



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

FY 2012-13 Q4 and Annual Results

Investor/Analyst Conference Call Transcript May 2, 2013

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- Moderator** Good afternoon everyone and thank you for joining Chambal Fertilisers and Chemicals Q4 and Annual FY13 earnings conference call. Today we have with us Mr. Anil Kapoor (Managing Director), Mr. Abhay Bajjal (VP-Finance), Mr. V K Gupta (VP-Marketing) and Mr. M S Rathore (VP - Legal & Company Secretary and Corporate Communications). Before we begin I would like to add that some of the statements made in today's discussion may be forward looking in nature. I now hand over the floor to Mr. Anil Kapoor for his opening remarks. Over to you Sir.
- Anil Kapoor** Thanks. Good afternoon ladies and gentlemen. Welcome to our earnings call post declaration of annual results for financial year 2012-13. I would like to share with you some of the highlights of the year. FY 2012-13 has been a reasonable year for Chambal. We produced 2.09 million tonnes of urea and sold approximately 2.03 million tonnes during the year. Our revenue has increased to Rs. 7,341 crores against Rs. 6,462 crores and the PAT has increased to Rs. 306 crores from Rs. 247 crores as compared to last year. Our continued focus on traded goods over the last few years has got good results. In the year 2012-13, revenue of traded products increased by 11.5% as compared to financial year 201-12.
- As regards to our other businesses, Textile has improved its performance and its PBIT for 2012-13 is approximately Rs. 20 crores against a loss of Rs. 12 crores in the previous financial year. Shipping and software business continue to be a drag. However, there is some good news. First quarter of 2013, has shown some stability in our software business. We have started to make profits on an EBITDA basis, month to month, in the last 4 months. 2013-14 continue to be drag for the shipping industry and this is a major

cause of concern to us. Hopefully international business scenario starts improving this year which will then see better results for shipping business.

You will recall, I had shared during Q3 earnings call that our board has approved setting-up of brown field Gadepan-3 project at the existing site. You will be happy to know that we have signed a letter of intent with Toyo Japan and Toyo India for this purpose. We should be awarding the contract after agreement is signed with them. The new plant will add 1.3 million tonnes of urea annually to our existing capacity of 2.1 million tonnes. In addition, we have signed a MoU with ONGC for setting up a gas based fertilizer plant in Tripura. We are now setting-up a committee, comprising of 2 persons from Chambal and 2 from ONGC, who will prepare a feasibility report and then take it to the respective boards for necessary approvals for project financing. Thank you, Let me now take your questions.

Moderator Thank you, Sir. Participants, 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 In light of the press release yesterday that has come out from the cabinet, how do you see things panning out for the trading business? If they are talking about the cost data to be collected on a regular basis and ensuring that, the farm gate prices are aligned to the international prices, how would it impact our trading business?

Anil Kapoor It's too early to call. Let us see how things materialize. We have anyway been sharing all the cost data with government of India. There is nothing which is confidential in nature. Whatever purchases we make, our selling price are loaded on a platform monitored by government of India. So let's wait and see as to what data the government will be seeking from us.

Prakash Goel So you are saying that in the P&K segment, even now there is a system of sharing the actual cost on a regular basis?

Anil Kapoor Yes.

Prakash Goel And there has not been any direction from the government of India in terms of profitability or pricing so far before this particular situation where we are talking about Rs.1500 reduction in the farm gate prices. This is the first time after the decontrol that they are talking about influencing the farm gate price.

Anil Kapoor You are absolutely right, Prakash. We will be reducing our price by that amount of Rs. 1500 as international prices have come down.

But in case international prices rise at a later date, industry will have no option but to increase the MRP.

Prakash Goel That is understandable. And how have you gone about in terms of provisioning for the write-off from the debtors side because you will have materials sold at a higher price. Now there is a likelihood government would compensate to the extent of inventory that you hold in your own book. What you have sold last year, may not be compensated. Right?

Anil Kapoor That's not as per the policy but nevertheless we have taken some provisions for the stock which we were carrying.

Prakash Goel Can you share that number with us?

Anil Kapoor Prakash, the provisions are in so many different formats, that I will have to then share a lot of data and some of it is confidential in nature.

Prakash Goel Just wanted to understand the impact of it, even if you say a ballpark number on an overall basis that will be good enough for us to understand.

