CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Q3 FY 2012-13 Results

Investor/Analyst Conference Call Transcript
January 30, 2013

Moderator

Good afternoon everyone and thank you for joining Chambal Fertilisers and Chemicals Limited Q3 and Nine months FY13 Earnings Conference Call. Today we have with us the Senior Management; represented by Mr. Anil Kapoor – Managing Director; Mr. Abhay Baijal – CFO; Mr. M.S Rathore – Vice President, Legal and 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 made in today's discussion may be forward looking in nature. We would begin the call with 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. Over to you, Sir. Thank you.

Anil Kapoor

Thank you. Good evening ladies and gentlemen. Before I share some of the highlights of the financial result for the period ended 31st December 2012, I would like to mention that in the meeting of the Board of Directors held today, apart from the financial results, the Board also approved setting up of a new urea plant at Gadepan. This new plant will add 1.3 million tonnes of urea per annum to our existing capacity of 2.1 million tonnes. The estimated cost of this Brownfield project will be between USD 825 to 850 million with gestation period of 36 months from zero date. We plan to fund the project by a mix of debt and equity.

As regards to our results, we have done well both on the revenue and profitability front. Our revenue has increased to Rs.5,794 crores against Rs. 4,578 and the PAT has increased to Rs. 283 crores from Rs.154 crores as compared to the corresponding period last year. However, it should be noted that Q3 FY12 had an exceptional deferred tax of Rs. 93 crores relating to shipping business.

Our traded good segment continues to do well during the year. Revenue of this segment has increased by 38% to Rs. 2,445 crores from Rs. 1,767 crores during the corresponding period last year. As regards to other business, textile has improved its performance. The charter rate of Aframax tanker continues to stagnate. A severe recessionary trend has impacted performance of our shipping division.

Software business continues to be challenging and we expect an improved performance this year. The financial year for this business is calendar year. We have a new CEO in place, who is rectifying some of the errors made in the past.

Fertiliser industry as a whole continues to face severe cash crunch as the Government has not paid subsidy since July-August 2012. This has a serious financial implication for Chambal Fertilisers due to increase in interest cost. I now request you to ask any question you have with regards to our results. Thank you.

Moderator Thank you very much sir. 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 question is that the picture which is emerging from your results like segment shipping, software continues to bleed whereas the trading has been doing exceedingly well. The concern that we have is that given the overall environment, how sustainable is the trading in your opinion. I would like to know your opinion, when we are building the model for the next year, would it be right to look at the number from the current year high base. Also what can we look forward to the trading segment going into FY14.

Anil Kapoor Prakash, you will appreciate that this will be a qualitative answer and perhaps we will not be able to give a quantitative answer right now.

Prakash Goel Sir, we don't want a quantitative answer. We just want your opinion and don't want any guidance.

Anil Kapoor Some of the participants had asked similar questions in our results for second quarter and we had given confidence that they are sustainable. We still maintain that our trading profitability is sustainable.

Prakash Goel Right now, basically the volumes for this quarter done by the Company in the trading segment again are very high. What is the inventory level that you have in the trading segment per se and what is the debtor level of that segment? If you can give some flavor. Have you been able to collect the money on time in the segment?

Anil Kapoor I can only share with you; we are one of the few companies which is still collecting cash.

Prakash Goel It reflects in the capital employed in the segment. It has just gone up marginally by Rs. 300 crores during the quarter so that gives a fair sense. That could be probably on account of subsidy receivable from the government, so what is difference with Chambal compared to the other companies because we can clearly see that you are able to collect cash compared to other companies.

Anil Kapoor We have a good marketing team.

Prakash Goel Is it something to do with your marketing region particularly not taking anything away from your marketing team, is it something to do with the region that you are present in, like in Punjab and other where the money availability is there?

Anil Kapoor Prakash, I think I would like to spend a few minutes here and would like to go into the way Chambal has been structured and operating in the last few years. We have worked closely with the dealers and the farmers. Yes, there are issues at this moment as far as the market is concerned but every company in the phosphatic segment is facing that. We will also have similar problem going forward, but we have a very strong dealer network which is loyal to Chambal. And in thick and thin, in good times and bad times, they stick with us. That is why I am confident that we can pursue our trading goals going forward.

Prakash Goel What is the margin or what is the price you are selling DAP per se in your channel?

Anil Kapoor We are selling is at Rs. 24,000 per tonne.

