

Chambal Fertilisers and Chemicals Limited Q2 & H1 FY21 Conference Call Transcript November 06, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Chambal Fertilisers and Chemicals Limited Q2 and H1 FY21 conference call. 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 call, please signal for an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you. Good afternoon everyone and thank you for joining us on Chambal Fertilisers and Chemicals Q2 and H1 conference call. We have with us today, Mr. Anil Kapoor - Managing Director; Mr. Gaurav Mathur - Joint Managing Director; Mr. Abhay Bajjal - Chief Financial Officer; Mr. V. K. Gupta - Vice President, Marketing; Mr. Rajveer Singh - Vice President, Legal & Company Secretary and Mr. Anuj Jain - Assistant Vice President, Finance.

Before we get started, I would like to point out that some statements made or discussed on the conference call today may be forward-looking in nature and must be viewed in conjunction with the risks the company faces. Chambal Fertilisers and Chemicals Limited does not undertake to update them. The statement in this regard is available for reference in the presentation.

We will begin the call with opening remarks from Mr. Kapoor. I would now like to invite Mr. Anil Kapoor to share his views. Over to you, sir.

Anil Kapoor: Thank you, Gavin. Thank you for joining us on this call. I trust you and your families are safe and well. At the outset, I would like to inform you that there is no impact of COVID-19 on our operations and our plants are operating at normal levels. We are taking all necessary precautions and following stringent norms to ensure the safety of our people. Despite the challenges posed by the pandemic, the Company performed exceedingly well during the quarter and half year ended September 30th 2020.

For the quarter ended September 30th 2020, on standalone basis, the company achieved a revenue of Rs. 3,986.94 crore, EBITDA of Rs. 794.71 crore and profit after tax of 416.14 crore registering a growth of 12.3%, 32.1% and 10.89% respectively. In comparison to the corresponding quarter of the previous year. Our sales in DAP and Potash was extremely robust.

For the half year ended September 30th 2020, on standalone basis, the company achieved a revenue of Rs. 7,205.61 crore, EBITDA of Rs. 1,438.34 crore and profit after tax of Rs. 730.17 crore registering a growth of 12.5%, 25.57% and 19.47% respectively in comparison to the corresponding period of the previous year.

Friends, considering the excellent performance during the current year, the Board of Directors declared an interim dividend of Rs. 3 per equity share of Rs. 10 each of the company. The Board has also approved a revised dividend distribution policy which is available on our corporate website. Said policy contains a provision, subject to the parameters given in the policy, the Company shall endeavour to maintain a total dividend pay-out ratio of about 25% of the annual standalone profits after tax of the Company.

Chambal Fertilisers and Chemicals Limited is today an established and extremely well-regarded agri product company. Ours is the largest single site urea facility in the Country. Gadepan-III plant is also as you know, one of the most modern and efficient urea manufacturing plant in the world. Our distribution network is very strong which offers us an opportunity to grow in non-urea fertilizer business. The Company has established reliable supply channel over the years for sourcing of non-urea fertilisers from international manufacturers of repute.

We also place a significant amount of emphasis on sustainability and environment and continuously make efforts to better our performance in this aspect. Our corporate social responsibility initiative, for which we are very proud, continues to support the community at large. We are proud to share with you that our CSR intervention especially in the area of education is playing a significant role in improving the education standards in the rural areas around our plants. I request you all to kindly visit our corporate website for more details in this regard. We are happy with our performance and look forward to continued growth and sustained value creation for all our stakeholders. With that, we will now open the floor for questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Madhav Marda from Fidelity. Please go ahead.

Madhav Marda: Basically if there are any updated thoughts on our strategy for growth going forward. I understand that the balance sheet probably needs some more time to become ready for a big CAPEX, but any thoughts on our strategy going forward? Is there something you could share with us?

Anil Kapoor: Madhav, our strategy at this moment is to grow in our non-urea business and along with me in this call is also Gaurav Mathur whom I will request to say a few words after I finish.

As you can see Madhav, we have grown quite well in the Phosphatic business compared to last year. I am sure you have the numbers, but quarter-on-quarter, last year second quarter we sold 2.8 lakh tons of DAP, this year in the second quarter, we have sold 5.04 lakh tons of DAP. That is a substantial growth and I will now request Gaurav to say a few words regarding the future strategy of Chambal. Gaurav, would you like to say a few words?

Gaurav Mathur: Thank you very much Anil. Good morning Madhav. As Anil mentioned in his opening remarks also, Chambal has established and is a very robust company with a strong brand, quality and a very very good channel. So we will continue to focus strongly on the non-urea products as part of our growth strategy. We do see even further opportunities in that area and that will continue to be our focus for growth in the future.

Madhav Marda: And are there any specific revenue targets or any type of products that you would like to talk about where we want to grow in the next say 2 years?

Anil Kapoor: Madhav, those are very forward-looking guidance and at this moment, we would not like to comment on those because now the guidance will be for next year, but quarter sales are coming to a close. We have got only November and partial of December for which the sales will take place and then the rabi season is coming to a close. Fourth quarter as you people are all aware is a very lean quarter for Chambal and lean quarter on sale. Our sales since the month of October is already there in the website which I have given to you all, so kindly go through that website and you can see that we have done quite well in the month of October. Phosphatic continues to be our growth area. Non-fertiliser business, as Gaurav was mentioning, is also a focus area for Chambal and Gaurav and his team, I would be happy to share with you all, are going into fair amount of details in strategizing non-fertilizer sales in our territory. As soon as we are very clear on the path which we will take, we will share it with you.