Anil Kapoor Because the provisioning, some of it will be in discounting form for the material which we have sold to institutions, some of it will be in some other form. Prakash, it is confidential in nature and that will be difficult for us to share.

Prakash Goel My second question pertains to the software business. We have been seeing for last 3 – 4 years, we get a negative surprise in terms of total losses at the end of the year. How do you see things panning out in the next 2 – 3 years, particularly with the backdrop wherein you are planning significant CAPEX for urea expansion both with ONGC and without ONGC? And with that background, how would you, going forward, allocate more and more capital to the software business when you are seeing soft allocation happening every now and then in terms of cash being transferred. Even this quarter, I guess Rs. 20 crores have been invested in the software business again.

Anil Kapoor You are right Prakash, but as I said in my opening remarks, for the first time, software business has given EBITDA positive number for the last 4 months and month to month, every month. And we expect the year at a decent EBITDA number. Our margins have been increased considerably and I also mentioned in one of my previous calls, we have a new CEO in place, a gentleman named Ritesh Idnani. He was the head of BPO business for Infosys international business. And he is driving the business now and we

expect that by the 4th quarter of this year, we should be coming to a breakeven scenario on a PAT basis.

Prakash Goel

For the full year number, how much you would report as a profit or loss at EBITDA level. It will be great if you can share that number with us and that is my last question.

Anil Kapoor

I will let Abhay answer that.

Abhay Baijal

The way business is currently structured, there are 2 types of cost below the EBITDA level. One is the interest and the other part is depreciation and some amount of taxes such as transfer pricing taxes between the 2 entities which operate both in India and abroad. That comes to about \$ 600 K per month. So if we touch about \$ 7.8 or 9 million in EBITDA, then this part is getting covered up. And we hope this year, with the run rate so far shown and the increasing trend that we have seen, end of the 4th quarter will definitely see a break- even or even break-out of the negative numbers that we have seen so far.

Moderator

We have the next question from the line of Viraj Mehta from Franklin Templeton. Please go ahead.

Viraj Mehta

Just a couple of questions – one, if we look at the press release the government published yesterday, in terms of controlling the MRP and in terms of controlling the profitability in terms of independent entity, do you see as the big retrogressive step for the industry as such?

Anil Kapoor

It's too early to tell. We really don't know even what government has in mind so far. It has to be spelt out. Are we going back to the cost plus regime or there is some modification to the NBS, which we have right now. Going back to the cost plus regime is going to be definitely negative for the industry and it will be negative for the entire P&K industry. But if it is going to be slight modification of the existing NBS and it is for short term, because it also will be an election year, time will tell. We will really have to wait it out and see what the government has in mind. We don't know anything at this moment.

Viraj Mehta

I completely understand and second thing Sir, if we look at the imports for this year for P&K fertilizers and if we look at all the international players, the commentary suggests that all of them expect a huge decline from last year. This year corresponding to last year especially complex, excluding the MOP, would that be correct and what is your sense on the same for the entire industry as such?

Anil Kapoor For the entire industry like last month for example, the imports are considerably down. There is sufficient stock in the pipeline to feed the Kharif crop. And if the rainfall is good, you can expect the industry to start importing again, somewhere in June-July- August for the Rabi season. But if the rainfall is not so good, then it will be an interesting scenario.

Viraj Mehta Just one last question, a) if the rainfall as you said is good what will be the current inventory around be 6 or 6.5 million tonnes?

Anil Kapoor Approximately there. Inventory is something which is ball park figure.

Viraj Mehta Going forward, where you see it coming down if you see much lesser imports this year and where do you see the profitability going for trading guys as well as manufacturing guys.

Anil Kapoor I can only tell about Chambal Fertilisers, because it will be very difficult for me to tell about other people. As far as Chambal is concerned, we will try and achieve the same number for trading which we achieved last year. We will be in the market with smart purchases, restrict our interest cost and buy material just in time. We will have to be a little smarter player than what we are doing so far.

Viraj Mehta And Sir, how much time does it take for you to get the shipment and second how much subsidy have we got in April? In the sense, has there been reasonable amount of money that has been given out by the government post the new year?

Anil Kapoor I will let Abhay answer that. Abhay you can tell the subsidy amount which you have received at end March and also April.

