



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Quarter 4 FY 2018-19 Results

Investor/Analyst Conference Call Transcript

May 17, 2019

Neha Patil:

Good morning and thank you for joining us on Chambal Fertilisers Chemicals Limited Q4 FY19 Earnings Conference Call. Today, we have with us the senior management represented by Mr. Anil Kapoor – Managing Director, Mr. Abhay Baijal – Chief Financial Officer, Mr. Virendra Kumar Gupta – Vice President – Marketing, Mr. Rajveer Singh --- Vice President - Legal and Company Secretary and Mr. Anuj Jain – Assistant Vice President - Finance.

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 Q&A session. I would now request Mr. Kapoor to make his opening remarks. Over to you, sir.

Anil Kapoor:

Thank you. Good morning ladies and gentlemen. Welcome to our Earnings Call post declaration of annual results for financial year 2018-2019. I would like to take this opportunity to share with you some of the highlights of the year. FY18-19 was a momentous year for the company as we successfully commissioned our new urea plant that is Gadepan-III. This is an important milestone in the journey and growth of Chambal Fertilisers. During the year, we sold 2.5 million tons of urea as against 2.07 million tons during the previous financial year. The year was good for us in terms of revenue and profitability. We have achieved highest ever profitability during the year.

The company registered 37% increase in profit before exceptional items and tax from continuing operations which is 990 crores as against 720 crores achieved during the previous financial year. Despite an exceptional item of Rs. 197.27 crores, the profit after tax from continuing operation increased by 14% to Rs. 545 crores. Our revenues increased to Rs. 10,236 crores as compared to Rs. 7,618 crores for the corresponding previous year. The revenue and profitability was backed by the production and sales of urea from Gadepan-III and good performance of our other marketing products.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir, my question is on the energy cost and the power efficiency cost for the new Gadepan Plant. I mean what was the power efficiency for this Gadepan-III in the fourth quarter and how do you expect this to improve or do you think that this should sustain going forward?

Anil Kapoor: The efficiency which is given to us by government of India is 5 million kilocalorie per ton and we have operated below that. We are confident of operating below that number for the current year also.

Sudarshan Padmanabhan: Any idea how much would that be sir because I think every even 10 bps moves your overall EBITDA to about 15 to 16 crores. Would it be like 4.5 or would be substantially lower than that?

Anil Kapoor: These are confidential numbers but I can only share with you that it will be below 4.9 kilocalorie per ton.

Sudarshan Padmanabhan: Sir, my second question is - if I am looking at your consolidated and standalone numbers for last couple of years, the difference between that was very negligible. So, I would assume this year, if I look at it, your consolidated has reported about Rs. 3 of EPS higher than that of your standalone last year. So is that primarily on account of IMACID contributing and would it sustain going forward?

Anil Kapoor: You are absolutely right it is because of IMACID and we expect operations to continue in the same way that it has operated in the previous year.

Sudarshan Padmanabhan: Sir, one final question from my side - Can you throw some color on the exceptional item. I am not really able to understand why we have provided for a subsidy which we have not received for a long period of time. I mean, are we seeing any risk on this or whether this is something that can come back and it can be written back so there can be a gain at some point of time in the future?

Anil Kapoor: This one-time provision which we have taken is with respect to the fixed cost which the government has announced earlier. While this impacts the entire industry, we thought it prudent to take this in previous year. However, as an industry we are making all-out effort to get this money from government. With the new government in place very soon, we are quite hopeful that we will be able to pursue and in case we get this money it will definitely come back to our operations.

Moderator: The next question is from the line of Pratik Tholiya from Elara Capital. Please go ahead.

Pratik Tholiya: On the subsidy side, the urea subsidy is quite high at around Rs. 3,600 crores and quite likely so because of the higher contribution of the new plant. So can we get a breakup of the subsidy pertaining to the new plant and the old plant?

Anil Kapoor: I will let Abhay Baijal – our Finance (Head) to answer that question, but I would also like to mention that now the subsidy gets accrued to us only after sale through our POS machines and post this result, we have received substantial amount of money from government of India. However, let Abhay Baijal answer this question.

