



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Quarter 4 FY 2015-16 Results

Investor/Analyst Conference Call Transcript

May 12, 2016

Neha Patel:

Thank you, Good morning and thank you for joining us on Chambal Fertilisers and Chemicals Limited Q4 and FY16 Earnings Conference Call. Today, we have with us the Senior Management represented by Mr. Anil Kapoor – Managing Director; Mr. Abhay Bajjal – Chief Financial Officer, Mr. V K Gupta – Vice President (Marketing), Mr. Anuj Jain – Assistant Vice President (Finance) and Mr. Rajveer Singh – Assistant Vice President - Legal & Company Secretary.

Before we begin, I would like to add that some of the statements to be made in today's discussion may be forward looking in nature. We will begin the call with the opening remarks from the management after which we will have the forum open for interactive Question and Answer session. I would now request Mr. Kapoor to make his opening remarks. Thank you. Over to you sir.

Anil Kapoor:

Good morning ladies and gentleman. Welcome to our Earnings Call post-declaration of Annual Results for FY15-16. I would like to take this opportunity to share with you some of the highlights of the year.

During this year, we produced 2.13 million tons of urea and sold 2.07 million tons of urea.

As you are all aware, we have two business segments namely Fertilisers and Shipping. In the year 2015-16, the revenue of our fertilisers and other agri-inputs division went up to 8,776 crores, the revenue of shipping went up to Rs. 760 crores. If you look at the segment results, profit before income tax in Financial year 2015-16 of our fertiliser and other agri-input division is Rs. 684 crores and Shipping is Rs. 123 crores. As compared to financial year 2014-15, we have done better in both fertiliser and shipping segment.

I am also happy to inform you that we have initiated the expansion of manufacturing capacity of urea at Gadepan which will add 1.34 million ton of urea to our existing capacity. With about 3.4 million tons of urea production every year coming from calendar year 2019, we will be in a unique position and Gadepan will be the only site in this country with single largest production at one place.

I will now request all the participants to ask questions you may have with regards to the results. Thank you.

Moderator: We will now begin with the question and answer session. The first question is from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel: I have two questions, one with respect to the situation of P and K in the market as we understand a lot of inventory has piled up at the trader's level or rather in the market. So, what is your view on the situation and how do you see the volumes moving in the FY17?

Anil Kapoor: Prakash, I will stick to Chambal Fertilisers.

Prakash Goel: Kindly share with respect to the country as a whole.

Anil Kapoor: With respect to country, yes, I agree with you, there is sufficient stock with the dealers, exact quantity we do not know and as far as Chambal Fertilizer is concerned, we have been able to sell most of our stock and we do not anticipate major problems in the coming year.

Prakash Goel: So, at the country level, what kind of growth is expected in sales because you have the tailwind from the monsoon side and at the same time we are going in the next year with high inventory. What is the kind of volume growth one would expect?

Anil Kapoor: Volume growth of the country.

Prakash Goel: Yes.

Anil Kapoor: It will be very difficult to predict volume growth from the country perspective for this financial year. With so much stock, even if there is good monsoon it is difficult to predict whether there will be any volume growth.

Prakash Goel: Okay, so you think, it is difficult to predict that there will be reasonable sales growth because of the high inventory at the dealer level.

Anil Kapoor: That is right.

Prakash Goel: My second question is with respect to the subsidy outstanding. This year we have reasonable provision; the gas prices have come down, the P&K linked subsidy will also come down, so what kind of drop in an overall subsidy level can be expected in case of Chambal.

Anil Kapoor: Look at it this way, as far as Urea is concerned, we anticipate subsidy to be reimbursed in the month of October as against August this year and for P&K the situation remains grim. For P&K, we anticipate deterioration in subsidy payment from government from last year.

Prakash Goel: You expect deterioration in situation compared to last year?

Anil Kapoor: That is right for P&K but for urea it will be substantially better

Prakash Goel: Why sir, is it because of the high inventory in 2017.

Anil Kapoor: Low subsidy provision and high backlog.

Prakash Goel: So, as you said, in case of urea, almost seven months outstanding last year versus five month outstanding this year, What will be outstanding in terms of P&K?

Anil Kapoor: I will not be able to give that exact number because that will also depend on which months we import and sell it into the market place but you will also appreciate that in case of P&K, in case of DAP, the subsidy levels have fallen substantially. The government of India has reduced the subsidy of DAP by approximately Rs. 3,800 a ton. So, to that extent, subsidy receivable from government is less.