Abhay Baijal We got the special banking arrangement of Rs. 330 crores in March itself. It can be treated as a receipt in April. Then there was an Rs.280 odd crores just at the last day. That makes it about Rs. 610 cores. This year itself we have got about Rs.181 crores till date. So that makes it a total of approximately Rs.800 crores.

Viraj Mehta Will this be both for urea as well as P&K as such?

Abhay Baijal If you work urea and P&K, the first one that we got was mostly for P&K, but I think the fact is that we got Rs. 800 crores in total.

Viraj Mehta I get your point, but what we understand is that subsidy especially for P&K almost stopped post July or August last year. So till what time, we have got the subsidy in that respect, as of now.

Anil Kapoor We have got upto October.

Viraj Mehta Both for P&K and urea?

Anil Kapoor Yes, both for urea and P&K. And balance all will be cleared this month. Bulk of it will be cleared in May.

Viraj Mehta So that will help the working capital of the entire industry as such.

Anil Kapoor Absolutely, but this year itself will be a challenge considering the subsidy which has been provided for.

Viraj Mehta The episode will repeat I think.

Moderator The next question is from the line of Trilok Agarwal from Birla Sun life Insurance. Please go ahead.

Trilok Agarwal One on the Urea business, I guess in Q4 we saw is relatively less sales in urea business. Could you just highlight the key reasons of selling less, is it because of the subsidy?

Anil Kapoor Good question Trilok. You will appreciate that there was substantial outstanding in the market place and generally sales in the month of March are credit sales. Money for that sale normally comes in the month of May. That's the only time we give credit in urea. With so much outstanding in the market place, we restricted the sales. We had produced and stocked the material. We are now selling it and we have sold substantial quantity in the month of April and May. That is the reason. It was deliberately done not to increase the credit in the market place.

Trilok Agarwal So is it fair to assume that beyond cut off linked quantity, we have not received the IPP benefit for the quarter?

Anil Kapoor We get the benefit because the benefit comes out production and dispatch. Whatever, certain amount of profits which come in these sales, has not come in.

Trilok Agarwal Is it possible for you to quantify the quantum that you shifted to next quarter?

Anil Kapoor Again it will all depend on the sales, 60– 70,000 tonnes at something like Rs.1800 a tonne.

Trilok Agarwal And coming to your software business you mentioned in the opening remarks that last 3 – 4 months have been positive for the business. But, if I recollect appropriately, even last fiscal I guess 2–3 months were positive for business then the reversal trend began. What gives you confidence that this year you will probably end up PAT neutral which last year guided on the call that FY13 you will not make losses and as the year progressed, I guess things got from bad to worse.

Anil Kapoor I think you have really done your homework well. You are absolutely right. What the basic change that has taken place is - in some of our business where we were operating, specially mortgage processing where our gross margins were literally in the single digit if not zero in some businesses, we have now gone up on a sustained basis, in the last 4 months to over 25%. And that segment of the business constitutes about 25% of our overall business. There has been a substantial change in the way we have started working. I got a gross margin changing month to month in the last 4 months, and showing an increasing trend.

Trilok Agarwal But Sir, what is the main driver of the gross margin improvement, if you can highlight something on that, it will be better for us to understand whether it is structural or more cyclical in nature.

Anil Kapoor It is structural because we have changed the contracts.

Trilok Agarwal Contracts with your customers?

Anil Kapoor Contracts with banks for whom we were working.

Trilok Agarwal And why weren't we able to do for so long?

Anil Kapoor I think next time we will have the CEO come in and answer those questions for you.

Trilok Agarwal I am just trying to understand whether the market has kind of accepted the new norms.

Anil Kapoor We went to the banks and showed them our numbers that we cannot work or we will come out of this business. There was no point continuing in this business where we were bleeding. They realized our position and have given us adequate returns, otherwise we would have walked out of the business.

Trilok Agarwal And finally, if you could what's your medium term plan on software business, because you would appreciate that's not your core forte. Obviously going forward, we are putting a brown field plan in urea. I guess the capex requirement there would be much higher. So what's your plan in terms of hiving off or selling of this unit? If possible what are the valuations you are looking at in terms of hiving off?

Anil Kapoor We have a short term plan; our short term plan is to first make this company profitable. We have been losing and you are absolutely right, last year also first quarter we were marginally EBITDA positive. We are slightly ahead of the gains this year. By the end of the year, we were substantially negative. We want to first make this

company positive, grow month to month organically and then take a call afterwards.