Madhav Marda: And sir, just last question if I can just ask. What sort of net debt to equity or net debt to EBITDA number once we reach, will you become comfortable going ahead with the CAPEX program?

Anil Kapoor: No, I will not put the cart before the horse. If there is an interesting CAPEX program or if there is an interesting CAPEX project available, we will go ahead. Our profits are quite good, our cash profit is very decent. If there is a very interesting project, I don't think, our debt and debt reduction is going to be a hindrance in that field, but that should be an interesting project. There should be a very good return on capital.

Moderator: Thank you very much sir. The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: My question is on tailwinds on the monsoons this year and resultant acreage expansion has obviously been very strong and obviously the data showing up in the DAP volume up 69% Y-o-Y. Would this high pace be of concern as we head into next Kharif and if not why?

Anil Kapoor: Very good question Baidik. Firstly, I would like to mention that Chambal operates in an area which is more or less 100% irrigated. Punjab, Haryana is very well irrigated, Madhya Pradesh is fairly well irrigated, Western UP is very well irrigated. Small pockets of Rajasthan and Eastern U.P are areas where irrigation potential is not up to the mark compared to our other territories. So, if you had seen, the total sale in our territory, not necessarily Chambal, total sales, even in bad monsoon years has been pretty good, so we are sort of independent of monsoon.

Regarding your second question, as to sustainability and growth, I can share with you that the sales which we have done this year are sustainable. I do not see any reason why they are not sustainable.

Baidik Sarkar: And secondly, our leverages are very sharp this year. To understand this better, is there any amount of seasonality in the reduction of leverage and as we head into Kharif next year, do we see our capital requirements go up or would you reckon the amount of cash flow if you are getting in, as we speak are good enough to support our capital requirements for the coming season and if you could quantify what number of leverage are you looking at towards the March exit numbers?

Abhay Baijal: We have got a good amount of subsidy in this last quarter which is reflected in the reduction in the leverage which you have rightly pointed out. The last quarter of the year is normally lean for subsidy, so we will expect some amount of growth back on leverage, but I think overall, we will be better off by at least 15-20 basis points from the last year's situation and also, we will try and see in terms of how we can manage this particular situation. Going forward, the Kharif season requirements depending

on the prices of gas as well as the prices of other fertilisers that outlook is slowly beginning to develop and we should have a fair fix of the number by the third quarter. Once we have that, the capital requirement for the Kharif season will become clearer. So as of now, I am not ready to predict on both because of the gas prices as well as the dollar value of the imports that we will do for the non-urea fertiliser business. I would say that question should be left for the third quarter.

Anil Kapoor: Baidik, this is for you and all my colleagues who are there in this investor call. There are two types of borrowings in Chambal, one is our long-term project of Gadepan-III on which we have borrowed, and we have an ECB. The second one is our working capital. Our working capital is more or less backed by the bills which we have raised on Government of India and you will appreciate, so far government has not defaulted on any of our bills which we have raised on them and there is hardly any deviation in those bills. This is like a sovereign debt. I have been asking Abhay that you should discuss with the rating agencies and this is like a sovereign debt. The process of raising a bill is fairly complex, I cannot just raise a bill on Government of India, so sometime later on, if anybody desires to understand how we raise a bill on Government of India, it is a very complex process and once the bill is raised, the payment is assured. Am I right, Mr. Baijal?

Abhay Baijal: Yes, very much so and in fact we have indicated in our presentation that both in our representation on the subsidy receivables that there is an amount of Rs. 4,031 crore within the claims which had been preferred on the government of India as of September 30th 2020 and our short-term borrowing against that are actually Rs. 3,200-3,300 crore which means that virtually if I were to treat that as cash in hand in some sense because it is a near cash asset, only the factor it is delayed because of some reasons, but otherwise it is more or less like a near cash asset. You have to set them off, our debt to equity is very comfortable actually speaking, so that point what you are making is, we have tried to emphasize in our presentation to the investors.

Baidik Sarkar: Can you give us a range of what is the proportion that non-urea EBITDA might have been for this H1? I understand this is an annual disclosure, but if you just give us a broad range for H1?

Abhay Baijal: I would say that, it is a fairly decent number and the fact that we are emphasizing the sales of DAP and margin expansion

Anil Kapoor: Baidik, I would request that this is a very confidential number, it is a very robust number that I can share with you and for us to share that number of non-urea business at this call, it also opens up or I have to be very careful on this number, Baidik.

Baidik Sarkar: And we have been reading about a lot of acreage expansion this rabi. Are you seeing that reflected in your DAP dispatches as well as channel stocking for the months of October and November?

Anil Kapoor: It will be very interesting and I will ask Mr. Gupta to give you details. He is our head of marketing and sales and the way to look at our business is to look at the 9-month sale, don't go with the 6-months sales and if you look at the 9 months growth from January to September, you will see the growth because what happens, rabi season, gets over by December. From January, the placement starts and sales in our territory should ideally be taken from January onwards. When you take from September, you can get comparison from year to year, it may not be a right way to look at it, so when you look at from January to September, Mr. Gupta would you like to share what are the sales in the country or in our territory last year compared to this year and what is the growth this year?