Abhay Baijal: Pratik, up to 31st March the total subsidy accrued from this account was about Rs. 827 crores.

Pratik Tholiya: Sir this is for Gadepan-III right?

Abhay Baijal: Yes.

Pratik Tholiya: And the remaining is for first and second plant?

Abhay Baijal: That is right.

Pratik Tholiya: Sir what is the amount that you have received post 31st March, any color on that?

Abhay Baijal: The total that has been received is Rs. 1044 crores out of which Gadepan-III was about Rs. 450 crores.

Pratik Tholiya: Secondly, sir how you see the urea prices standing forward. I think there is some softening in the global urea prices. It is now below I think \$260, so what is your sense in the urea prices?

Anil Kapoor: I do not have right now the previous tender. I will get this information before this concall ends.

Pratik Tholiya: I am asking because if the prices are lower in the global market can we see a higher import in the upcoming season, creating a disadvantage situation for domestic players?

Anil Kapoor: No, it does not work like that. Government calculates what is the likely production in the country. It then estimates what is the stock and likely demand. Then the differential only is the import. So, because international prices would be soft government would import substantial quantity whereby domestic players get impacted, will not be the case.

Pratik Tholiya: Sir, how about the trading, how you are planning for the trading part of the business because you have done substantial trading in the last quarter also. So, firstly how is the channel inventory right now and how do you see the market planning out with the overall monsoon expectation to be slightly weaker. What would be our planning for the trading business?

Anil Kapoor: Channel inventory is substantial. There is approximately 5 million tons of DAP. However, Chambal Fertilisers does not have too much quantity. We have approximately 1.5 lakh ton and with the coming Kharif season, we will be able to liquidate it quite easily. You will appreciate we have a very strong brand. We will continue our efforts aggressively to increase sales from previous year.

Pratik Tholiya: Have we started to place tenders for the import of DAP and MOP?

Anil Kapoor: We do not purchase through tender route, but we have contracted substantial quantities.

Pratik Tholiya: Lastly, tax rate during the quarter was quite low. So what would be the tax guidance for FY20 - 21?

Abhay Baijal: The tax was lower due to tax related to previous year, you would see there is an item of Rs. 11.62 crore and secondly, we have moved into MAT post the commissioning of new plant. These are the two main reasons.

Anil Kapoor: Pratik the current tender which had come for urea was at \$279 per MT.

Pratik Tholiya: Because I was seeing somewhere the prices are around \$260 to \$265 so I thought?

Anil Kapoor: The last tender was at \$279.

Pratik Tholiya: But what is the sense on the price. Are they softening further from here or you expect them to remain at this to \$280 sort of levels?

Anil Kapoor: You see with Iran not participating because of sanctions, I expect the prices to be approximately the same.

Pratik Tholiya: And, the MAT rate is 21% right?

Abhay Baijal: Yes, 21.5%.

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

Rohan Gupta: Sir first is on this debt repayment schedule. What is our likely debt payout starting from this year?

Abhay Baijal: For FY19-20, about \$59 million which works to about Rs. 420 crores.

Rohan Gupta: And sir what more?

Anil Kapoor: There is a loan repayment schedule which we have for Gadepan-III?

Abhay Baijal: We do not have any other long-term debt or there are but very insignificant amount.

Rohan Gupta: So, with this kind of cash flow generation, what I am looking at is there any possibility of faster debt repayment?

Anil Kapoor: In case we get the subsidies on time we will definitely look at that option.

Rohan Gupta: And this \$59 million for FY20 and then how much is for FY 21, is it similar number?

Abhay Baijal: It is linear kind of number. It may go up by about 5% or so because this is slightly ballooning structure in this. We can get back to the exact number, but it will be similar number. It will be in the region of \$65 to 70 Million,

Rohan Gupta: Sir, would you be able to share the EBITDA contributed from the Gadepan-III in our quarterly number?

Anil Kapoor: You see these numbers are very confidential in nature, but you should be able to derive it. We have shared with you our gross margin which is \$155 per ton.

Rohan Gupta: On new plant?