Trilok Agarwal Last one, if you could define the short term horizon. What is your horizon when you mean short term?

Anil Kapoor Short term is just one year.

Moderator We have the next question from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka Just few questions. First of all, I joined the call 5 minutes late. What is the status on the urea capacity expansions and secondly on KG D6 gas supply how much are we receiving right now and if there is intimation from the company on risk of reduction in supplies?

Anil Kapoor In my opening call I had mentioned that we have signed a LOI with Toyo Japan and Toyo India for our Gadepan 3 project. We expect to complete the formalities for signing the detailed contract in next 2–3 months. Post that, we will commence activities for the new plant. As for gas availability is concerned, we are getting adequate gas to run our existing plants.

Amit Murarka How much would be the quantity for KG D6 right now?

Anil Kapoor We get approximately 1.1 million standard cubic meter of KG gas and there has been no reduction so far.

Moderator The next question is form the line of Kedar Wagle from Akshayam Capital. Please go ahead.

Kedar Wagle I have 2 questions. One is about the subsidy outstanding from the government. How much is the outstanding amount after you received Rs.800 crores. So, basically how much amount you expect to receive in May, that's one and second, if you could share your thoughts on any changes in the urea policy in the coming 6 – 9 months going forward?

Anil Kapoor I will just answer your question on the thought process and then let Abhay tell you the subsidy numbers. At this moment government is not looking at any changes on urea policy.

Abhay Baijal As far as the March 2013 numbers were concerned, the subsidy debtors were Rs. 2600 crores. Thereafter we have received Rs.180 crores. So we are down to about Rs. 2420 crores as on date and we expect to receive almost Rs. 700 crores in May. Let's say on the best case basis, we should be around down to Rs.1700 crores of past subsidy. Of course, subsidy for the New Year will start building up again as we produce.

Moderator We have the next question again from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati Just want to understand that the short term borrowing essentially is because of these subsidy dues.

Anil Kapoor You are absolutely right.

Puneet Gulati You seem to be making some investments in software business every quarter. What is the nature of this investment?

Anil Kapoor Basically funding the losses.

Puneet Gulati And on the trading side, have you contracted out any new imports for the coming quarter?

Anil Kapoor We got some quantity in the month of March which would be adequate to take us through this quarter.

Puneet Gulati And you could maintain the same run rate which you maintained in same quarter previous year?

Anil Kapoor It will all depend on how the rainfall comes. If the rainfall goes as per prediction, then we will maintain the run rate, but incase if the rainfall was to be substantially lower, we will have to review our operations.

Puneet Gulati And are you seeing any signs of government discouraging imports.

Anil Kapoor No signs of that.

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

Satish Mishra Just one question, do we account subsidy receivables under trade receivables or it's a part of our short term loan advances?

Abhay Baijal It is not part of our short term loan and advances. It is part of our receivables.

Satish Mishra So just to get an idea, what will be our total complex inventory into the channel, our receivables and inventory.

Abhay Baijal Complex receivables as on March 2013 were Rs. 868 crores.

Satish Mishra And what will be the break up of our inventory, will it be mostly complex fertilizers or urea as you mentioned?

Abhay Baijal In fertilizers, there are both urea and DAP both.

Satish Mishra Have you tied up for any DAP till now for FY14?

Anil Kapoor As I just mentioned, we got some amount of material in the month of March which was for this quarter.

Satish Mishra At what price Sir?

Anil Kapoor It is confidential in nature. I will not like to disclose that.

Satish Mishra The next question is related to phosphoric acid business. What's the outlook over there, from FY12 to FY13 there is sharp decline in profitability. So how you see the situation shaping in FY14?

Anil Kapoor We have just taken a cold shut down for phos-acid plant. It was necessitated because of market conditions. We took advantage of the fact that the plant was shutting down in any case because of lack of demand and we took our annual cold shutdown during this month. We have just started the plant, as there has been agreement on the phos-acid price in India, which will all depend on the market conditions, difficult to predict, it is going to be a tough year for the entire P&K sector.

Moderator Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

Bhavin Chedda Few questions on the industry if you can update us for FY13, how much was the urea, DAP, and complex imports into the country and what was the demand number?

Anil Kapoor I will let the Vice President – Marketing, answer that question.