- V. K. Gupta:** If we look at the 9 months number, last year, that is January 19 to September 19, in our CFCL territory, that is North India, the sale was 58 lakh tons, this year it has been 61 lakh tons, so growth has been of 3 lakh tons, while Chambal's growth has been from 7.5 lakh tons to 11 lakh tons. So, you can say the total growth in our territory that we have taken plus 50,000 more we have taken this year. As we have already said, it is a wet area, so monsoon does not make that much of an impact. The swing is not that high. It is a very stable market, but we are growing in this market because our footprint had increased in terms of urea sales and in terms of non-urea sales, so all our products, they are following the same cut. So Gadepan-III plant has given us a flip to increase our depth in this market and we still see some more potential for further growth.
- Moderator:** Thank you very much. The next question is from the line of Amit Doshi from Care PMS. Please go ahead.
- Amit Doshi:** You had mentioned in the last concall that you are considering the additional approval from the ministry with reference to that 15% possibility of additional urea production, so anything on that can you share?
- Anil Kapoor:** I thought I had mentioned in the last call, government has not given us approval for additional production from Gadepan-III.
- Amit Doshi:** Okay, so that is not likely to come up?
- Anil Kapoor:** Yes, that is not likely to come and anyway, let me be honest with you, Amit, the contribution because of that was so small, was hardly worth pushing the government to reconsider that. We thought we will use that opportunity to carry out necessarily repair work and maintenance work in the plant which will help us in the next year.
- Amit Doshi:** With reference to this presentation where you have mentioned that your market share has increased on the urea side, so can you share as to how are we increasing our market share in the urea since the Gadepan-III has been there since last year and so that Maharashtra is the reason why it has increased and basically if you can share something on the market share growth on the urea side?
- V. K. Gupta:** Mr. Doshi, if you look at it in our territory where Chambal is operating with urea quantities, the total sale is about 210 lakh tons of urea. 40% of these sales goes through cooperatives where we are not there to a large extent. So, the leftover market is about 120 lakh metric tons and we are selling almost 32 lakh tons in this market. So almost 25% is our market share which earlier used to be about 16% in private sector. So that has given us the real footing in the urea segment here because every fourth bag in private sector is a Chambal bag.
- Anil Kapoor:** What he means to say, Amit is basically that we have been able to expand into areas where we were not prevalent in the past.
- V. K. Gupta:** No, we were there, our market share has increased in all markets where we were operating, Punjab, Haryana, Rajasthan.
- Anil Kapoor:** By market share, I mean to say, Mr. V. K. Gupta, say, in Uttar Pradesh, we have been in the areas where we were not prevalent or not strong in the past. Because of additional urea available, we have been able to grow in an additional area. So with that what happened we have got new dealers, we have got new retailers and our market share in those territories has increased.
- Amit Doshi:** Yes, in Maharashtra, this is also a kind of added geography, right?

Anil Kapoor: That is right, Maharashtra is a territory which we would definitely look at in future and I am sure, Gaurav may like to throw some light on what we are planning to do.

Gaurav Mathur: Sure, we have developed our plans for Maharashtra and our team is also now partly in place and we are looking to make formal entry into Maharashtra next year and we will start our placements as per the season in Maharashtra in the coming fourth quarter of this year. We have already taken an office over there and we have lined up, we have looked at the product range that serves in Maharashtra specifically, the seeding of the market in terms of urea, rakes supply has also started, so we are very actively pursuing our entry into Maharashtra again.

Amit Doshi: Now, the third and the last question, on the non-urea front, basically apart from DAP and MOP, we also mentioned that we are into pesticides and micronutrients etc., so what kind of portion would that be, it will be very miniscule and accordingly what kind of target do we have on that segment and on the non-urea front because earlier our major portion of the outstanding subsidy used to be on the urea side. Now, with non-urea continuously growing, approximately one third plus outstanding subsidy is of non-urea, so is there any separate mechanism on the non-urea front, anything that you can show, so basically both these parts on the non-urea front?

Anil Kapoor: You have asked many questions. I will just confine my answer to non-fertiliser business. Non-fertiliser business is a very interesting opportunity for Chambal and Gaurav and his team are sort of going into this in a fairly detailed manner in our non-fertiliser business and it is not a small business. It is a fairly decent business. There are very large companies operating in that area and with Chambal's dealer network it is a very good opportunity for Chambal to grow. Compared to urea and DAP EBITDA, it would be small, but potentially very good and growth rate in that area of business would be 20%, 25%, 30%, so in next few years, in say 2 years or 3 years it will become a substantial contributor to Chambal's bottom-line. We started with DAP also the same way, 7-8 years back, our contribution in non-urea business was abysmally small. Today, it constitutes a fairly large portion of our business. Now, while urea, DAP, MOP, NPK continues to be the bread and butter of the company, we are now focusing on non-fertiliser business and we are quite excited by that perspective. Am I right, Mr. Gaurav?

Gaurav Mathur: Absolutely and we are working in that area and looking to expand that and leveraging like Anil mentioned our strong dealer network, our brand, clearly because of the focus a lot in this last 2 years was to make sure that Gadepan-III comes online and we really make that happen well where Chambal has done an excellent job, and now the time has come that we are looking at these products also. So, we have some work going on to grow that area significantly.

Amit Doshi: On the subsidy front, sir, the non-urea part, anything that you can mention?

