Chambal Fertilisers and Chemicals Limited

Record of Analyst/ Institutional Investor Meetings

1	Dates of Meetings	November 21, 2016 and November 22, 2016
2	Venue of Meetings	Mumbai
3	Meetings with Reliance Mutual Fund, UTI Mutual Fund, ICICI Prudential Mutual Fund, Taurus Mutual Fund, DSP Blackrock Mutual Fund, Birla Sun Life Insurance, HDFC Mutual Fund, Birla Sun Life Mutual Fund, IDFC Mutual fund, Old Bridge Capital Management and Sundaram Mutual Fund. The meetings were organised by ICICI Securities Limited	
4	Company Representatives	Mr. Anil Kapoor, Managing Director and Mr. Abhay Baijal, Chief Financial Officer

5 **Gist of Discussions**

The presentation as submitted to the stock exchanges on November 12, 2016 and uploaded on the website of the Company was made to the investors / analysts and was also available on the website of the Company. The main points of discussion were as under:

I) Performance of the Company / Industry Scenario

a) Urea and other Fertilisers

i) As the cost increases on account of inflation led salary increases, higher maintenance cost due to foreign exchange rate fluctuation, etc. are not considered as pass through under Urea subsidy policy, this impacts the profitability of the Company.

ii) Chambal is leading fertiliser brand in Punjab and Haryana.

iii) Presently, 100% of Urea is neem oil coated before sale. The neem oil coating of urea slows down its release and makes it more effective and reduces the requirement of urea by approximately 10%.

iv) The reduction in energy efficiency norm from 5.65 gcal/MT of Urea to 5.56 gcal/MT of Urea under the subsidy policy has led to drop in savings.

v) Due to subsidy outstanding, the Company incurs interest cost of approximately Rs. 500 per MT of Urea and Rs. 500-650 per MT in DAP/ MOP/ NPK fertilisers.

vi) Company expects that with shifting of budget to February 1st, payment of outstanding subsidy will be done one month earlier (which normally happens in the month of May).

vii) In urea, 5% balance subsidy claim, which is linked to actual sales confirmation, is now released till April 2015 for the industry.

viii) India consumes around 9 Million MT of phosphatic fertilisers while only around 3-4 Million MT is manufactured and the rest is imported. During the current Financial Year 2016-17, the country has imported around 4.5 Million MT of DAP.

ix) Northern market, owing to high soil content of potash, is a DAP market while southern market, due to prevalence of cash-crops is primarily NPK market. North consumes around 6.5 Million MT of India's overall DAP consumption of around 9 Million MT.

x) Some of Company's key markets like MP and Bihar have seen drastic improvement. MP's irrigation levels have improved from 45% to around 65% over the last 5 years and fertiliser consumption in Bihar has also increased substantially over the last 3 years.

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xi) The Company has requisite arrangements for continuous supply of DAP from international market. Due to regular purchase of DAP in market, Chambal is very close to the cost curve of manufacturers and strives to have higher per MT profitability compared to its Indian peers manufacturing P&K fertilisers.

xii) Saudi Arabia has 2.5 to 3 Million MT of DAP capacity (which is likely to increase to around 5 - 6 million MT by end of 2017) largely focused towards export to India. China also has large DAP capacity however their capacity is mainly focused for domestic consumption and supply to Latin America markets. Morocco's DAP exports are focused towards Europe and Africa. The Company's phosphatic business is growing due to increase in market share.

xiii) Many players in the country are planning expansion in P&K segment which is likely to increase competition in the P&K segment.

xiv) The large part of capital expenditure in a DAP plant is for phosphoric acid plant cost. Current cost of a DAP plant is approximately Rs. 4500-5000 crore and out of it, around Rs. 4000 crore forms part of phosphoric acid plant

xv) The Company expects that subsidy outstanding on urea should come down during the current year on account of lower energy charges and lower imported urea prices.

b) Other Agri-inputs

i) In agro-chemical segment, Chambal's sales is around Rs. 350 crore largely under its own brand sourced from Multi-national companies ("MNCs"). This segment has reasonable margin and is well diversified across crops, insecticides and pesticides. Current focus is on higher DAP, hence growth has been limited in this segment over the last few years.

ii) Chambal competes with MNCs in terms of quality and pricing in the agro-chemical market.

c) Shipping Business

The stated strategy of Company is to exit the shipping business. As per the covenant agreed with the lenders, out of the remaining 4 aframax ships, the Company is required to sell one aframax tanker before March 31, 2017. The proceeds from sale of ships shall be utilized for repayment of loans.

d) Impact of demonetization

The management believes that impact of demonetization on agri-input sector should be limited given that Rabi crop sowing season is over in critical states like Haryana and Punjab and presence of deep rooted credit practices.

e) Direct Benefit Transfer (DBT)

i) The Government has selected 16 districts for DBT pilot project. Instead of direct subsidy transfer to farmers, it will now be transferred to the companies.

ii) Pilots are currently seeing software related issues as retailers have to enter farmer data where possibility of error is high.

iii) Shifting to sales for subsidy recognition from current system of receipt at district level would mean even longer subsidy payment cycle.

iv) However, this system is expected to be temporary and subsidy system should eventually shift to payment of subsidy to farmers from current system of payment of subsidy to companies.

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II) **Proposed Urea Project of the Company at Gadepan ("Gadepan – III Project)**:

i) The capital expenditure on the Gadepan – III Project is approximately Rs. 1000 crore till September 30, 2016.

ii) The policy support of Government of India gives comfort to the Company on its urea capacity expansion investment. Even when Naphtha prices were at peak, the government has continued subsidy support to domestic manufacturers.

iii) The New Investment Policy will remain effective at least for eight years after commencement of production, which provides some certainty and stability and facilitates loan repayment. Additionally, investment in urea plant by government entities like NFL and EIL in Ramagundam gives comfort that policy is expected to be stable.

iv) Gadepan – III Project's target Debt to Equity ratio is 3.5:1. The equity portion is planned to be funded out of internal accruals. As of now, the Company does not have any plans for equity dilution.

v) Gadepan – III Project is planned to be commissioned by January 2019 with first full year of operation in 2019-20.

vi) Gadepan – III Project Cost is approximately USD 900 Million and interest during construction worth approximately US$50 Million will be capitalized.

vii) Project debt has been arranged primarily through long term ECB / Foreign currency loans and some portion in INR loans. The Company plans to hire around 140 people for the new project.

viii) Gas price pooling has been a key variable that has helped the Company in formalizing the investment plan of Gadepan – III Project. New plant will be highly energy efficient.

ix) The present Gas pipelines are sufficient to supply Gas for running all three units at full capacity.

x) Low preference for imported urea among farmers, owing to quality deterioration due to multiple handlings, is also a key reason of government providing impetus to domestic urea.

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