V.K. Gupta As regards DAP, total sales were about 9.3 million tonnes against the previous years of about 11 million tones. There was a drop in the sales, imports were down by about 1 million tonne, production was in line with the previous year's production, so this is how the year has panned out so far as DAP is concerned.

Bhavin Chedda So DAP imports were down by 1 million tonne to what figure?

V.K. Gupta This was about 5.8 million tonnes for the year.

Bhavin Chedda 5.8 for FY13

V.K. Gupta Yes FY13.

Bhavin Chedda And for other complex fertilizer?

V.K. Gupta We are not there in NPK segments, we are basically in DAP.

Bhavin Chedda And in case of urea, if you can update us the number?

V.K. Gupta There was no demand pickup in Urea because south was not faring well but the total sale is about 30 million tonnes.

Bhavin Chedda Total sale is 30 million tonnes.

Anil Kapoor It was at par with the last to last year sales.

Bhavin Chedda And how much would be imports in that Sir?

V.K. Gupta Approximately 8 million tonnes.

Bhavin Chedda And this was flat on YOY?

V.K. Gupta Yes.

Bhavin Chedda Sir, second question you have particularly in DAP contracted few quantities also. Just wanted to understand after this global price decline also, and government announcing that there would be Rs. 1500 drop, is the trading margins still intact at 6 to 7% which you made in last two years or you think there is a pressure on trading margins also going forward.

Anil Kapoor Firstly trading margins, we were never making 6-7%. Those are high numbers. There will be some quarters where, we may have made and if you see the interest which we lost last year because of money not coming from government and from the market, our margins are substantially lower.

Bhavin Chedda Sir I was talking on net PBIT margins - before interest trading margin, which is there in the segment wise performance basically.

Anil Kapoor Correct, so when you come into the actual, trading margins were substantially lower. I will maintain that.

Bhavin Chedda You think you will still maintain.

Anil Kapoor On the net basis we will be able to maintain.

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

Rohan Gupta Sir, first question is on the segmental numbers which you report. If you look at the unallocable expenditures for the quarter, where it is reported roughly Rs. 38 crore of unallocable expenditure, which I think compared to last year was Rs. 56 crores income. Can you just inform us what is the expenditure about?

Abhay Baijal A swing of 93 crores is because of special dividend received from IMACID Last year.

Rohan Gupta If you can just share the urea sales volume for the quarter and inventory which we are having right now of urea.

Anil Kapoor We were carrying inventory of about 200,000 tonnes.

Rohan Gupta Of urea only.

Anil Kapoor Urea inventory is all getting liquidated. It is all gone.

Rohan Gupta Okay, so the impact we will be seeing in Q1.

Anil Kapoor Yes.

Rohan Gupta

Sir, second question is on this global DAP and the trading revenues which you guided that you will be likely to maintain as that of the last year. Sir, we have seen that last year, almost two-third of the trading was done in a first half, while the second half was relatively weak. You are already saying that there is enough inventory in the system as far as DAP and complex is concerned. So Sir, how are we planning to go ahead with a similar sort of trading this year also. If you can just discuss strategy or the thought process behind it?

Anil Kapoor

You have read the industry correctly. Last year there was substantial sale-purchase that took place in the month of May-June-July. This year is going to be a wait and watch policy. Industry would be looking at the rainfall first. If the rainfall is as predicted and the off-take from the market starts, and the inventory starts to come down, purchases will start. There will be only a few limited opportunistic purchases which will take place. I think, the Industry is in a wait and watch mode.

Rohan Gupta

Okay Sir, next question on similar line is that we are seeing close to 6 million tonne inventory of DAP and complex in the system. Now government has already announced the new subsidy rates. Considering the current global DAP prices which are much lower and if one starts importing right now, then we can have at least Rs. 4000-5000 difference in cost. Sir what stops a trader or a company like you, who can probably import DAP right now and can push in the system, which you can offer to the Farmer at a lower price and can benefit also, irrespective of whatever the inventory is there in the system which is high cost inventory?

Anil Kapoor

Firstly the difference is not Rs. 4000 to 5000. Rs. 1500 is a drop in MRP and Rs. 2000 has been the reduction in subsidy. So a gain to the individual even selling at Rs.22,500 would not be to the tune of Rs. 4000 which you are mentioning.. Number two, if anybody contracts the material now, it will only come into the market by middle June or June end. It will not happen before that. By then we would be coming to an end of application season for the Kharif season, which comes to an end by middle July. We expect substantial diminution in inventory in Kharif season. So it is very difficult for somebody to bring in material right now and serious players like Chambal will respects the market place, will not like to destroy the market operations.