Anil Kapoor: Subsidy on non-urea part is substantially lower. It will not one-third of the total subsidy will be Phosphatic. Abhay, would you like to share out of the total subsidy, what is the percentage of share in Phosphatic and what is the percentage of share is in urea?

Amit Doshi: I think as per presentation; the P&K represents approximately one-third of outstanding subsidies.

I just wanted to understand, is there any separate or a different process vis-a-vis recovery of those subsidy or in the same like urea? That is it?

- Abhay Baijal:** No, there is no difference in the recovery process, the same sort of bills are to be made, the same process has to be followed and the allocation of subsidy also is more or less similar.
- Anil Kapoor:** But I would just like to mention Amit, if you look at, the total outstanding subsidy is Rs. 3,916 crore and in urea, it is Rs. 3,226 crore and P&K is Rs. 674 crore, so it is 15% of our total subsidy outstanding.
- Amit Doshi:** No sir, I think you are referring to Q2 FY20 number, whereas FY21 is a different number.
- Anil Kapoor:** Don't go by FY21 right now.
- Amit Doshi:** Okay, H1.
- Anil Kapoor :** I am going by FY20. FY21 also if you see out of our total subsidy outstanding of Rs. 4774 crore, it is Rs. 1301 crore. P&K, it is around 25% and what happens is that in P&K, let us look at a product like DAP, the selling price or market realization, we get approximately Rs. 22,000 per metric ton and subsidy is approximately Rs. 10,000 per metric ton, but when you go to the urea business, it just flips around. We have got government outstanding at may be Rs. 10,000 to Rs. 12,000 per ton and market realization is only Rs. 5,000 to Rs. 5,500 per ton. There is a big difference.
- Moderator:** Thank you. Next question is from the line of Pratik Tholiya from Elara Capital. Please go ahead.
- Pratik Tholiya:** My question is pertaining to your non-urea business which you are just alluding to. The EBITDA contribution, although you are not sharing it, but based on my calculation the EBITDA between urea and non-urea would be somewhere around 70 to 30 and you mentioned that this number used to be very abysmal 3-4 years back, so it is already 30% right now. So my question is basically going forward with all the strategy that you are developing in terms of scaling up your non-urea business, where you see the split going forward? Do you expect this could become 50-50% because your urea EBITDA would fairly remain constant, so this non-urea, how much can we scale up from here onwards and what would be the levers for this to make this 50-50 say, 3 years from now?
- Anil Kapoor:** We will have to progress in a very gradual manner. We cannot sort of shake the market in a sense that there are established players in the market. So the growth is going to be a decent growth, albeit it is not a very aggressive one and that is the reason why we are entering new territories. Growth is going to come in our territory as well as in newer territories and as Gaurav just mentioned we are entering Maharashtra where there is a lot of opportunities in, A) urea business, B) non-urea business, C) non-fertiliser business. Maharashtra is a very interesting place as far as non-fertiliser urea business and P&K business, it has got aggressive water soluble, it has got opportunity for agrochemicals. So it opens a very interesting opportunity for Chambal and as soon as we start getting our feet wet in territories like Maharashtra, we will have the same growth as what we have shown in our territory. So, you should have faith in Chambal. We have delivered whatever we have promised. I don't want to commit certain number and then not deliver which will not be fair to Chambal. It is better to deliver and then talk.
- Pratik Tholiya:** But it is just on the margin front, this time again the non-urea margins are also very strong based on my calculation again, but the thing is that Phos Acid prices going up and DAP prices have also increased, do you think that we can maintain or sustain in these margin levels because the manufacturers especially who has backward integration would be better off under such times versus company who is trading. So,

how do you expect to sustain your margins at current level or even improve from here onwards?

Anil Kapoor: You have raised a very interesting question. Let us look at backward integration. We are already backward integrated. We have got a Phosphoric Acid plant in Morocco. So, if Phosphoric Acid will make money, we will make money in Morocco for which we have got one-third share in Morocco. As a result, we will get profits there. Between the Phosphoric Acid and selling, we just don't have a granulation plant, it is not very expensive. They are not a highly value addition plant as far as the product is concerned. We can put a granulation plant any day we want. The real value addition comes from the market and in Phosphoric Acid, we are present in both the places and as far as DAP prices goes up, yes, they have gone up. Either going forward, the DAP prices will fall down or the market will correct itself to higher MRP.

Pratik Tholiya: Now our DAP and NPK volumes are also so high, we have captured market share. So any thoughts on putting up this granulation plant and getting that whatever value addition is there, you are capturing that also or we would be comfortable with trading even now?

Anil Kapoor: Let me put it this way, we are constantly in our organization thinking about growth strategy and as soon as we finalize any strategy for which we need to do some backward integration, we will share with our stakeholders immediately. As a large company, we are constantly evaluating options for growth in Chambal. I cannot share more than that.

Moderator: Thank you very much sir. The next question is from the line of Manish Jain, an Individual Investor. Please go ahead.

Manish Jain: As the food prices have gone up substantially and the procurement from the government especially in Punjab and Haryana as pointed by the Commerce Minister, Mr. Piyush Goyal has gone up substantially. So do you think it will help us in the rabi season quite nicely?