Anil Kapoor: Yes, for Gadepan-III - \$155 per ton and the exchange rate has been pretty flat. So, from the gross margin you can calculate, you have my expenses and you should be able to calculate the EBITDA.

Rohan Gupta: I missed on that number actually, so is it an exact \$155 or it is an average for \$155 for the quarter?

Anil Kapoor: It is exact \$155.

Rohan Gupta: No, what I mean that because you have commissioned the plant during the quarter so \$155 is the average for the quarter or at present also we are drawing \$155 per ton or it is higher?

Anil Kapoor: According to the policy, at an energy of 5 million kilocalorie per ton, you are reimbursed \$155 per ton. It is an exact quantity.

Rohan Gupta: But our energy consumption is lower than 4.9 million kilocalorie per ton right now so our EBITDA?

Anil Kapoor: Then you will get better than 5.

Rohan Gupta: And the third thing is on our current quarter production of Gadepan-III it was 3.36 lakh ton is maximum we are achieving or it can go up?

Anil Kapoor: We are operating at 100% capacity.

Rohan Gupta: So, 3.36 lakh ton is maximum number now?

Anil Kapoor: No, we are also limited by the fact that government will allow 100% of the rated capacity which will be approximately 13 lakh tons.

Rohan Gupta: Sir, any plan for increasing the dividend payout?

Anil Kapoor: It is little too early. This is the first year of commissioning. Let the plant get stabilized. We also want to have a look at what government is going to do as far as subsidy is concerned for the entire industry. So, as soon as we have got a better feel we will definitely look at increasing our dividend.

Rohan Gupta: Sir, I know that you generally do not share, but just on the cost of asking would you be able to share the profitability per ton from the complex fertilizers or trading business or in entire year the contribution from our traded fertilizers?

Anil Kapoor: The number has been pretty good I can only say that. In our profitability, one of the major contribution is from other agri products which we sell in the market. These are confidential numbers which I cannot share. There is a highly competitive field out there.

Rohan Gupta: Sir with this such a 5 million ton of high inventory of DAP and NPK, is it mainly North or it is mainly South Phenomena?

Anil Kapoor: It is in the entire country.

Rohan Gupta: With this kind of inventory in the system, I understand we have a very low inventory, would it be possible that our complex fertilizers trading business in current year may come under pressure. We may not be able to sell the volumes which we have done last year?

Anil Kapoor: I don't think so. For Chambal we do have a very strong brand and we will be able to increase our volumes from previous year. I do not see that pressure for myself.

Moderator: The next question is from the line of Vineet Agarwal from SKP Securities. Please go ahead.

Vineet Agarwal: What is our average gas cost for Quarter 4, FY19 and full year FY19?

Anil Kapoor: We are now under a pooled mechanism. So, our average for the entire year. I will have to work it out. We will tell you before the meeting ends.

Vineet Agarwal: And sir is it possible to share what is our gas mix in terms of domestic and imported energy?

Abhay Baijal: See it does not matter because now it is under the pool. For the pool gas, last year we paid around \$12.22 / mmbtu.

Anil Kapoor: Gas mix does not really matter. Our pool price has been given to you by Abhay. We have got multiple contracts within this, bulk of it is imported, but the prices are governed by a pooling mechanism. So it does not really matter.

Vineet Agarwal: As per book keeping entry, our interest cost has gone up substantially this quarter. Is it just because of commissioning of Gadepan-III?

Abhay Baijal: Yes, it is because of Gadepan-III. During the project phase, it was being capitalized. From first of January 2019 it is now part of P&L.

Vineet Agarwal: So, going forward the interest cost will be in the similar range?

Abhay Baijal: Yes.

Vineet Agarwal: Lastly can I get bifurcation of other income in terms of recurring and non-recurring?

Abhay Baijal: In terms of other income most of them are recurring and some are non-recurring. You can take about Rs. 20 to 25 crores being certain recoveries which are one time. Apart from that, most of them are recurring.

Moderator: The next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Just wanted to understand that this quarter from new plant how much volume you must have done?

Anil Kapoor: We had mentioned to you, we have produced 3.36 lakh tons and sold 3.34 lakh tons of urea.