Rohan Gupta

So that answers our first question Sir, that probably trading is going to be very challenging as far as this year is concerned. As there is inventory in the system or whatever inventory will be sold or will be bought probably in second half that will be for preparation of

Rabi crop. So, if we have done close to Rs. 3000 crores turnover from trading last year, it may be a tough task to maintain those kind of numbers this year also.

Anil Kapoor We may not achieve the revenue number, but we will definitely endeavor to achieve the numbers on the net basis.

Rohan Gupta Volume number?

Anil Kapoor Yes

Rohan Gupta Okay Sir, just a one confusion which we still have. Right now the government is talking about reducing the MRP to the farmers by Rs. 1000-1500. So this will take place immediately or it will happen later i.e. when all the high cost inventory from the system is moved away or if we have to reduce the prices immediately then all the distributors who are holding this inventory will have to take a hit by Rs. 1500 on their system. So how the system will work now? How the government will ensure that the prices are reduced for the farmers?

Anil Kapoor You are absolutely right, there is a 6 million tonnes and if it is a Rs. 1500 hit, we are talking of a 900 crores hit to the entire P&K industry. I don't think that is a type of profit the entire industry makes. So it's a wait and watch scene, let see what happens. This is the first time the MRP is coming down for the industry, whenever the MRP has gone up, the industry has not benefited with the stocks which were in the market place. We would like to wait and watch and then take a decision.

Rohan Gupta Sir if that happens, what is the government thought process or how the government is going to ensure that the prices are reduced to the farmer, how the government mechanism will work?

Anil Kapoor I just read in the newspapers today, the IFFCO has already announced that they will be selling at the new notified rates of Government of India and IFFCO is definitely one of the leaders.

Rohan Gupta So it means that the rates in the market will be brought down immediately.

Anil Kapoor Yes

Rohan Gupta Sir, my concern is that we still have a 6 million tonnes inventory in the system and even if you start producing right now and start offering it at a lower rate, then what is going to happen to the 6 million tonne high cost inventory which is there in the system?

Anil Kapoor It is the market which will determine what is going to happen, we are also watching as to what happens in the market place.

Rohan Gupta So, is that the concern which you have factored in terms of provisioning in your current quarter results?

Anil Kapoor Yes.

Rohan Gupta Can you just elaborate a little bit more on that - what was the basis behind that? We have taken some inventory write-down in our system e.g. per tonne Rs. 1000 additional discount given to the distributors or dealers? What was the basis of doing this right now?

Anil Kapoor Some of things which are confidential in nature and will not be able to share. You will appreciate; Chambal is an aggressive player in trading. We will continue to be aggressive player in trading and that's the reason why Chambal has taken adequate provision, so that we are not caught flat footed in the marketplace.

Rohan Gupta So considering the uncertainty in the system right now, we may have some further this kind of a write-down in next quarter also?

Anil Kapoor I don't foresee see that.

Moderator Thank you. The next question is from the line of Balwinder Singh from Prabhudas Lilladher. Please go ahead.

Balwinder Singh I would like to understand that we have done trading revenues of almost 3000 crores this year fiscal 2013. So how much of it is coming from fertilizer and how much of it is coming from non-fertilizer? What I will like to understand is how much of it is sustainable for fiscal 2014 as such.

Anil Kapoor I can only tell you one thing that the net margin is sustainable. Out of the number which we do, I don't have the correct number, but approximately Rs. 550 or 600 crores is non-fertilizer and which is growing at the rate of 15 to 20% a year.

Balwinder Singh And what is the kind of margins that we make in non-fertilizer trading?

Anil Kapoor It is the confidential nature question.

Balwinder Singh So almost some Rs. 2400 to 2500 crores came from fertilizer trading this year?

Anil Kapoor It is a very low margins game. In the Rs. 600 crores, we are in the double digit margins basis.

Balwinder Singh What is our current waited average gas cost and how much of the spot LNG we are using?

Anil Kapoor In the last quarter of last year, we were using approximately 0.2 to 0.3 million standard cubic meter of spot gas. In the month of April,

we have had an annual shutdown. So in the shutdown we don't use spot gas and we don't foresee using spot gas for next 3-4 months.