Anil Kapoor: Punjab and Haryana are fairly saturated markets and we do not get much of growth in business terms in those territories. We may get growth in non-fertiliser business in those territories, but as far as fertiliser is concerned, they are fairly saturated, 100% irrigation and what we have seen is over the years, Punjab and Haryana have hardly grown in their consumption. Basic consumption area which is increasing is newer territories like Madhya Pradesh, Rajasthan, certain aspects of UP and that is what our focus is. mfms is an excellent website and if you can go through that you will see Punjab, Haryana, fertiliser consumption is quite static, hardly any growth.

Moderator: Thank you very much. Next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S. Padmanabhan: My question is on the cash flows. In your initial remarks, you did talk about the receivables being better and therefore debt coming down, but if I look at the actual cash flows, you basically have seen a release of about Rs. 200 crore in terms of receivables, but where I see a large part of cash getting generated in the working capital is from the payable side, from the reference point that is given that is from the last year, it has actually added close to about Rs. 1,000 odd crore and my question here is, if I look at the urea, non-urea component, the non-urea has substantially moved up. So is it primarily because of the mix or have we taken a conscious decision to basically have much better negotiation powers with our suppliers.

Abhay Baijal: Much better negotiation definitely is one of the things that will happen going forward, but in this particular instance, the release that you are seeing is also because of the

facts of being some amount of ships being in transit and we have got CFR contracts. So that is one of the issues, but also definitely some of the suppliers have given us a little bit more extended credit and that cross the quarter in a certain sense. So that has helped us as you rightly said in terms of credit payables.

S. Padmanabhan: My second question is on this whole subsidy part. The Government had talked about the pilot program in DBT 2 wherein they are basically putting the money directly to the farmer and there has been a white paper on that suggesting how much money is to be given for a piece of land. From that side again, number one is, how serious is the Government with respect to going ahead with this and number two, if they go ahead with it, I mean any timeline, whether it is going to be the next 1 year, 2 years, 3 years down the line because from our cash flow perspective, subsidy moving away from us and directly to the farmer who will be in a completely different paradigm as far as cash flows are concerned?

Anil Kapoor: Sudarshan, as far as subsidy is concerned, A) the DBT direct to the farmer, something would have happened if COVID had not taken place. COVID has created a sort of setback into Government's plan for direct benefit transfer. Nevertheless, this is my personal view. As far as subsidy is concerned, the way things are going, only few companies in the industry are making decent profits. I am sure you are following the profits of the entire industry and for the health of the industry, the Government will have to do something major. If not this year, then definitely in a year or two. I have been in this industry for too long and I can see that some of my colleagues in the other industries are struggling. As I said, there are couple of companies, may be 2 or 3 at best, continue to do well and attract capital at a very low rate from the market. So as a result, for companies like us, Rs. 1000 crore would only mean an increase in interest of Rs. 35 to 40 crore which is neither here nor there, but for certain other companies who are borrowing at 9%, 10%, 8% the impact is quite bad on the balance sheets and hence something will happen in the next year or two and whenever that happen Sudarshan, the good companies will always benefit. That will be the turning point where certain of our ratios which you people keep asking will substantially change and I am quite certain that will happen. I hope I have given you a sort of overlooking answer, it is my personal view point.

Abhay Baijal: Sudarshan, I will just add, I forgot to mention one thing. Mr. Rajveer Singh who handles our legal also handles gas and he has been successful in also elongating the payment cycle for gas payment. So that has also contributed for the last year.

Moderator: Thank you very much. The next question is from the line of Deepak Chitroda from Phillip Capital India Private Limited. Please go ahead.

Deepak Chitroda: So, I think most of the questions have been answered, but if I can ask about the shutdown plans which we have for end of this Q4 which we have already taken last year. So, any plan for the shutdown for any of the urea plant this year?

Anil Kapoor: Chambal is sort of a 2-year cycle for shutting down its plants, but Gadepan-III because we achieved 100% production in 11 months, so that will necessitate a shutdown of Gadepan-III in the month of March and also Gadepan-II, we actually had to take a shutdown in the month of April, but because of COVID, we could not do it, so we just had a very small shutdown of 10 to 11 days because there were certain repairs which were absolutely necessary. So, we will take a shutdown of Gadepan-II in the month of March.

Deepak Chitroda: And for how many days of G-III in March?

Anil Kapoor: G-III would be for full month of March. G-II also would be about 30-35 days, bulk of it would be this year and it will carry forward to beginning of next year.

