when you get the money?

Anil Kapoor You are going into details of our Company, we will not be able disclose?

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

Tarun Surana Do you have any contracted DAP or MOP, especially DAP or it will be all the spot purchases even for second half?

Anil Kapoor We would have finished our contract this month and going forward we would be moving into spot trade.

Tarun Surana For MOP, is there any outstanding quantity that you can share?

Anil Kapoor We have no outstanding contracts of MOP at this moment.

Tarun Surana Can you share the likelihood date of Dahej SSP commissioning?

Anil Kapoor We have just started environmental clearance over there. Once the environmental clearance is through, we will announce the construction date.

Tarun Surana Other question is on the urea side. We had seen that sales were down by about 3% from April to September period for industry as a whole, any reason for this?

Anil Kapoor I do not have answers, but if urea sales were down it would be only because of lack of availability.

Tarun Surana Other was, on the traded side. Did you budget for such extended delay in receiving subsidy while taking on aggressive trade that you have taken already in Q2 or it is a rather a shock not receiving subsidies from July onwards?

Anil Kapoor We had expected that the July subsidy would be paid. September onwards we were expecting delayed payments. All of us were expecting the subsidy to be paid, but nothing comes as a shock to us, we always prepare for some contingency with Government of India.

Tarun Surana Can you share till what one would have been paid subsidy on the manufacturer side of DAP or complexes?

Anil Kapoor That you will have to ask domestic manufacturer.

Moderator We have the next question from the line of Dhires Pathak from Goldman Sachs, please go ahead.

Dhires Pathak What is the carrying value of the shipping assets on the book?

Abhay Baijal Carrying value of the shipping assets is around \$280 or \$290 million.

Dhires Pathak What was the total value in terms of cash received for the ship that was scrapped and how did it compare to its carrying value?

Abhaj Baijal We scrapped the ship for around \$5.9 million roughly 30 crores and the carrying value was about 20 crores, so that is how the 10-crore profit is.

Dhires Pathak Post this, how many ships do we have now?

Abhay Baijal Now we have 5 ships.

Dhires Pathak The numbers that you just gave for DAP import, \$580 and 6% import duty, Rs. 3000 per tonne of other cost, that will work out to be around 36814 per tonne in rupee basis and then MRP of Rs. 24,000 from farmer and subsidy of Rs. 14350 from government, Rs. 38350 total. So

the per tonne margins are looking at around Rs 1500 which looks higher. Did I miss something? It is working out to be around Rs. 1500 per tonne, based on the numbers that you gave. So are you saying if I read this correctly, it means that we are making around Rs. 1500 per tonne on imported DAP

Anil Kapoor It is a good question. Last year, in the second quarter where bulk of the DAP came, the exchange rate firstly was hovering around 56 including hedging cost. The number you probably have taken is approximately 55. That would take off about Rs. 600 a tonne.

Dhires Pathak So, now 900, even 900 looks higher to me, is that a number that you think, you are able to make currently.

Anil Kapoor We are currently able to make Rs. 800 to Rs. 1000 that does not include cost for marketing and branding. The 3000 does not include the Chambal selling cost.

Dhires Pathak You said it included dealer margins?

Anil Kapoor It included dealer margins, but did not include Chambal selling cost.

Dhires Pathak That would be cost of what nature?

Anil Kapoor Sales and marketing, branding.

Dhires Pathak But how much do you spend for year on sales?

Anil Kapoor These are confidential nature, I will not be able to share.

Dhires Pathak My assumption would be it is not material, so...

Anil Kapoor We do make approximately Rs. 800 to Rs. 1000. That is only 2% of the value of goods. If it is less than that, we will not trade. We are carrying a huge risk in the market place today. If the material does not get sold, we have to carry the stock for further 6 months and then the margins will deteriorate very fast.

Dhires Pathak Going back to shipping assets, so we are saying after the scrap, we have \$290 million of carrying value and of course you are saying that one that we scrapped was very old and the remaining five are very new ships. So is it fair to say that the replacement valued, the current market value of those ships would be how significantly higher than the carrying value, if you could give a sense?

Abhay Baijal It is reverse. In fact, the replacement value, if you were to do a mark-to-market, you will have a loss in terms of what we are carrying in the books.

Dhires Pathak By just scrapping an old ship, you are able to make a gain?

Abhay Baijal That was close to the end, so we got basically steel scrap value on scrapping the ship. On the other hand, for the new ships cost we paid was round the region of about \$60 to \$65 million. When we see the numbers today, we are pretty much down, almost 40% down on that number individually. Of course, depreciation has blocked off some amount of their value. But that is going down at the rate of 5% only and considering that they are about 4 years or 5 years old, roughly 25% of the value got knocked off. So we are still 15% to 16% down on actual values.

Dhires Pathak Replacement value of these assets, which you are carrying on as \$280-290 million would be 15 to 20% lower.

Abhay Baijal Yes.

Moderator Thank you. On behalf of Chambal Fertilisers and Chemicals Limited that concludes this conference call. Thank you for joining us you may now disconnect your lines.