Resham Jain: So, now what actually we have assumed or what we think is that typically when a plant starts it takes time to ramp up. So is it like the Plant is already running at 100% utilization. Is that right?

Anil Kapoor: In Chambal, we have a track record if you look at our previous project. I had also mentioned this in some of our earlier calls that we are confident we will

do the project on time and we did it. We achieved 100% capacity in the first month itself and we continue to operate the plant at 100% capacity.

Resham Jain: Also on this new plant you mentioned that we are better than what efficiency norms are. So you still feel that we have a scope to improve from where we are because initially it takes time for a plant to bring it to the perfect efficiency levels. So, have we reached to the level or there is a scope for further improvement in FY20?

Anil Kapoor: It is too early to tell what happens in a plant of this size. The equipment needs to be stabilized. There is some scope for improvement, but it all depends on how the plant performs and what type of breakdowns do we get. If we do not get any breakdown, our efficiency will improve substantially.

Resham Jain: Overall on our non-urea business, what will be the percentage of revenue from non-urea business?

Abhay Baijal: Percentage of revenue from non-urea business is roughly about 39%.

Resham Jain: And any plans in terms of strategies. Now you will stabilize this plant but incremental growth would not come from urea. So what is the plan in terms of strategy for non-urea business if you can give highlight on that?

Anil Kapoor: A little too early as we have just commissioned a major plant. We need to stabilize that, repay some loans and we have to reduce our debt on the balance sheet substantially. As we start reducing our debt, we will look at other options for expansion.

Resham Jain: But any strategic directions if you can help us with. Directionally where you want to go, into complex fertilizers or into agro chemicals as we are into all this business right now. Is there any business where we are focusing more or where we are strategically want to increase our pie?

Anil Kapoor: We constantly evaluate various options and we are evaluating all those options which you have mentioned. However, nothing has been finalized. As soon as they are finalized, we will definitely inform all the stakeholders.

Resham Jain: And just one final question. This incremental volume, which all regions are we incrementally looking at in terms of increasing our pie or you feel existing location itself will be able to sell this incremental volume?

Anil Kapoor: We will be able to sell all this incremental volume within our own territory. You will appreciate that we are taking space which was previously taken by imported fertilizers. So, all we are doing is replacing that space.

Moderator: The next question is from the line of Deepak Chitroda from Phillip Capital. Please go ahead.

Deepak Chitroda: I just have couple of question regarding the Gadepan-III first. So if you can please tell me about the gas price which we had for the Gadepan-III?

Anil Kapoor: Gas price is approximately \$12.

Deepak Chitroda: I am sorry I missed the earlier part if you can please repeat the energy norms which we had for Gadepan-III?

Anil Kapoor: The energy norm is 5 million kilocalories per ton.

Deepak Chitroda: And what actually we have achieved in Q4 ?

Anil Kapoor: I did mention that earlier. These are numbers which are confidential in nature, but we have achieved the numbers lower than 4.9.

Deepak Chitroda: Coming back to the revenue breakup for FY19. Is it possible to share the revenue breakup in terms of manufactured versus traded revenue?

Abhay Baijal: The traded products including DAP and other items is about Rs. 3,847 crores. The balance about Rs. 6,200 crores is on account of Urea.

Deepak Chitroda: Some details on the software development if possible which we have?

Anil Kapoor: Profit we will not be able to share because these are confidential numbers.

Deepak Chitroda: If you can please share if possible, the energy consumption which you had for FY19 for G1, G2?

Anil Kapoor: See the norm which the government allows is 5.5 million kilocalories per ton.

Deepak Chitroda: The actual which we had for FY19?

Anil Kapoor: Actual, we do not share but as I can say it was lower than 5.5 million kilocalories per ton.

Deepak Chitroda: And just one more question on the other expenses which we had in FY19. Is it possible to share what was the power and fuel cost in the other expenses for FY19?

Anil Kapoor: It is an integrated plant in our case and it does not have any relevance in our case. Because as the number which we have given, government gives us norm of 5.5 or 5 (for Gadepan-III) million kilocalorie per ton which includes everything in the plant - power and fuel, feed everything and being an integrated Plant, it is very difficult for us to differentiate between the two. We can do it and we do it but has no relevance.