Prakash Goel And what is the margin you are giving to the dealer on a credit period.

Anil Kapoor Prakash, these are sensitive questions. Not to be answered in the public forum. But nevertheless, what I can share with you is that we would be among the lowest in the industry.

Prakash Goel But we have seen the margin to the dealers gone from Rs. 200 per tonne to, in some cases, as high as Rs. 500 per tonne.

Anil Kapoor But it is Rs. 500 per tonne given by every company.

Prakash Goel It has gone up recently, right?

Anil Kapoor No. When the price went up to Rs. 24,000, the dealer margin was between Rs. 450 and Rs. 500 per tonne. Because, his capital employed also has substantially increased. But nevertheless, some of the other manufacturer could be giving a higher number than this in the market place .

Prakash Goel What is your average collection cycle in case of trading?

Anil Kapoor Whenever they don't pay us in time, they give us overdue interest.

Prakash Goel Coming to the shipping division, what has gone wrong in this? We are seeing a sharp drop in the top-line as well as the bottom-line.

Anil Kapoor Shipping business continues to be a tough scenario at this moment and that reflects in the results.Next one year, we will see pressure in the shipping business. I think going forward, we are getting indications that from 2014 onwards, shipping will make a turnaround.

Prakash Goel Sir, the point I wanted to make, because the scenario have been tough for a while. The drop in this quarter is very high. There is almost 43% drop in the top-line and the losses incurred are at an all time high close to 17% to 18%. So there is no one off losses during this quarter?

Anil Kapoor No. These things will take place. There is a drop in the daily rates of shipping business. However in the next quarter you would see better results because we have changed the mix where we deploy.

Prakash Goel How much has been the realization during the quarter per day in terms of US dollars?

Abhay Baijal Prakash, last quarter whatever events you have seen, was also because we had reversed the AS 16 4E provision which is reflected in the results. There was also a sale of ship, so please don't compare those numbers of the last quarter with the current quarter segment results. There is a substantial non-operational income benefit, which came through the shipping division in the previous quarter.

Prakash Goel Sir, basically your turnover without any Charter ships used to be close to Rs. 70 crores and which has come down close to Rs. 60 crores. Is that a right understanding?

Anil Kapoor You must also understand that Ratna Urvi, one ship, went off the pool so there will be a corresponding impact of that. It was employed at pretty high rates at that point of time in the coastal trade. So that also had an impact on the profitability.

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

Balvinder Singh What is the current subsidy receivable?

Abhay Baijal This is total of Rs. 2,100 crores approximately both on the urea plus phosphatic segment.

Balvinder Singh And, we have not received this since July-August?

Abhay Baijal That's right.

Balvinder Singh And Sir, on the urea production part, what kind of volume numbers are we heading for FY13 now since nine months are over?

Anil Kapoor FY13, if everything goes well, the way it is happening right now, we would be heading for somewhere near 2 million and 80,000 tonnes approximately.

Balvinder Singh And this year there will be no maintenance shutdown in March, right?

Anil Kapoor No.

Balvinder Singh So it will be postponed to April?

Anil Kapoor That's right**.** One of the plants will have maintenance shut down in April.

Moderator Thank you. The next question is from the line of Tarun Surana from Sunidhi Securities. Please go ahead.

Tarun Surana Sir, wanted to understand interest cost? Interest cost has come down YoY, while subsidies are pending and Rs. 2100 crores are to be received from the government. How has that been managed?

Abhay Baijal There are two parts to the interest. One part is the interest as debited because we take lot of buyer's credit. That is already debited as interest whatever we are paying LIBOR or plus 80, 90 or whatever.

Other part is the foreign cover part. If you see in the segment results, you will see in the unallocable section below the interest there is an increase from 26 to something like 85. So that represents the cost of the hedging and that hedging cost actually should be ascribed to the interest part, because we don't take any foreign currency risk so that's the reason why that part should be read in conjunction.

Tarun Surana And Sir, along with the rise in credit period to dealers and delay in subsidy receivables, are we seeing more and more buyer's credit being available on traded business now?

Anil Kapoor No, at this moment our trading business is now coming to a close because this is the last quarter…

Tarun Surana Yes, I understand that this is the last quarter, nothing would happen but the discussions for Q1 that may happen. Will we have a longer buyer credit?

Anil Kapoor We always take a buyer credit for about nine months to 12 months.