Balwinder Singh Sir, what is the proportion of the total gas usage, i.e. what is the proportion of LNG in the total gas usage?

Anil Kapoor LNG in total usage would be approximately 45%.

Balwinder Singh Sir, on this software business what is the EBITDA that we have done in fiscal 2013 basis?

Abhay Baijal First quarter we crossed \$1.1 million.

Balwinder Singh \$1.1 million in quarter one of Calendar 2013.

Abhay Baijal Yes.

Balwinder Singh Sir, I was asking about the EBITDA that we have done in software in Fiscal 2013 because EBIT we have from these results, but I wanted the EBITDA on Fiscal '13 basis?

Abhay Baijal The exact number I will get back to you.

Moderator Thank you. The next question is from the line of Jasdeep Walia from Kotak. Please go ahead.

Jasdeep Walia Sir, last year companies would have made very little money in the trading business across the industry because there was a large interest cost component for working capital on account of subsidy delay from the government and next year as per what you communicated, it looks to be a similar situation in FY14 also. In spite of that, you said that you will maintain your trading volumes in FY14, so have you managed to negotiate higher trading margins with your suppliers or you are willing to trade at similar margins that were there last year?

Anil Kapoor If I am not wrong, what I did mention is that we will protect our net margin, I didn't say we will protect a net trading volume. We have got two segments of business, one is fertilizer and other is non-fertilizer. In the non-fertilizer, we continue to grow at the rate of 20% and emphasis is also being given to margins and that's a decontrolled sector where there is no control of government of India. That business of Chambal continues to do well and we will perform very well in that. As far as the fertilizer business is concerned, we will try and maintain the net margin what we achieved last year.

Jasdeep Walia And what would it mean in terms of volumes?

Anil Kapoor Difficult to predict right now, we will protect the numbers.

Jasdeep Walia But given the working capital situation, which prevailed for most of last year, are your suppliers willing to give you higher trading margins to compensate for higher working capital cost?

Anil Kapoor Difficult to tell right now. Prices are yet to be negotiated in India.

Moderator Thank you. The next question is from the line of Atul Rastogi from CIMB India. Please go ahead.

Atul Rastogi My question was for the new project, one is, have you tied up the debt funding for that and if you could give any details?

Anil Kapoor We have tied up the debt funding. On the ECB portion, we have tied. We are right now negotiating the ECA portion.

Atul Rastogi Obviously you will be expecting some change or reform in the urea policy given that if the current situation continues of high receivables, the promised RoE would probably not be achievable, so how do you take that into account?

Anil Kapoor No the policy is quite clear, our RoEs are protected as per the policy.

Atul Rastogi No, but if you have four months' or five months' delays and considering that you will have probably a Rs. 20,000 per tonne?

Anil Kapoor We have taken adequate cash when we prepared our RoE. We were foreseeing the scenario. Working capital interest has been provided for in the project.

Atul Rastogi And any progress on the gas contract, have you signed that?

Anil Kapoor We are in the market right now, it is too fluid with shale gas coming in. New players of shale gas are in the market. It will be prudent for Chambal to be careful in selecting its long term contracts. We are talking to various people right now.

Atul Rastogi So by when do you think you will be able to finalize the gas contract?

Anil Kapoor See if we want to sign the gas contract, I can sign it today, we have firm offers, but we will like to wait for some more time. Let clarity emerge on shale gas.

Atul Rastogi If you can give some indication what are the price range for the long term contract that offers are coming to you?

Anil Kapoor No, too early to tell.

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

Rakesh Vyas Sir few questions from my side, first, was there any restriction on the dispatch orders from government on imported fertilizer and has situation changed?

Anil Kapoor There was some restriction on some of the small quantities which were lying at the port in the month of February and however, those all have been lifted and we can now take the material out and dispatch it.

Rakesh Vyas So currently there is no dispatch restriction per se on import.

Anil Kapoor No there is no restriction.

Rakesh Vyas Sure, secondly Sir, on the current raw material prices and the imported material that is available as finish good, what is more competitive, I am trying to understand this because for next two, three, four months there might be an inventory liquidation in the system, but is there a structured change at all in the industry in terms of how competitive both these segments are?

Anil Kapoor You should discuss that with the domestic manufacturers.