Deepak Chitroda: So, just coming back to the trading part. Is it possible if you can throw some light on what is the current DAP and MOP prices are going on and the kind of discounts going on in the market?

Anil Kapoor: Discount you will have to ask competition. DAP prices are ruling in the range of \$380 - \$390 per ton.

Deepak Chitroda: No, I am talking about the domestic MRP?

Anil Kapoor: MRP at domestic at the current moment is approximately Rs. 28,000 per ton in northern India?

Deepak Chitroda: And what about the MOP?

Anil Kapoor: MOP is approximately Rs. 18,900 per ton in northern India. As far as South is concerned, you will have to ask companies which are selling in South.

Deepak Chitroda: Last question is about the overall situation which has been building up as the inventory is much higher. So do you think that at least next 2-3 quarters will be quite heavy for the entire sector altogether including our agro chemical side because inventories are actually increasing and there is some concern on the monsoon as well?

Anil Kapoor: It is like this, Companies which have got strong brands, they will be able to sell and also the sales will depend on product quality. On both these parameters, Chambal Fertilisers is comfortably placed, so I do not foresee a problem in that sector.

Deepak Chitroda: And last question in terms of our agri chemical business or pesticide business. Are we planning to expand it further because I know it is easy to sell the agro chemical product along with fertilizer products. So is there any possible plan to expand it further or that will remain?

Anil Kapoor: We are constantly looking at options to expand, but you will appreciate at the market place the channel for pesticides and fertilizers in some areas is same and in some areas it is different. We are constantly evaluating which agro chemicals to introduce but at this moment our focus is mainly on DAP, MOP and NPKs.

Moderator: The next question is from the line of Gauri Anand from Old Bridge Capital. Please go ahead.

Gauri Anand: Couple of questions. So \$12 of gas, is it right to assume that our revenues on the new plant would be about Rs. 1000 crores?

Anil Kapoor: Yes, you are right approximately that.

Gauri Anand: Now that gas prices have softened, what is it for us?

Anil Kapoor: There is not too much change. As we speak, for example in the month of April our pool price is approximately \$11.5. There is no major change which has taken place at this moment.

Gauri Anand: So, the efficiency gain that you would have had at a higher gas price would somewhat moderate?

Anil Kapoor: Efficiency gain in case of Gadepan-III, while it is there which is not substantial compared to the gross margin which we get. While it does make an impact on the bottom line, but that impact is not very substantial.

Gauri Anand: So, just taking forward this point that Rohan also made, so you said that your sub 5 GCal or 4.8 GCal of energy?

Anil Kapoor: Yes, I mentioned we are sub 4.9.

Gauri Anand: So, when you would have started this plant and it has been in operation for three months, we would have been at a certain run rate and then eventually as production scaled up the energy consumption would have dropped. So I am just saying that even if this efficiency gain were to moderate on account of the commodity prices softening, you would perhaps make up because now you have attained full utilization and the energy consumption run rate has also stabilized. So basically there shouldn't be much of an impact. Is that understanding right?

Anil Kapoor: At 0.1 million kilocalorie per ton, the contribution is approximately Rs. 300. So, if it is 0.1 in a number of Rs. 11,000, Rs. 300 is not substantial. \$155 at Rs. 70 (INR-\$ exchange rate) works to approximately Rs. 11,000. So, this Rs. 300 is only 2.5%- 3% of my total which is not substantial. We have to operate Gadepan-III continuously and smoothly. If we do that, our margins are assured.

Gauri Anand: The other question is on your working capital. You seem to have managed this quite well. If you look at your trade receivables and your subsidy outstanding, it looks like your market receivables are negligible. Is that understanding right?

Anil Kapoor: Our trade receivables are the lowest in the industry.

Gauri Anand: On the payable side also, we seem to have got a big relief. Could you walk us through the arrangement?

Anil Kapoor: I could not get what you are saying on payable side. Can you elaborate that question.

Gauri Anand: On the payable side also, you seem to have got a good relief. Is this just a one quarter phenomenon or this should be the trend?