Moderator Thank you. The next question is from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel Sir, with regard to your investment in software during the quarter, notes to account suggest that you have invested about Rs. 21 crores. What has been the total investment so far in the last… like say in the acquisition or at the beginning of that company?

Abhay Baijal The total investment as on date which stands on the books is $95 million.

Prakash Goel $95 million cash that Chambal has invested in the business so far?

Anil Kapoor That's right.

Prakash Goel And what is the expectation of loss this year?

Anil Kapoor Loss would be to the tune of $12 to $13 million…

Abhay Baijal After tax.

Prakash Goel At the EBITDA level?

Abhay Baijal At the EBITDA level it is minus three million.

Prakash Goel At the EBITDA level minus three million, but when we look at your segmental report, what will be at the end of the year, how much losses in number will it be? In FY 11 it was Rs. 106 crore and in FY 12 it was Rs. 73.75 crores. What will that number be? That is what I am trying to understand.

Abhay Baijal You will have to see that after taking away minority interest. So my guess is that if you took $14 million dollars as a base and we reserved our minority interest, the residual loss will come to Rs.50 -55 crores.

Prakash Goel What is the cash level at the balance sheet now?

Abhay Baijal Cash in bank is practically nil. We had very small surpluses but by December end most of it is gone. It is hardly Rs. 15-20 crores.

Prakash Goel How much is the long-term and short-term outstanding debt?

Abhay Baijal Long-term outstanding debt which includes shipping and secured loans, is Rs. 1,438 crores.

Prakash Goel And, what about short-term?

Abhay Baijal And short-term I think is about Rs. 2,800 crores.

Prakash Goel Sir, going by that number, the interest cost accounted during the quarter appears to be very low. What is your average cost of interest?

Anil Kapoor As Abhay did mention, our entire borrowing as far as the short-term segment is concerned, and it is the buyer's credit. If we are taking our buyer credit say at LIBOR plus 70 or 80, the LIBOR plus 70 portion is built into the interest cost. But we run our business completely hedged. Hedging portion comes into the other cost and if you look at it, the other costs significantly increased this year.

Prakash Goel Very True. On effective basis how much will be the cost, Sir?

Anil Kapoor On effective basis our cost would be at approximately sub 8%.

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

Manish Mawar Could you give the number of your sales for urea and production number?

Abhay Baijal For the quarter or the entire year?

Manish Mawar For the quarter.

Abhay Baijal For the quarter, the production was 5,67,439 MT and sales was 5,77,361 MT.

Manish Mawar Considering this 577,361 MT in the sales volume, your EBIT number in the urea is I think Rs. 2,400 a tonne, which is quiet high if you compare it with the last quarter as well last year same quarter it is quiet high. Last year it is around Rs. 2,000 a ton. Is there any specific reason or one of the income you have booked that time less than or any specific reason?

Anil Kapoor We have not booked any income. The improvement is only because of the improvement in efficiency.

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

Gauri Anand Sir, two questions. One is - anything at all moving on the regulatory front for the existing urea units?. Some update on that. And second is about the capacity expansion Brownfield which you have indicated. How are we likely to fund it? And also new investment policy has been notified only this quarter, so if you can just update as to where you sense the returns would be and what gives you confidence to expand in urea.

Anil Kapoor I will start with the first one. As far as the regulatory policy is concerned, nothing seems to be happening. A GoM is being formed and that's what we understand and the entire process is in a limbo.

Gauri Anand Sir, just price hikes ruled out or are we still holding the hope that price hike will come through?

Anil Kapoor I think it will come through, but when will it happen I don't know.

Gauri Anand And the cost revision, the fixed cost, are they likely to be reviewed at all, because we have not compensated for our variable cost. So there is no merit that our fixed costs be reviewed but is there anything happening on that front at all?

Anil Kapoor The industry is pressing hard. I am now talking from an industry perspective. The industry is pressing hard to get this fixed cost increased because some of the units, where fixed costs have gone up substantially are under pressure at this moment. The association is doing its bit by talking to the government. Let's see when the GoM is formed how this goes forward. I will not be able to comment anything more than that.

Gauri Anand Sir, about the new capacities?

Anil Kapoor As I mentioned in my opening remarks the Board has approved the Gadepan-III project today. This would be done with a mix of debt and equity. Abhay will be answering the exact numbers of debt and equity, but what I would like to share with you is that the financial closure will take place in the next three months and we will start the project somewhere in the middle of the year. Approximate time would be mid-year. And we will complete the project in max period of 36 months.

