



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

FY 2013-14 Q3 Results

Investor/Analyst Conference Call Transcript February 4, 2014

Moderator Ladies and gentlemen, Good day and welcome to the Q3 FY 13-14 Earnings Conference Call of Chambal Fertilisers and Chemicals Limited. As a reminder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touch telephone. Please note that this conference is being recorded. I now hand over the conference to Mr. Anil Kapoor – Managing Director of Chambal Fertilisers. Thank you and over to you Sir.

Anil Kapoor Good morning, ladies and gentlemen. Welcome to our Earnings Call post-declaration of 3rd Quarter results for FY 13-14. I have with me Abhay Bajjal (CFO), M. S. Rathore (Vice President - Legal, Corp Comm & Secretary), V. K. Gupta (Vice President- Marketing), Rajveer Singh (General Manager - Legal & Secretarial) and Anuj Jain (General Manager – Finance).

I would just like to share with you some of the highlights of Q3 FY 2013-14. Our sales has increased by approximately 13% to Rs. 2,360 crores, however the Profit After Tax has come down to Rs. 90 crores from Rs. 96 crores as compared to the corresponding quarter of last year.

As you are aware we have three business segments - Fertilizers, Textiles and Shipping. In the nine months ended 31st December 2013, the revenue of our own manufactured fertilizer went up to Rs. 3,554 crores, an increase of 25% over the corresponding period of last year. The revenue of traded products was down by about 8%, while that of shipping and textile went up by 92% and 6% respectively.

Segment results namely Profit Before Interest and Tax (PBIT) of own manufactured fertilizer for the first nine months of FY 2013-14 is Rs. 381 crores, traded good is Rs. 135 crores, textile is Rs. 21 crores and shipping is minus Rs. 8.4 crores. As compared to the corresponding period of FY 2012-13, we have done better in own manufactured

fertilizers and textiles, however trading segment is lower. Shipping has bounced back slightly and hopefully this trend will continue for the remaining year.

These are difficult times for the fertilizer industry. We have been paid subsidy till mid-November under Special Banking Arrangement by Government of India. These delays are adversely impacting the profitability of our company.

I now request you to ask questions which you may have with regards to our results. Thank you.

Moderator Thank you very much. Ladies and gentlemen, we will now begin the question - answer session. Our first question is from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel With regards to the Import Parity Price linked volume, what is the status now?

Anil Kapoor On the import price parity - the government is trying to amend the policy for our production above cut-off. The dialogue has been going on between the Industry and the Department of Fertilizer, however this policy is yet to be finalized. We have agreed on certain numbers, the note is being prepared, the Secretary has to sign it and then it will go to Cabinet for approval.

Prakash Goel We are already in February, so by when we expect this to happen. Because if it comes - may be 20 days down the line, how would you go about your production? Will you continue to produce or will you stop production?

Anil Kapoor In anticipation of the policy, Chambal Fertilisers has already cut back on production from November 2013 onwards in Gadepan II. Because we do not intend to take a shut down in Gadepan II and we were not certain whether government will be able to push through the policy in the next two months. As far as Gadepan I is concerned, we will achieve the targeted production by first week of March. We had a scheduled shutdown in the month of April next year, which we are bringing forward to first week of March. This shutdown will be for about 20 to 25 days and then we will start the plant. In case the policy comes through, we will start the plant earlier otherwise we will start the plant on the first of April 2014.

Prakash Goel What will be the likely volumes for this financial year in terms of Urea?

Anil Kapoor In case the policy does not come through, Chambal Fertilisers will make a production of approximately 19,42,000 metric tones of Urea.

Prakash Goel And my second question is with regards to your software segment, what is happening now and what is the total loss expected to be reported in this financial year?

Abhay Baijal Prakash, we do not have the final numbers but the early numbers indicate that there will be a PAT level loss of around \$5 million.

Prakash Goel And what about PBIT level?

Abhay Baijal At EBITDA level we have a profit of about \$4.5 million.

Prakash Goel In the segmental results on annual basis you provide us the software segment performance, I was just trying to understand what will be the PBIT level; you have given us PAT and PBDIT number?

Abhay Baijal PBIT level, it is a marginal loss of about \$600,000.