Rakesh Vyas I got your point but I am also trying to understand, you are being one of the more prudent traders in the segment. Do you think that the kind of risk that is associated with manufacturers, are they getting enough compensation or are margins for both these segment not very different?

Anil Kapoor See, put in this way. I will not talk about what is happening currently, but I will give you a sort of general principals on which industry works.

P&K industry has got two types of investment - one, where you invest in a phos-acid plant and a DAP plant. There is complete chain of product which takes place. There the margins come from the rock pricing and at what effective rock pricing you have been able to achieve, will determine your profitability. For a DAP manufacturer in the India who just granulates the material, he is dependent on the phos-acid price which is contracted on a quarterly basis. Now phos-acid is basically sold from South Africa, Tunisia, Jordan, and Morocco, four or five countries where Moroccans take the lead. In that segment of the business is going to be a very interesting play. I don't know what will happen. It is going to be an interesting play going forward, because the importers basically compete with that segment of the business. So it is going to be interesting. I really don't know whose margins will be what, because it is not fair for me to predict that. One can put up a phos acid plant overseas and do the granulation in India or can put up a

phos acid and a granulation plant overseas depending on the cost economics.

Rakesh Vyas Is there reason to believe that incrementally players will now have to move more towards backward integration or that is not something that you envisage overall industry to do going forward?

Anil Kapoor In the long run, industry will have to move to backward integration because ultimately a person who controls the mines will always succeed.

Rakesh Vyas And Sir, I just wanted to understand this IFFCO price reduction is effective now even for the material that is in the system or is it only for the incremental volume?

Anil Kapoor It is too early to call and I will not be able to tell what IFFCO is planning.

Moderator Thank you. The next question is from the line of Gurvinder Wasan from Principal Mutual Fund. Please go ahead.

Gurvinder Wasan You said that your entire short terms borrowing is because of subsidy receivable, so what is the quantum of short term borrowing and how much is the receivable?

Abhay Baijal You wanted the quantum of short term borrowing?

Gurvinder Wasan Yes.

Abhay Baijal As I just repeat for the benefit, see as of March 2013, it was Rs.2600 crores.

Gurvinder Wasan On a steady set basis, if you get subsidy on time, then your business doesn't need much short term borrowing, may be less than Rs.1000 crores or so.

Abhay Baijal Even less than that.

Gurvinder Wasan On an on going basis, the entire debt is the long term debt which is about Rs.1100 crores.

Abhay Baijal That is related mostly to the shipping division as I have said many times in the past that the fertilizer division is debt free.

Gurvinder Wasan Any repayment due of debt this year of the long term portion?

Abhay Baijal It is almost Rs.100 crores per year long term debt to be repaid for the shipping division. Textile division is something of the order of Rs. 15-20 crores and as far as the short term is concern, entire amount is repayable in the next year.

Gurvinder Wasan Correct and incrementally for your new CAPEX plan, you might borrow something which is at the long end also?

Abhay Baijal Obviously long term assets will be supported by long term borrowings. We will decide the amount, tenure, etc. at appropriate time, it is too early to take call. We have fixed up ECB package, ECA package, etc.

Gurvinder Wasan Okay, so at a given point of time, you are comfortable having long term debt more than your net-worth or it may not be the case you will restricted to 1:1?

Anil Kapoor It is too early to call, let us firm-up our numbers on ECB, ECA.

Moderator Thank you, the next question is from the line of Gauri Anand from PhillipCapital. Please go ahead.

Gauri Anand Quantities beyond cut off limit, could you please comment on how could have been the profitability this year versus last, that's my first question. The second question is Sir, if you could just summarize the growth drivers, as I have understood you are saying that in the non-subsidized business, we are growing it about 20% and software we may perhaps breakeven this year. Is there any other material growth driver that we have missed on and third do you want to do this CAPEX entirely on you books or there are any other capital raising plans, if you can comment?

Anil Kapoor Firstly our IPP (Import Parity Pricing) is down substantially from last year and because of that you have seen erosion in profits taking place. As far as growth is concerned, substantial growth will only take place after we have put in Gadepan-III, which we should be able to commission in three years' time. In the intervening period, there is going to be marginal play somewhat in trading SSP, nothing exciting.

Gauri Anand This expansion, do you want to do it on your books solely?

Anil Kapoor Yes, we will do completely on our books.

Moderator Thank you. Participants that was our last question. On behalf of Chambal Fertilisers and Chemical Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.