- Deepak Chitroda:** And secondly, just to basically take it forward from the previous participant regarding the outlook for H2 as we have already seen almost about 70 to 80% kind of growth at Q1 and Q2, so do you think this kind of a higher rate of growth will be sustained in the H2 specially on the non-urea side considering last year also we had a very strong rabi season, so any thought process on that side?
- Anil Kapoor:** As far as quarter 3 is concerned, A) we have got enough material, which is required by the market, we will be able to sell and we have bought the material and we will be able to sell. Our growth will be decent in that area and fourth quarter we have hardly any sale, fourth quarter, there are hardly any sales in the country, it is all the placement strategy. If I want to increase my sale, I can show it, but it is a placement strategy which is dependent on how we want to see, otherwise the fourth quarter is a placement, complete placement.
- Deepak Chitroda:** And sir, last question regarding the debt repayment. Is there any now scheduled repayment which is due in the Q3 and Q4 for the long-term debt. I understand that in the working capital side, it is very difficult to have a clear view as Mr. Baijal also mentioned about it, but any thought process on the long-term debt part?
- Anil Kapoor:** For Long-term debt, there is a very scheduled payment cycle, every half year we have to pay and the next payment would be in March 2021. Every 6 months, we have to repay our loans and we are following that cycle. So, March 21, we will have to pay.
- Deepak Chitroda:** And if I can squeeze in some couple of book-keeping question about the current prevailing MRPs for DAP, MOP and what was the pool gas price for the quarter?
- Anil Kapoor:** See, what happened was in the early second quarter, the MRP has remained the same, in early second quarter and third quarter, but the margins which we were giving to the dealers has substantially reduced. Are you getting what I am trying to say?
- Deepak Chitroda:** Yes.
- Anil Kapoor:** So as a result, the net-back to Chambal has improved and that takes care partially our increase in price of DAP.
- Deepak Chitroda:** But do you think that anyways we have a very low inventory in the system as well, so that this kind of a discount which we have reduced that will continue in the Q3 and Q4?
- Anil Kapoor:** Q4 as I said, if you look at it, plant availability in Q4 is very low, Its not worth talking about it. Q3, I foresee a decent quarter.
- Deepak Chitroda:** And about gas pool price and MRP if you can talk about it?
- Anil Kapoor:** As I had mentioned about the MRP, the MRP will remain the same, but discounts in the markets have substantially reduced.
- Deepak Chitroda:** So, it is roughly around Rs. 24,000 if I assume correctly?
- Anil Kapoor:** Yes, the MRP is Rs. 24,000, the discount which we are giving to the dealer has substantially reduced by approximately 50%.
- Moderator:** Thank you. Next question is from the line of Abhijit Akela from IIFL. Please go ahead.

- Abhijit Akela:** Sir, couple of questions on the industry scenario actually, one was regarding your thoughts on this entire year of FY21. We have been reading the reports about massive shortages of fertiliser across the country and long queues of farmers outside the dealer shops and all that. So just your perspective on what exactly has happened, why this has happened despite seemingly fairly normal production from the industry side and also I believe the channel has therefore tended to may be stock up quite heavily in recent months. So, how do you see the inventory situation in the market right now and could there be kind of temporary lull in channel ordering from the industry for the next few months?
- Anil Kapoor:** Which fertiliser would you be referring to? Urea or non-urea?
- Abhijit Akela:** I believe mainly urea sir, but I had heard that it applies to pretty much all the products so far this year?
- Anil Kapoor:** Because as far as urea is concerned, our business is a very static business. We produce approximately 32-33 lakh tons and we sell it literally on cash and the Government has taken very proactive steps, I must say, to import substantially large volumes of urea. The recent tender which the Government came out was approximately 2 million tonnes?
- V. K. Gupta:** 2.2 million tons.
- Anil Kapoor:** 2.2 million tons. So the Government is also well aware what is the situation in the market and I am quite sure this Government is very conscious of the fact that there will not be any urea crisis. As far as Phosphatics is concerned, in our territory, I don't foresee a crisis there. There will be certain pockets wherein there may be certain shortage here or there, but there is no crisis in our market. There is sufficient material in the field. If you look at the POS stocks of every company, it is quite robust. So, I really don't see any crisis in the market.
- Abhijit Akela:** And the second question I had was with regard to, there has been the talk from the government about may be linking fertiliser sales with the Soil Health Cards. There were actually some reports in some of the papers that they might be considering setting a limit on how much a farmer can buy depending on the Soil Health Card data of his farm. So, is there any such thought process actually underway and could it actually happen next season or this is just a rumor?
- Anil Kapoor:** What has really happened, I can just share with you is the Government has limited the sale per farmer. I think if I am not wrong, Mr. Gupta, 100 bags a farmer?
- V. K. Gupta:** Yes, 100 bags in one transaction.
- Anil Kapoor:** So, the Government has restricted the sale to the farmer of 100 bags. That is mainly done to prevent diversion of urea for non-fertiliser use and there is definitely a thought process to link it with NPK, Soil Health Card and look at the NPK and if that were to happen, I am telling you that would be really good for the farmer because our use efficiency, nitrogen use efficiency in the soil has reduced substantially and it is high time that we correct our NPK ratios where urea has been so cheap, the farmer tends to use a little bit more urea and he has to switch the ratios in the ratio of 4:2:1 which is the ideal ratio of NPK. So, if this were to happen, I think it will be a great thing for India.
- Moderator:** Thank you very much. Next question is from the line of Shanti Patel from Shanti Patel Investments. Please go ahead.