Prakash Goel And that will be for the entire calendar year FY 13?

Abhay Baijal Yes

Moderator Our next question is from Balwinder Singh of Prabhudas Lilladher. Please go ahead.

Balwinder Singh What is the current subsidy pending?

Anil Kapoor Current subsidy pending would be approximately Rs. 1700 crores.

Balwinder Singh How does this compare with the last quarter, I mean September quarter?

Anil Kapoor The number which I have given you Rs.1700 crores is on 1st of February 2014. On 31st December 2013, the number was Rs. 2000 crores.

Balwinder Singh What is your outlook on shipping going forward? I believe that this quarter was helped by the fact that your Baltic Dry Index had recovered but then in January we have again seen Baltic Dry Index crashing by almost 50% to 60%. So when you say that you expect this shipping performance to continue throughout the remainder of the year, are you taking into account that decline of 50% to 60% in the index?

Anil Kapoor Shipping at this moment is very volatile. It would be very difficult for us to project anything at this moment. Spot rates had jumped by about 200% to 300% and they have now come down. So it would be difficult for us to predict the quarter results for shipping at this moment. I would presume it would be in-line with our performance of Q1-Q2.

Balwinder Singh Q4 performance will be in line with Q1 or Q2?

Anil Kapoor Yes

Balwinder Singh Regarding the production number that you gave - 19.42 lakh metric tons for FY14, this is in case your new amendment does not come through, right?

Anil Kapoor That is right.

Balwinder Singh And let us say it comes by the end of February, so any guess on what number can we end the year at?

Anil Kapoor We will be able to ramp up by approximately 30,000 tonnes.

Balwinder Singh What kind of production numbers are we looking at for FY15?

Anil Kapoor If the policy goes through, we are looking at upward of 21 lakh metric tonnes.

Balwinder Singh My last question is with regards to the trading business. It seems that this quarter you have done a trading margin of almost 9.4%, so if you can just explain how that was achieved given the fact that we have seen manufacturers of complex fertilizers struggling on the EBITDA margins front?

Anil Kapoor If you recall in a previous earnings call, we had indicated that in Q3 Chambal will do better than Q2 for the simple reason that the DAP which we had procured was at about \$400 compared to Q2 price of \$470. Of course, the stock takes an average, so I really do not know the exact average value but we got the advantage because of the lower procurement price.

Balwinder Singh This is the FOB price?

Anil Kapoor This is the CFR price.

Balwinder Singh And let say at today's prices, would it make sense to import because DAP prices have recovered in the last 20 to 25 days or so. Would it make sense for you to go on importing?

Anil Kapoor At this moment, Chambal does not intend to import, we are carrying stock of about 120,000 tonnes. We made purchases in the month of December and January to the tune of approximately 100,000 tonnes at very attractive prices. We were prudent to purchase before the prices went up.

Balwinder Singh So that would suffice for Q4?

Anil Kapoor That will not only suffice for Q4, it will also suffice for Q1 of next financial year.

Balwinder Singh On the non-subsidy business within the trading, can you just given any numbers for this quarter?

V K Gupta We have done the business of about Rs. 78 crores of micronutrients in the last nine months against Rs. 91 crores of the previous nine

months. We have done Seeds of about Rs.50 crores against Rs.41 crores, so we are up by Rs. 9 crores.

Balwinder Singh In this quarter specifically the December quarter, your trading top line is Rs. 930 crores, right?

Anil Kapoor In Q3?

Balwinder Singh Yes, if I see what you highlighted is that you have done Rs. 78 crores of micronutrient, Rs.50 crores of seeds that too in the nine months, so specifically for this quarter?

Anil Kapoor We also do pesticides.

Balwinder Singh Would it be possible for you to share the numbers?

Anil Kapoor These are very confidential numbers.

Balwinder Singh Not an issue, I just wanted to know within this Rs. 930 crores of trading that you have done this quarter, what will be the normal subsidy portion, just a ballpark figure - not exactly a specific?

Anil Kapoor That would be approximately 10% to 15%.

Balwinder Singh And that number would hold good for nine months also?

Anil Kapoor Nine months would be about 30%.

Moderator Our next question is from Anita Rangan of HSBC Asset Management. Please go ahead.