Prakash Goel: So that benefit would flow through in terms of the outstanding.

Anil Kapoor: That benefit will go to the subsidy outstanding's.

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

Satish Mishra: Sir first question is related to software business. This time you have given the breakup between continuing operation and discontinuing operation. so Just to understand if the business remains as it is, so in FY17 we will see only the continuing numbers, or how will be the situation?

Abhay Baijal: Yes Satish, in the coming years from 1st April to December 2016, we will be seeing the continuing operation and there will be one quarter of the combined operations being reflected in March 2017 results. So, there will be a quarter of discontinuing and three quarters of continuing operations.

Satish Mishra: Right, and sir how is the business situation there for the continuing business.

Abhay Baijal: See, now once the KPO-BPO business has gone, we are left with a small core of technology business. That business is quite profitable but we have some other issues in terms of rebalancing the overheads. So overall I would say that it is a stable trend and we won't go in for further cash infusions.

Satish Mishra: And sir, just to clarify, I am a little confused.

Anil Kapoor: See let me be very clear, we will be restricted now with SEBI guidelines, so will give answers which are not forward looking and if we have to give you forward looking answer, we will first have to post it on our site.

Satish Mishra: No sir, basically I was little confused related to the 9 month or the 3-month benefit which you have explained.

Anil Kapoor: It is now a small technology business left which is a high margin business.

Satish Mishra: Sir, let me clarify myself, basically what I am saying is: in FY17, first 3 quarters will see both discontinue and continue and one quarter will see only continuing business. I am slightly missing this part.

Anil Kapoor: Only first quarter, the sale is effective 1st April 2016. So, in the first quarter you will see a combined result balance 3 quarter will be continuing business results.

Satish Mishra: Very clear sir, Second question is related to the current international prices of DAP and MOP. As I believe at present the subsidy is lower and even the international prices are lower, so how do you see the farm gate prices going to be?

Anil Kapoor: The farm gate prices are remaining constant; however, discounts have increased.

Satish Mishra: So, to understand if you can give any ballpark figure.

Anil Kapoor: Let me be honest, season has not yet started. We will come to know the exact situation in a month's time when the season start. Right now, it is all basically stock building.

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

Rohan Gupta: Sir, in your total fertilizer sales, can you provide me; what is the revenue of non-fertilizer business.

Anil Kapoor: Mr. Gupta, the Vice President, Marketing, he will be able to answer that question better.

V.K. Gupta: Our revenue was Rs. 410 crores from non-fertiliser business.

Rohan Gupta: Okay this is for FY16 and what was the comparable number last year.

Anil Kapoor: Last year it was Rs. 424 crore.

Rohan Gupta: Okay, and sir I assume that this business is a high margin business because this includes the micronutrients, specialty chemical and all such products. Right?

Anil Kapoor: Yes, sufficiently a decent margin.

Rohan Gupta: Okay and sir any growth number which you like to put on this business if the monsoon is normal in the current year.

Anil Kapoor: Difficult to tell the target this year but we should have a growth.

Rohan Gupta: Okay, I mean the growth because last year I understand that it was down because of poor monsoon and difficult situation but in the current year can we see a decent 20% plus growth in this business?

Anil Kapoor: Difficult to tell. But despite the fact that last year was a bad year, we have been able to sustain our revenues and margins.

Rohan Gupta: Okay, sir in your presentation, you have mentioned "Receivables -fertilizer division" and there it is mentioned subsidy debtors so this is a pending subsidy from the government, and the subsidy receipt is a total subsidy which was in 15-16. Right?

Anil Kapoor: Yes, that was the total subsidy which we got from government of India.

Rohan Gupta: No, sir I repeat as mentioned subsidy debtors is Rs. 3093 crores, so this is the pending subsidy right now.

Anil Kapoor: Yes.

Rohan Gupta: And total for the year was subsidy receipt which was Rs. 4239 crores.

Anil Kapoor: That is already received.

Rohan Gupta: That is already received for the year right or it was total.

Anil Kapoor: There were some arrears also coming from the previous year.

Abhay Baijal: When we are talking about Rs. 4239 crores, that is the cash flow on account of receivables in this year. It includes the arrears of previous year.