- Shanti Patel:** Sir, I have got a very simple question. Our Government is a proactive Government as far as the farmers are concerned and they want to double their income as early as possible. Now once their income doubles, what will be its impact on the fertiliser industry in general and our company in particular?
- Anil Kapoor:** Let me first say from double the income. I have got Mr. V. K. Gupta who not only does our marketing and sales, he is an agriculturist by birth. I will request him to first share that out of the total money which the farmer makes per acre, what is the share of fertiliser in it, for example, hypothetically per acre if the farmer makes Rs. 40,000 per year, then what is the share of fertiliser in that Rs. 40,000 because when the Government talks of double the income, so if the prices of fertiliser were to go up, then to that extent this amount will also double because he has invested. Let this question be answered by an expert in this field and as far as your company is concerned, we are fortunate that we are in a 100% irrigated territory and with Gadepan-III happening, the opportunities for this company has become very interesting. My view is that the fun in Chambal has just started. The future years are going to be very interesting. I can't say more than that and now I will let Mr. Gupta answer your very interesting question for which I am also waiting for answer.
- V. K. Gupta:** Basically, if we look at the food grain, that is wheat and paddy, it comes to roughly 15% and when the government is giving a return on cost through MSP, like this year in wheat, farmer is getting 106% return on the cost. That means for Rs. 15 spend the farmer is getting back Rs. 30 for fertilisers, so farmer is not at a disadvantage in case the fertiliser prices go up rather his return goes up because government is picking up the total quantity and the profits are ensured. In other segments also, what studies have come from Karnataka and Andhra, the return per acre of the farmer in cash crops is much more than in food grain sector like in Punjab, Haryana. So there the farmers also would be benefiting. Revenue is utilizing fertiliser cost and giving you return also in the current scheme of the things which government is following and with the introduction of amendment in APMC, there would be infrastructure investment in the segment and value realization for the farmers would be much better.
- Shanti Patel:** So effectively, the demand for fertiliser may go, that is correct?
- Anil Kapoor:** Definitely, what will happen.
- V. K. Gupta:** Definitely, like if we take the case of sugarcane, the government has been telling the sugar mills to buy at a certain price and there has been very good return to the farmers, everywhere, like UP or take it Maharashtra or Tamil Nadu.
- Anil Kapoor:** Mr. Gupta himself is a sugarcane grower in UP. He is an expert in sugarcane.
- V. K. Gupta:** In fact, the sugarcane growers in UP are called kulak which is a Russian term for rich farmers who have vertical strength. So, this APMC, I would say is just like going the sugarcane way where industrialization of agri output has taken place. So, if that happens, agriculture is bound to gain and certainly, the input industry would also gain.
- Shanti Patel:** The consequent effect will be ultimately the farmer and the fertiliser companies will have a better rate?
- Anil Kapoor:** So, what will happen and that is why our focus has changed. What will happen, the farmer will put some cash crops, then his use of certain other type of fertilisers namely water soluble will increase, certain amount of sulphur will increase and our focus area to grow is exactly that area which I have explained in the past earlier. There will be other types of fertilisers, other types of non-bulk fertiliser which we have

been selling so far. Those areas will increase and our company at this moment is focused on these newer types of inputs to the farmer.

Shanti Patel: Because we have to structure these changes according to the circumstances which we foresee.

Anil Kapoor: And we have to be forward looking.

Shanti Patel: Forward looking, one has to be, otherwise one can't focus.

Anil Kapoor: That is right.

Shanti Patel: That is what I wanted to confirm with you because you are in this industry for a very long period of time.

Anil Kapoor: Yes, our product is very good, our quality is very good.

Moderator: Thank you. Next question is from the line of Prasan Hazariwala, an Individual Investor. Please go ahead.

Prasan Hazariwala: We have constant capacity in urea, 3.3 million, so when we explore other markets, how we are going to sell the urea to them because we already sell out whatever we produce and the other question is, what is our dividend policy?

Anil Kapoor: Dividend policy, I just mentioned in my opening remarks, A) we have given an interim dividend of Rs. 3 and we will be giving approximately, subject to certain conditions which are mentioned in the dividend policy which we have posted on our website, 25% of the net profit would be a dividend.

Prasan Hazariwala: And what about the urea like, how we are going to explore other markets with constant capacity of urea?

Anil Kapoor: What happens is that there are newer capacities of urea coming up in the country where public sector is putting up. For example, certain urea plants are coming in Bihar, certain capacities are coming in Ramagundam, Talcher. So those urea capacities will feed certain markets where we are present today. We will move out of those areas, not fully but partially and take that urea to newer territories, but that doesn't mean that we will give up our non-urea business. Non-urea business will be there, after all there are many companies in India who don't manufacture urea and they are leaders in non-urea business.

We will continue to grow.

Prasan Hazariwala: This is kind of preventive measure kind of thing, we may lose our market share, whatever is our current.

Anil Kapoor: We may lose market share in urea. When you enter a new territory, urea helps to establish yourself very fast. We can establish without urea also, but it will take time. Our quality of urea, let me be honest, I am not saying because I am the Managing Director of Chambal Fertilisers, our product quality is second to none in the industry. So, the moment farmer uses Chambal's urea, he then tends to get married and what happens if the urea quality is very good, the brand image of the company starts improving immediately. The farmer feels this company is good, their product is good, so the positive outlook for the company increases and he starts feeling that our other products will be also as good as urea. So, that is sort of a spin off effect which takes place on urea.

Prashant Hazariwala: We are selling non-urea products also with the brand Uttam?

Anil Kapoor: Yes, all are under Uttam.

Prashant Hazariwala: It is a same brand for every product?

Anil Kapoor: Uttam is the mother name.

Prashant Hazariwala: And these non-urea products we just outsource, right? We don't do any production, right?

Anil Kapoor: No, we don't do any production, we outsource.

Moderator: Thank you very much. Next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Firstly, you have told that the diversion of urea into other sector. Earlier the Government came up with this policy of neem coating. So, is that now mandatory for whatever urea is being produced by all the producers or is there some difference?

Anil Kapoor: No, neem coated is 100%, it is mandatory to produce neem coated urea today. Neem coated urea helps in prevention of diversion and also reduces the intake of urea to the farmer because what happens with the coating of neem, there is a slow release of fertiliser and as a result what happens, the nitrogen use efficiency improves, but neem coated urea is also used by certain industries. So, the Government is trying to plug that loophole by restricting the number of bags which the farmer can use.