Anita Rangan If you can give us the number of subsidy that was paid until November?

Abhay Baijal We have been paid Rs. 1100 crores for nine months (including the special banking arrangement which was paid in December 2013).

Anita Rangan What would be the debt outstanding as of December end?

Abhay Baijal The total debt outstanding for the company is Rs. 4,649 crores.

Moderator Our next question is from Anuradha Porwal of ICICI Bank. Please go ahead.

Anuradha Porwal I just wanted to get a view on the fertilizer industry in terms of the current gas prices increasing from Rs. 4.5 per mmbtu to around Rs. 8 per mmbtu. As a result of this, I think that the subsidy rate the government would be paying for Urea as well as complex fertilizers would primarily be of the same level. How do you see the industry going forward in terms of the Urea and the complex fertilizers sales?

Anil Kapoor Sales will not have any major impact because the MRP of Urea continues to be Rs. 5300 and MRP of DAP also continues to be at Rs. 22,500, so sales will not have an impact.

Anuradha Porwal But from the government point of view, the subsidy rates would almost be the same for Urea and potash, so they would ideally be

promoting more of complex fertilizers than Urea because of the soil quality will be better with NPK fertilizers?

Anil Kapoor From a soil perspective, I agree with you. Continuous use of high Urea dosage is causing an imbalance in the soil and we need to increase the 'P' content in the soil. If that has to happen, government has to increase the price of Urea substantially. Then only the farmer will shift from Urea to phosphatics otherwise this trend will continue and we will continue to use more Urea.

Anuradha Porwal Do you see anything of this sort happening in the near future?

Anil Kapoor Your guess is as good as mine.

Moderator Our next question is from Satish Mishra of HDFC. Please go ahead.

Satish Mishra Again a question related to our trading business, will it be possible to share us the farm receivable numbers?

Anil Kapoor We have come down substantially in our receivables, we are at this moment less than Rs.200 crores.

Satish Mishra And a comparative number last quarter end?

Anil Kapoor In the last two months itself we have recovered about Rs. 800 crores from the market.

Satish Mishra So this basically signals that in our area, this excess inventory issue is almost over, am I correct?

Anil Kapoor Sector inventory would be over in the areas of Chambal namely Punjab, Haryana and Rajasthan. UP continues to carry some stock.

Satish Mishra Related to the non-subsidy portion in revenue. You spoke about 30% contribution from non-subsidy. Will it be possible to share the similar number at PBIT level contribution from subsidy and non-subsidy?

Anil Kapoor May be in the next earnings call we will share the number for the full year.

Satish Mishra Recently government talked about fixing subsidy of Rs. 350 for all Urea players. So it is at what stage -whether the industry will start getting it from this year or there will be further meetings and it will get approved, what is the scenario on that?

Anil Kapoor The GoM has approved it; it will now have to go to CCEA. If it has to be approved, it will happen in the next 15 to 20 days, before the code of conduct is in place. The industry is hoping that policy would be out in the next 15 to 20 days and we expect that this will be from prospective effect and not retrospective. Our guess is it will start from 1st April 2014.

Satish Mishra Last question any further development on new Urea Investment policy?

- Anil Kapoor** We keep answering similar questions on this issue. We are expecting the policy to go through this month; at least that is what the Secretary Fertilizer has assured us.
- Moderator** Our next question is from Rohan Gupta from Emkay Global. Please go ahead.
- Rohan Gupta** There is a sharp increase in interest costs, almost of Rs. 15 crores while the debt numbers you have mentioned is roughly Rs. 4650 crores for the current quarter versus September quarter. If I recall and from the balance sheet it was Rs. 4320 crores, so it is hardly increment of Rs. 300 crores, but the interest cost has gone up substantially. Any particular reason for that?
- Abhay Baijal** We peaked in the quarter quite a bit, because of which the higher interest cost got debited. You'll recall that most of the receivable buildup started towards the end of September 2013. So actually in the September quarter we did not get that hit whereas in the September to December period the interest costs peaked. We started getting some money from the government towards the end of December and we have also got about Rs.900 crores in the month of January. So actually we got the maximum hit in terms of the borrowing burden in the last quarter.
- Rohan Gupta** So the debt outstanding which you mentioned Rs. 4650 crores roughly that was at the end of December, what will be the debt right now in the current month or it will it be lower by Rs. 900 crores. Can we safely assume that?
- Abhay Baijal** Yes, you can assume that. But if we project for the end of the year, our debt will be something like Rs.3500 crores, assuming that no further subsidy is paid to us.
- Rohan Gupta** On complex fertilizers traded volumes, you mentioned that you have inventory of close to 1.2 lakh tonnes. You also mentioned that it is sufficient not only for Q4 but also for Q1 of next year. So are you hinting that unlike last year, where we have seen a significant trading happening in Q4, this year in Q4 your traded revenues are likely to be muted only?
- Anil Kapoor** Yes.
- Rohan Gupta** Would it be possible to share the cost of this inventory i.e. at what average price we have brought this inventory?
- Anil Kapoor** You are asking a very confidential question, but nevertheless I will share with you. This last purchase of 90,000 tonnes took place at an average price of \$410 to \$415 per ton.
- Rohan Gupta** While the current prices of DAP are close to \$560?