Rohan Gupta: Okay, because if I compare it, in FY15 you got total subsidy of Rs. 4800 crores and in FY16 you got Rs. 4200 crores, while subsidy debtors has gone up significantly from Rs. 2672 to Rs. 3093 crore, so it means that there is continuous delays in the payment from the government which is still flowing in the current year FY16 and, how do you see the scenario in FY17, that is what my question was?

Anil Kapoor: FY17, we definitely see reduction in subsidy debtor as on 31/03/2017.

Rohan Gupta: Because now you said that the subsidy portion has been reduced by the government and they have a better provisioning.

Anil Kapoor: Two things one gas prices have come down.

Rohan Gupta: Gas prices, okay, that is on urea.

Anil Kapoor: Now I will give both the front, on urea front the gas prices have come down, so as a result the production cost per ton is down substantially for our industry. As a result of which the subsidy provision which the government has made would result in lower outstanding as on 31/03/ 2017. And as far as phosphatic is concerned subsidy has come down by approximately Rs. 3800 a ton in case of DAP.

Rohan Gupta: Sales volume remaining the same across the industry you are talking about.

Anil Kapoor: Subsidy receivable would reduce; however the provision which the government has made may result in phosphatic subsidy receipt remaining approximately at the same level what it was today.

Rohan Gupta: Okay, sir this year, government has made roughly Rs. 70,000 crores provisioning which is similar to last year, right.

Anil Kapoor: Yes.

Rohan Gupta: And now that is divided in two groups, one is urea and other is complex or phosphatic. In phosphatic, I understand that the subsidy rates have been revised and lowered by almost Rs. 3800 per ton, and last year phosphatic DAP subsidy was I think Rs. 11,500 per ton if I am not wrong.

Anil Kapoor: It was Rs. 12,350.

Rohan Gupta: 10,340.

Anil Kapoor: Rs. 12,350.

Rohan Gupta: Rs. 12,350 was last year which is now lowered by Rs. 3800, so that benefit is definitely there in phosphatic fertilizer.

Anil Kapoor: The rate is down by about Rs. 3405

Rohan Gupta: Okay, it is down by Rs. 3400, so now it roughly becomes Rs. 9000 per ton – a reduction of almost 20%, but if we see a normal monsoon this year, there is significant expectation of higher volume in the current year so do you think the lower subsidy will be compensated by higher volume?.

Anil Kapoor: This year opening stocks are higher, so there would be a draw down from the stocks, so sales in the books may not be higher than FY 15-16. To that extent overall subsidy would be lower, payables would be lower on P&K.

Rohan Gupta: But sir there is still carry over subsidy of also. s. 70,000 crores subsidy what they provided for the current year, Rs 30,000 crores is still a carry-over of previous year right ?

Anil Kapoor: Yes, more than that.

Rohan Gupta: More than that, so we cannot expect or probably it will be very tough for the industry to get all their carryover money and adequate subsidy for the current year.

Anil Kapoor: Correct.

Rohan Gupta: Okay, and sir urea, I believe that lower gas prices will be there and as estimated the overall benefit is not more than 2000 crores for the whole industry, isn't it?

Anil Kapoor: I will have to calculate. I cannot commit on that. In my estimation, it would be much higher.

Rohan Gupta: Okay, But large portion of the industry was anyhow at the APM price so there they have not been significant reduction.

Anil Kapoor: No, I will give you some gas estimate for the industry. Industry consumes somewhere between 42 to 45 million standard cubic meters per day of gas and if I have to go by my recollection, APM gas and RIL gas which is the domestic portion of the gas is approximately 25 to 27 million standard cubic meter.

Rohan Gupta: APM plus RIL put together is 25?

Anil Kapoor: 25 to 27 million standard cubic meter. Balance is imported.

Rohan Gupta: Okay, so this is on the imported gas front where the prices would have come down significantly.

Anil Kapoor: Imported yes, domestic has also come down.

Rohan Gupta: Yes but marginally.

Anil Kapoor: Domestic is marginal and imported is substantial.

Rohan Gupta: Okay, so that benefit will be there for the urea players because subsidy provisioning by the government for the current year is almost similar what it was last year, so you expect that your urea dues will be at least cleared.

Anil Kapoor: Not for the whole year but situation will be substantially better than last year because of gas price reduction and imported urea prices coming down. Last year the imported urea price was between Rs. 250 to 300 per ton. I am giving numbers only purely by memory. This year the tender which has just closed,

the urea price was Rs. 227 / ton. Last year India imported approximately 8 million tons, and the country produced 2 million tons extra. So there is high urea stocks also. I do not anticipate such a high volume of imports again this year. It will be substantially lower. How much, will depend on the rains.