Gaurav Mathur: Anil, if I may add, I think Saket is thinking that when we talk of divergen to other, it is not divergen Saket to another industry. What Anil mentioned earlier is that we would be able to divert urea from some markets where other players are coming into other territory.

Anil Kapoor: No, Gaurav, I was discussing only the diversion to industry. It was specifically diversion to industry, not diversion from one segment of our business to other segment. Saket, I hope I have answered the question?

Saket Kapoor: Yes sir, but Gaurav sir was trying to explain, if he could complete sir, what was his thought process?

Gaurav Mathur: I think Saket to your inference from the earlier remarks that we are looking to divert urea to another industry that is not the case.

Saket Kapoor: That is correct sir, but you were trying to explain that we are diverting urea to other geographies also, that was your point?

Gaurav Mathur: I think what was mentioned earlier is that as other plants come up, public sector units etc., towards the East, we would then be able to use some of the urea that we would release from there into other growth areas, but because of our brand strength, we would still continue to do well with the non-urea products in those areas.

Saket Kapoor: This cost of material consumed in the raw material basket has been very benign for us and that has contributed a lot towards the building up of the bottom-line. So, how are the raw materials are shaping up, and if you could give the mix of raw material and how are we securing the same going forward also?

- Anil Kapoor:** Let me be honest with you, Saket, because of the benign condition, our profitability has not increased at all because the Government has not released the subsidy. The benefit of this benign condition basically comes to the Government. So, what has happened, A, our subsidy bill which was earlier X is now Y, Y being lower than X, so if the Government has not paid us Y also, to that extent our working capital requirement has come down because of this lower cost and to that extent there would be slight improvement in profitability, but that would be very marginal.
- Saket Kapoor:** But sir, since the raw materials have been reduced, the finished prices have been aligned to that extent or the finished prices have remained somewhat stable because urea prices are fixed, so what happens in this case?
- Anil Kapoor:** For example, if the cost of production earlier was Rs. 18,000 per ton, now that must may have come, I am just giving you a very approximate numbers, it could be Rs. 18,000, it could be Rs. 19,000, Anuj, do we have exact numbers, what was it last year compared to what is it today, total cost of production?
- So last year what was the average cost of production? Gadepan-I and II?
- Abhay Baijal :** I will just answer this. As compared to last year, our cost of production has come down by Rs. 4,000 to Rs. 5,000 per ton, so that is because of the lower gas prices in urea.
- Anil Kapoor:** But the real benefit of which would have come to us, if the Government had paid us on time. The government has not paid us on time. What has really benefited Chambal is the lower cost of borrowing which we have done compared to last year and that is why if you see our interest cost in this quarter is substantially lower than last year. That the main reason is lower cost of borrowing, the cost of the borrowing today is sub- 4%.
- Saket Kapoor:** But this subsidy is payable to you, this will come down, you have booked it as an income only?
- Anil Kapoor:** Booked it as an income, I agree, but the Government has not paid us. As you see, the total amount of outstanding from Government of India literally remains the same from last year to this year. Abhay, what was the subsidy last year compared to this year? What are the numbers?
- Anuj Jain :** Last year, it was Rs. 3,916 crore subsidy outstanding in September 20, this year it is Rs. 4,774 crore.
- Saket Kapoor:** The subsidy has gone up and what has been, any release has happened for the first 6 months sir?
- Anil Kapoor:** Large amount of money has been released.
- Saket Kapoor:** So, this is a continuous process and as you sell more, you will be liable to receive more on the subsidy front?
- Anil Kapoor:** I agree, but what has happened, yet our interest cost is lower than last year because our borrowing cost has reduced substantially.
- Saket Kapoor:** That is on the market forces that has lowered?

- Anil Kapoor:** That is the market forces and rating of Chambal is very good. We are AA company as far as long-term paper is concerned. And short term, we are A1+, so today, Mr. Bajjal is able to borrow money from the market at sub 4%.
- Saket Kapoor:** And the future is for the Phosphatic Fertilisers, so that is what you were pointing to earlier participant that if more and more trust is skewed towards the Phosphatic part, the fertility rate and the acreages, every dynamics will change if we start moving away from urea.
- Anil Kapoor:** As a farmer, I agree.
- Moderator:** Thank you. Ladies and gentlemen, we will take our last question now which is a follow-up from the line of Madhav Marda from Fidelity. Please go ahead.
- Madhav Marda:** I just had a broad question. So there was news flow around Government enhancing like PLI scheme for agrochemical, of course it is just the news flow, nothing is clear yet, but in case an opportunity like that comes up, is that something we would consider given that you are trying to diversify into the non-fertiliser state?
- Anil Kapoor:** Let me be honest with you. At this moment, we are not looking at diversifying into manufacturing of agrochemicals; there are no plans in Chambal to go in that sphere.
- Moderator:** Thank you very much. As there are no further questions, I now hand the conference over to Mr. Kapoor for closing remarks. Over to you, sir.
- Anil Kapoor:** I would like to thank all the participants and I can see there is lot of active participation taking place in Chambal and I would like to thank all the participants who have asked questions. Thank you.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of Chambal Fertilisers and Chemicals Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines. Thank you.