- Anil Kapoor** We are not in the market, so we will not be able to tell you what is the current price. It has shot up in the international market. India has not purchased any DAP in the last 15 days, so while we know purchases took place in Pakistan, we do not know the prices in India at this point.
- Rohan Gupta** Now we are almost very close to the fixation of subsidy for the next year by the government and at the wrong time. In fact the global fertilizer prices have once again started going up, may be either in anticipation of the Indian government fixing the subsidy or maybe because of any other reason. What you think that be the subsidy level fixed by the government in the current crucial year, being a politically sensitive year. Will there be any further drop in the fertilizer subsidies by the government or you believe that subsidy rates are going to be reduced further?
- Anil Kapoor** We really do not know what will happen finally. But we are expecting no increase or reduction in subsidy as far as Phosphatic is concerned; however, we are expecting a marginal drop in subsidy in potash.
- Moderator** We will take the next question from Abhijeet Akella of IIFL. Please go ahead.
- Abhijeet Akella** If you could just outline the broad contours of the change in policy beyond the cut-off quantity that you are looking at. What exactly is the government thinking about how to incentivize production beyond the cut-off quantities?
- Anil Kapoor** Government is looking at paying \$40 a ton for production above cut-off. This will include the price of bags. So if you take away the price of bags, the gross contribution will be approximately Rs. 2000 a ton.
- Abhijeet Akella** So this \$40 will be on top of the average realization per unit for below cut-off quantities?
- Anil Kapoor** No, it will be a gross realization above cut-off. They are looking at this \$40 right from 100% capacity utilization - above 100% to whatever you produce. The reason being that up to cut-off, cheaper price of gas namely APM is taken into computation. That is why Chambal is not able to produce above cut-off.
- Abhijeet Akella** So this \$40 will be on top of the calculation using the higher of cost of gas?
- Anil Kapoor** Energy is a pass through.
- Abhijeet Akella** So whatever the higher cost of gas will be far above cost of production, they will consider that and give a \$40 sort of top-up?
- Anil Kapoor** You will have our contribution of \$40.

Abhijeet Akella What is the current gas mix in terms of APM, Reliance and all the others and what impact could be there be if any from the increase in gas price form next year onwards?

Anil Kapoor We use approximately 42% domestic gas and 48% RLNG and spot. Approximately 1.66 million standard cubic meters is the domestic and 2.28 million standard cubic meters is LNG and spot. As far as increase in price is concerned, that will increase the working capital of the company and will definitely have a strain on profitability.

Abhijeet Akella If you could just update us on your CAPEX plans for the next year and also what uses of the CAPEX would be?

Anil Kapoor CAPEX would be a routine, nothing major right now.

Moderator Our next question is from Parth Shah of ICICI Bank. Please go ahead.

Parth Shah You mentioned that for the fertilizer sector outlook is difficult times, so what are the reasons for that, could you list a few reasons?

Anil Kapoor Most important reason for not so good outlook is that the government not paying us on time. If you see, in 2002-03 our interest cost as far as Urea sector is concerned used to be approximate Rs. 100 to Rs. 125 a ton. It has now gone up to approximately Rs.500 to Rs.600 a ton, so this increase in working capital cost is taking its toll.