Gauri Anand If you could tell us are we going to own it entirely or would it be at an SPV level where we would own a majority stake?

Anil Kapoor It will be on Chambal's balance sheet. With the tax incentives which we are available today, the project makes a lot of sense if we do it on our balance sheet.

Gauri Anand Are you getting any assurance on the gas availability front?

Anil Kapoor We have already received letters of comfort from gas authorities that gas will be given. Now we need to work closely with gas suppliers to reduce the cost.

Gauri Anand But what is your sense on the average cost?

Anil Kapoor Too early to call.

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

Satish Mishra Can you give a breakup of trading, how much is Fertiliser and how much is non-Fertiliser?

Anil Kapoor I can tell you our volume of DAP which we have done. We have done 470,000 tonnes of DAP for the nine months this year. In our trading segment we do pesticides, we do chemicals, we do SSP, we do DAP. For us to share these numbers would be very difficult at this moment.

Satish Mishra Sir, actually my question relates to the pesticides and other water soluble Fertilisers. Where the subsidies are not involved. I was trying just to get a sense for what portion of the business subsidy is involved or subsidy is not involved. Even a percentage?

Anil Kapoor I can only share with you that approximately half the profit comes from non-Fertiliser segment which is growing at the rate of 15%-20%.

Satish Mishra Sir, brief remarks on IMACID, how is the performance?

Anil Kapoor You will recall in my last conference I did mention that IMACID is likely to break even during the year and that's what is happening. Despite the fact that in the first quarter, IMACID was shut down because of lack of demand from buyers. As far as IMACID is concerned it has broken even and this year should be better.

Satish Mishra And Sir, last question just on the new investment policy you just talked about. For debt-equity, is there any cap from government side, that it has to be 2:1 or can be increased further like 4:1 or any number?

Abhay Baijal Satish, when we go for balance sheet finance, then the project debt equity, 2:1 norms really don't hold because we are applying the equity already available in the balance sheet. So the project debt-equity versus balances sheet debt equity, there is a higher number of the project debt-equity.

Moderator Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas Can you just highlight to us as to what is the total inventory level as of today for NPK Fertiliser in the country, because that has been an area of concern for almost a year now. How do you see this panning out going forward and its impact on our trading business?

Anil Kapoor My VP – Marketing will take the question, but as far as its impact on our trading business is concerned, as I had mentioned earlier our trading business model is a robust model and I expect it to continue to do well.

VK Gupta Rakesh, if you look overall DAP sales in the country, the stocks have gone up by about a million tonne and sales are down by about a million tonne. There are certain stocks which are in the pipeline with the state institutions, the dealers and the retailers. So put together, the number by March end could be about 3 million tonnes for DAP. North is basically DAP market and NPKs are in south. So we are not affected by that.

Rakesh Vyas We are also hearing in some quarters that some of the industry participants are pushing for the government to curb the imports of complex Fertilisers including DAP, at least for next 6 months. I am just trying to understand, given the kind of inventory level in the system, do you think this has a risk to our business for probably the first half of next year.

Anil Kapoor If that were to happen, it would be against the policy of NBS. As per the policy, anybody can import and also we need to see what is the value addition we do when we bring phosphoric acid and manufacture DAP in India. There is a very limited value add which we do. Value add is basically done by the manufacturers who make DAP from rock and it is very limited in the country.

Rakesh Vyas I am with you on this Sir, but what I am trying to understand is, you highlighted that it will be against the NBS. I am just trying to understand whether for import we need to take the pre-approval from the government and at that stage can government decide to defer the decision on import at all?

Anil Kapoor As per the policy, we don't have to take any approval from the government.

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

Gauri Anand Sir, I just wanted to know, how are we likely to fund the equity for the new projects? Just taking on the last question, are there no restrictions on imports at all? Do we have to take no approvals from the government at all?

Anil Kapoor Yes, we don't need take approvals from the government. They are OGLs.

Gauri Anand But, we were given to understand that there are some approvals necessary.

Anil Kapoor See, what the government had done last time was to try and stop our movement from the port. But that also if you go by the strict sense of the policy, they have only movement control over 20% of the product, balance 80% is non-ECA. So in true sense, they can only control 20% but it is in government's interest, to allow us a sort of free for all because it does two things. One, it improves the availability at every nook and corner in the country. And two, it gives enough competition to domestic manufacturers to keep the price down.