Rohan Gupta: Okay, got it, sir second question, you had a total urea production of 2.13 million MT and I think last year we did not have any benefit of above cut off production in urea. This year, I believe that given the remunerative prices, we would have benefitted from that but that is not reflecting somehow in EBIT number shown in the fertilizer business. The fertilizer EBIT for the current quarter is only 98 crores so is there any adjustments made or have we lost any money on the complex fertilizer, or I just want to simply understand that what was the benefit of above cut-off production in the current quarter number.

Anil Kapoor: We are talking only of the previous quarter.

Rohan Gupta: I am talking, comparing from the Q4 of last year.

Anil Kapoor: Let Mr. Baijal answer that question.

Rohan Gupta: Yes.

Abhay Baijal: You see Rohan, two things have happened – one is that from the previous quarter, we have sold about 45,000 tons less, that is number one. Number two the new policy which has been applicable that adjustment is done normally in the last quarter, that is traditionally how we do it. So that impact is working on almost 3,50,000 tons. That is the amount that we have produced after the reassessed capacity so that impact comes in. Plus more important that this is the EBIT that we are also showing is a combination of sales from traded goods . In Traded goods this year, the sale from previous quarter is almost 2,40,000 tons less. So all these three impacts are coming into this because of which the difference between the two quarters that you are seeing.

Rohan Gupta: Ok. So you are saying that the trading sale in the current quarter is almost 2.4 lakhs tons lower than the last years Q4.

Abhay Baijal: No, from the previous quarter.

Rohan Gupta: No Sir, I am not comparing with Q3. I am comparing from the last year sir. My whole comparison is based on the last year number, Q4 of last year. And Q4 last year, you didn't have any benefit on above cut off production. This year you have mentioned that 3.5 lakhs ton of production above cut off under the current new policy it is beneficial to make above cut-off, that's why you would have made production above cut-off.

Abhay Baijal: If you see the column for March 31st, 2015 against 2016, there is almost Rs. 54 crores increase.

Rohan Gupta: That is very small. That's what I was trying to understand that.

Anil Kapoor: No, that is substantial. It is Rs. 54 crores increase. The industry is also reimbursed only Rs. 2300 a ton. Above 100%, we do not get the full fixed cost and retention price. We only get Rs. 2300 a ton.

Rohan Gupta: I fully agree with you and generally as per the accounting practice which your company follows, all the benefits come in Q4. You had a 3.5 lakh ton above cut off production. Even if I take the lower margin of Rs. 2400 that itself is Rs. 80 crores.

Abhay Baijal: I will explain Rohan. What has happened last year is, that since we did not produce beyond the cut off quantity last year, the corresponding income de-recognition which normally used to come in the last quarter did not come in this year. If we had a comparable production last year, we would have also had to take that hit.

Rohan Gupta: So actually, whole Rs. 55 crores additional which has come in the current quarter as compared to last quarter has contributed to urea. In trading our volume in the current quarter was almost similar to what it was in the Q4 of last year.

Abhay Baijal: Yes.

Moderator: The next question is from the line of Naresh Suthar from SBI Life Insurance. Please go ahead.

Naresh Suthar: Sir, I would like to understand the new CAPEX of this 1.34 million ton capacity. How much would be the overall CAPEX and how are we going to fund it. I mean, how much would be internal and how much would be debt borrowing and all?

Anil Kapoor: We have already announced to the stock exchange; financial closure is complete. In fact, construction has already started and likely date of commissioning is January 2019.

Naresh Suthar: So any broad idea how much would be the debt for this CAPEX.

Abhay Baijal: Yes, I would just explain the total project cost is approximately \$900 million, of which the debt portion is \$700 million and the equity portion is \$200 million.

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

Manish Mahawar: Regarding the new urea project which is coming up in Gadepan. I just wanted to understand from urea prospective, how big actually the north market is as compared to our consumption.

VK Gupta: The urea consumption, at present is 32 million tons. 70% is consumed in North India if I include Maharashtra also in North India because this is a cereal producing area, the demand of urea is increasing here. Almost 20% of the demand is met from the imports which will go down. So there would be a space created for the new projects by lowering of imports.

Manish Mahawar: Understood. Any other company has announced the projects in a North market or like we are the only one?