Parth Shah This is monthly or annual Rs. per ton?

Anil Kapoor It is a per ton cost.

Parth Shah So one reason is that government is not paying on time?

Anil Kapoor The most important thing for Urea sector is government not paying on time, if they pay on time our interest burden will substantially come down and to that extent the profitability will increase.

Moderator Our next question is from Amit Murarka of Deutsche Bank. Please go ahead.

Amit Murarka Just on the CAPEX again, there was some MoU signed with ONGC for Tripura Urea plant, is there anything happening over there?

Anil Kapoor We have signed and MoU and we are at this moment short listing some land. Once we have finalized the land, we will then go ahead with the project but the land is not yet shortlisted.

Amit Murarka So, it is not coming before 3 to 4 years then?

Anil Kapoor Fertilizer project of this type will take minimum three years for completion from zero date.

Amit Murarka Regarding the new Urea Investment plan, the capacity that you have planned to put up in Gadepan, there was some MoU signed with Toyo Engineering of Japan. Is there any cut-off date by when we need to place the order or something like that with them?

Anil Kapoor Those can be negotiated with Toyo once the government announces its policy.

Amit Murarka No CAPEX that has been put into this right now, right?

Anil Kapoor Marginal CAPEX is being done at the plant, so that in case the government announces the policy, we can place order for the equipment immediately. To that extent some early work is going on in the plant.

Amit Murarka And also the Dahej SSP that was under planning stages, is that again on the back-burner?

Anil Kapoor We have commissioned our SSP plant at Gadepan, we would like to stabilize it first and then go ahead with the Dahej facility. That too, if we find SSP lucrative.

Moderator Our next question is from Balwinder Singh of Prabhudas Lilladher. Please go ahead.

Balwinder Singh If you can just explain what is the rationale behind this increase in your fixed costs or reimbursement by Rs. 350 per ton for a year. The government has said that this is for a year. So what is the rationale and how has this come at this point of time?

Anil Kapoor As mentioned by the government, this is an increase in fixed cost which has taken place. The last costing year was 2002-03; we are now sitting in 2013-14. The increase in fixed costs is much more than Rs. 350 but the government is only reimbursing us Rs. 350.

Balwinder Singh I completely understand that. What I wanted to know was that coming at this point of time, just before the elections kick in, what is the rationale behind this?

Anil Kapoor We have been discussing with the government for the last three years. The fertilizer industry at this moment is facing very difficult times. If you just look at the results of the entire fertilizer sector, you would see other fertilizer companies are also facing similar pressures or much higher pressures than Chambal Fertilisers.

Balwinder Singh So why for a year then?

Anil Kapoor The reason the government has said for one year is that maybe after one year, they will continue with this or they may relook at this. Some of the dispensation maybe bring a nutrient based subsidy for Urea or maybe have some other methodology to give subsidy.

Balwinder Singh And regarding this policy amendment of \$40 per ton on IPP-linked production, if you can just explain that. I'm not able to get that clearly?

Anil Kapoor At this moment, actually there are three policies in case of Gadepan-I, from 100% to 110%, 110% to cut-off and than above cut-off. From

100% to 110%, it is a sharing on IPP basis, 35% is given to industry and 65% is to the government. From 105% of cut-off you get IPP minus variable cost and there is no sharing.

Balwinder Singh

This is for 110% to?

Anil Kapoor

115% of cut-off. However in case of Gadepan-II, the cut-off value is below 110%. So what happens - from 100% to cut off, you get a 35 to 65 and from cut-off to 110% you get no gain sharing with the government. It is very complex policy, but the government is doing away with everything on this side. They are just trying a simple policy above 100% you will just get a flat \$40, assessed capacity will get \$40 a ton.

Balwinder Singh

And you also stated that the net benefit will be Rs. 2000, what was that?

Anil Kapoor

See \$40 at Rs. 62 works out to be approximate Rs. 2480. Bags today approximately cost us Rs.400 a ton, so net realization will be Rs.2080.

Balwinder Singh

So do you think this policy will be more profitable than the earlier one or the earlier one was more profitable I guess?