Gauri Anand I take your point Sir, because India hasn't been importing for the last two months, we have seen the impact on the prices. Prices have come off, so it is benefitting the exchequer. I understand that it is good in a way to keep the retail prices lower, but it is also helping in some sense that it is bringing the international prices lower for us.

Anil Kapoor Gauri, here I would like to interject. Benefitting the exchequer is a notional issue now since no imports are taking place. We will have to see what happens in the first quarter next year when people go to buy the product and what will be the global demand at that time whether the prices will remain soft or they will harden. It is yet to be seen.

Gauri Anand And, Sir my question on equity funding for the new project.

Abhay Baijal Equity funding will demand, first of all, the project debt-equity. We do not have a very big gap there because we have got internal accruals as well. Secondly whatever gaps are there, we have got a wide range of options, whether we monetize some assets or whether we go for the right issues. We will take a call at appropriate time in the three years to complete the project. This is not the time to talk about what should be the exact strategy to fund the equity portion. Let me assure you it is not a very large number anyway.

Moderator Thank you. The next question is from the line of Chetan Thakkar from HSBC Invest Direct. Please go ahead.

Chetan Thakkar I had a question related to the capacity expansion which the Board has approved. What is the kind of IRRs that we are working with when we take this decision to expand capacities? If you could throw some light there?

Anil Kapoor IRR would be in the range of 13% to 15%.

Chetan Thakkar Sir, what is the medium-term outlook which you have placed in terms of the urea policy for taking this decision?

Anil Kapoor Urea policy for the existing plant?

Chetan Thakkar No Sir for the new expanded Brownfield capacities. What is your outlook from a medium-term? How would that policy move?

Anil Kapoor Policy has been clearly defined. The government will have a definitive buy back period for 8 years after the project is commissioned.

Moderator Thank you. The next question is from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel Wanted to find out as to why the profitability in the urea segment has been higher during this quarter, any one-offs that is there?

Anil Kapoor There is no one off. During this period we have a good run of urea production. This has resulted in better efficiencies.

Prakash Goel But this kind of jump without accounting for any import parity benefit, are you suggesting that efficiency, like the Gcal per tonne has improved or what else happened to reflect this kind of profitability?

Anil Kapoor There has been Gcal per tonne improvement in this quarter and there has been small profitability coming from ammonia sales.

Prakash Goel How much ammonia did you sell this quarter?

Anil Kapoor This quarter we sold approximately 7,000 to 9,000 tonnes.

Prakash Goel And the formula for sharing profits with government on ammonia sales remains the same as the past?

Anil Kapoor That's right.

Prakash Goel 35:65.

Anil Kapoor 35:65.

Prakash Goel The difference between the variable, whatever is the gain, variable contribution 35% of that is retained by the Company, 65% is passed on to the government.

Abhay Baijal It is the other way round for ammonia.

Anil Kapoor 65 is retained by the Company and 35 is shared with the government.

Prakash Goel So that will be a decent number.

Anil Kapoor That's an additional number. That's a small number.

Prakash Goel Ammonia prices have been very high during this quarter.

Anil Kapoor We have done some operational changes in the plant because of which our capacity in ammonia plant has increased and that has resulted in ammonia being surplus.

Prakash Goel Sir, this will continue for a while?

Anil Kapoor Yes.

Moderator Thank you. The next question is from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.

Dixit Mittal Sir, this is pertaining to the new investment policy. Is there any upper limit of the gas price that you can contract for this new plant?

Anil Kapoor There is no upper limit on the gas pricing.

Dixit Mittal So that means you can go for 100% LNG contract also like if you get from that entrepreneur like Petronet LNG for this?

Anil Kapoor Theoretically yes.

Dixit Mittal Practically how do you intend to go? Do you expect any domestic gas also coming through in terms of your decision to go ahead? So are you planning to get some domestic contacts also?

Anil Kapoor Look at it this way, Dixit. Suppose six plants decide to come in India, We are now talking of about 15 million standard cubic meter of gas, assuming 50% is domestic and 50% is imported. We are looking at 7.5 million standard cubic meter of additional gas. If the additional gas has to be shared between Power and Fertiliser industry which is the policy of the Government of India where Fertiliser gets the first priority, in the next 3 to 4 years it is quite certain that Fertiliser industry will get this share of 7.5 million standard cubic meter.

Moderator Thank you. Currently there are no further questions. On behalf of Chambal Fertilisers and Chemicals that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.