Anil Kapoor: Not that we are aware of.

Manish Mahawar: And second question to Mr. Baijal. Sir just look at your interest cost. Around Rs. 140 crores standalone is your interest cost and Rs. 3800 crores is your debt numbers right. Earlier I believe may be 2-3 years back your shipping loan which was more of Libor plus the rate of interest was quite low in that right but still your working capital loan is going up on account of subsidy. Despite your rate of interest is quite low as compared to your loan amount?

Abhay Baijal: I'll explain Manish. The accounting standard that has been consistently applied here is that as far as the loan outstanding is concerned we debit the direct interest cost into the finance charge line and as far any hedging and other charges are there, they are expensed off above the EBITDA Line. In fact almost 70% to 75% of our borrowing is dollar-linked that includes the shipping line that includes the working capital line also.

Manish Mahawar: But working capital loan is more of a rupee right?

Abhay Baijal: What we had got both is a combination of commercial paper and buyers' credits. So quite a bit of it is also dollar denominated.

Anil Kapoor: Whatever working capital is required in trading where we buy DAP, we use credit lines.

Manish Mahawar: If you can share the rate of interest in a working capital loan or on CP and shipping loan?

Anil Kapoor: Very difficult.

Manish Mahawar: Roughly average, what is the rate of interest?

Anil Kapoor: May be next time what we'll do, we'll put all of those things in our quarterly result and put it on the site. We have got all the questions which you are asking. You will appreciate our hands are quite tied because of Regulations. I have noted your questions, average cost of borrowing, working capital, we will posted and give it you upfront.

Moderator: Thank you. The next question is from the line of Balvinder Singh from B&K Securities. Please go ahead.

Balvinder Singh: Sir if you can highlight what's going on with the shipping segment? How is the outlook there and I think whenever the opportunity arises the company would like to sell off all the remaining four vessels if you get an appropriate valuation as such. So if you can throw some light on that?

Abhay Baijal: As far as the outlook of the shipping division is concerned, the stable outlook remains so far that we can see for the next one or two quarters and last year there has been of course an increase in the TCY rates. So that is reflected in the results also. As far as the appropriateness or otherwise of the selling of ships according to the market condition, of course, this is a continuous evaluation and as and when we feel that there is balance and economic sense is made then we will definitely take the appropriate action and that is the mandate from the shareholders as well the Board.

Moderator: Thank you. The next question is from the line of Mr. Rohan Gupta from M K Global. Please go ahead.

Rohan Gupta: My next question is on the previous question that on the shipping business, we have sold one ship and taken a hit of almost 110 crores. So is that similar in current scenario, how the shipping valuations are or there is a possibility that we can probably realize higher value or will be facing the similar kind of valuation loss in all the ships and you plan to sell all the ships or you want to plan to demerge it in a different company.

Abhay Baijal: At this moment we have no plans to sell any more ships. If the market improves, we will go into the market to sell. The balance ships we expect to achieve much better realizations than the one which was sold.

Rohan Gupta: Sir, all other four ships are also of the similar capacities or they are of higher capacities.

Anil Kapoor: Similar capacity but vintage is different and built is different. The first one was a Chinese made. The remaining are all Korean Hyundai make and coated vessels and vintage is 2008 to 2010. Earlier one was 2006.

Rohan Gupta: So the value destruction probably of Rs. 1300 crores capital employed which is right now may be in shipping business should be closer to 40% if we have to sell any. I mean if all the ships are sold at 40% lower you'll be happy or you won't be selling.

Anil Kapoor: I would not be able to comment on that right now.

Rohan Gupta: Last year I think you got a product from DuPont in a co-marketing, the similar product what DuPont has in Coragen you have got the marketing rights for that and just wanted to check that this is a very big product and any estimate you have or any target that you have internally to achieve the sales or revenue of the product in the current year?

VK Gupta: Coragen has been in the market for some time and they are giving marketing rights to different companies and we are one of them.

Rohan Gupta: I think that they have already given to two companies – Dhanuka and you, you are the only second.

VK Gupta: That's right. We operate in North and it is a big molecule. So there would be a substantial gain to our business. Because we have faced two drought years and next year we are expecting a better year so we cannot put a number right away. But we think Coragen will be a good product and that's why we are taking it.

Moderator: Thank you. On behalf of Chambal Fertilisers and Chemicals, that concludes the Conference Call for today. Thank you for joining us and you may now disconnect your line.