Anil Kapoor

It all depends on the IPP number and the gas cost. The earlier policy was based on IPP minus the variable cost; this policy does away with IPP and the cost of gas. It is a flat amount given to you for the production you make. So it all depends if the IPP is lower, than this policy is better but if IPP is going up to \$500 than the earlier policy would be better.

Moderator

Our next question is from Viraj Kacharia of Securities Investment Management. Please go ahead.

Viraj Kacharia

The government is trying to do away with the IPP rate for the excess production above cut-off. They are trying to give you a \$40 per ton, so is this subject to a regular revision or is it more like a fixed in nature?

Anil Kapoor

The policy is not yet announced so we will have to read the finer print.

Viraj Kacharia

And the \$40 per ton is after complete gas pass through. So that is irrespective for shipping at RLNG or on the spot market, is it completely passed through?

Anil Kapoor

That is right.

Viraj Kacharia

Second question I had was on the P & K segment. What is your overall expansion strategy? Are you looking to doing CAPEX on that front either in India or abroad or you on primary trying to cater through or trading segment?

Anil Kapoor At this moment we are looking at trading strategy. As you know we already have an investment in Morocco. Let us first increase our market share in India, before we look at CAPEX in that field.

Viraj Kacharia And what would be your target market share say 3 to 4 years from now?

Anil Kapoor Would not be able to tell you that in a conference call.

Viraj Kacharia This is a follow up on that. Most of our current market share is primarily focused in northern region. So do we have any longer strategy of moving away from north towards say South or even Western regions?

Anil Kapoor In the recent past we have moved to Maharashtra and have gone to Bihar. So we have our footprints in these two states.

Viraj Kacharia How much increment will that be as a percentage? Will it be significant or it will be very small?

Anil Kapoor All states are very difficult. There are entrenched players in those markets; hence penetration is going to be a slow process.

Viraj Kacharia The reason why I am asking this is because just like other peers, we are also trying to expand capacity in P&K primarily to cater their own primary market. So in this particular background, how easy it is for a new player to come into a new market where there are already primary players with strong market shares?

Anil Kapoor You just reiterated what I mentioned. There are entrenched players in both Maharashtra and Bihar and taking market share from entrenched players in new territory is a difficult proposition. But nevertheless we will make efforts to increase our market share.

Moderator Our next question is from Prateek Poddar of ICICI Prudential Asset Management. Please go ahead.

Prateek Poddar If you could just throw some light as to the subsidy front, where the government has continually under-provided. What are your thoughts, will the government take corrective actions next year or you still expect them to under provide and again the whole industry would suffer on account of subsidy receivables and interest cost?

Anil Kapoor We will have to see the vote on account and based on that we will be able to answer that question. As to how much subsidy the government has provided for the full year, next year.

Prateek Poddar On the vote of account say the subsidy is same as what was provided last year I guess it was around Rs. 65,000 crores. Should the industry assume that this year also it would be the same or it would be the new government's headache, is what I am trying to ask?

Anil Kapoor I'm not privy to what the government is going to do. I think we will all have to see the vote on account.

Prateek Poddar What is your expectation?

Anil Kapoor Our expectation would be that the government should pay us the full subsidy. But I really do not know, it is very difficult to answer that question.

Prateek Poddar Any expectation of raising prices, market prices or farm-gate prices in the Urea segment?

Anil Kapoor In Urea segment, the farm gate prices are fixed by the government.

Prateek Poddar So any expectation that government may raise prices over there, so as to compensate for the subsidy overhang or something that or?

Anil Kapoor In fact our expectation is that the prices should go up. About 3 to 4 years back, the subsidy in case of Chambal Fertilisers was approximately 50% and market realization was 50%. Now it has skewed to the extent that our market realization is 25% and subsidy is approximately 75%. So it is high time that the government increases the MRP in the marketplace.

Prateek Poddar But is the government's intention to do that because it is pro-farmer, I do not know?

Anil Kapoor It is not pro-farmer, I do not know whether it is so anti-farmer or what it is. After all, DAP prices have gone up from Rs.9,350 to 22,500, so it is high time that Urea prices also increase. The country has to move on and start charging the market related prices from the farmer.

Prateek Poddar Does the Government recognize this fact or they are?

Anil Kapoor Government does recognize this fact.

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