Anil Kapoor: It will be on the same line so there would not be any major change.

Gauri Anand: Finally on the cash flows for FY20, if you could give us a ballpark understanding of how our cash flows will be and how they will get utilized and dividend policy. It looks like you may step up your dividend, but you may not

pay down your debt much. So, could you just give us some ballpark understanding of your cash flows?

Anil Kapoor: As far as industry is concerned, as on 31st March 2019, the subsidy outstanding from government of India to the industry was between Rs. 30,000 and 40,000 crore which is likely to increase whereas the amount of subsidy provided by government of India has not increased. We have sensitized the government on this aspect. We are in active discussion as far as industry is concerned. We have also been assured that post new government coming in, this matter will be taken up earnestly. So, if this to happen, then our subsidy outstanding will be similar to what was there last year and then we will be able to look at our debt reduction substantially. Have you understood what I am trying to say? But in case government does not increase the subsidy amount, then some of the cash which we receive will also go towards working capital. So, it all depends on how government moves in the next few months. In the recent past, we have a serious meeting with senior level government functionaries. So, we are quite hopeful. It was very positive response from the government. So, it is not Chambal problem; it is an industry wide problem.

Gauri Anand: But nonetheless you will generate significant operating cash flows?

Anil Kapoor: We will be retiring some debt which was mentioned earlier and in case possible we would like to repay some debt earlier.

Gauri Anand: Finally, in IMACID, was there any one-time impact in the sense that Phos Acid prices have not been any great and people have taken impairment. You mentioned about dividend increasing here, could you just elaborate on that and what would be the sum?

Anil Kapoor: The performance at IMACID is very good. I think we have generated very high profits over there and we are expecting that to maintain as we go forward. There was no one time gain in IMACID.

Gauri Anand: Would that be possible for you to share the numbers?

Anil Kapoor: Our share of IMACID profit is given in the results which is Rs. 116.68 crore on equity accounting basis. That is our share of the profit as we have one-third share.

Moderator: The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: I have just one question which is - Since the new Plant is not operating on the fixed ROE model as the old plant, should we be assuming that the entire interest cost as it gets paid off that quantum flows directly to the bottom line?

Anil Kapoor: Your thought process is absolutely correct.

Falguni Dutta: And one more thing on the off-take agreement that I do not recall. Is there, for new plant, some 2-3 years off-take guarantee that the government had given or no such thing?

Anil Kapoor: No, there is no off-take agreement. Each plant, when it gets commissioned, they have to sell it in the market place and when the material is sold through POS, the subsidy will be given to by government of India.

Falguni Dutta: As you said that there is no import threat given that the government would order for imports looking at the demand supply and inventory situations. Is there no reason for us to believe that there is any risk on this offtake anytime given the demand?

Anil Kapoor: Falguni, if there was a risk, I would not have put this capacity.

Moderator: The next question is from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Does beyond cutoff rate or IPP link is also applicable for this new unit?

Anil Kapoor: Policy is not announced for production beyond 100%. We do not have any policy in place.

Siddharth Mohta: In case of Gadepan-I and II, was there any maintenance shut down in Quarter 4, FY19 i.e. last quarter?

Anil Kapoor: In Quarter 4, we had shutdown in Gadepan-II. It was a planned shutdown and that was for approximately 20 days.

Siddharth Mohta: And sir last question is - Any specific reason why IMACID performance has improved so much?

Anil Kapoor: I would like to clarify that the IMACID performance is for 15 months. However, in the last 3 months there has not been a substantial profitability because they also had a long planned shutdown. Acid prices were pretty high in the previous year, sulphur and rock were in control and that is the reason why we made a decent profit. It is a matured business and our fixed cost is well within control as far as IMACID is concerned. It is a well operated Plant and amongst the best in class.

Siddharth Mohta: On this new Gadepan-III what will be GCal of similar plant or technology which has been installed in the other part of geography? Would you be having any idea on that?

Anil Kapoor: You see companies of similar design have been operating between 4.8 and 4.9.

Moderator: The next question is from the line of Prashant Hazariwala, an Individual Investor. Please go ahead.

Prashant Hazariwala: I would like to know what is this special banking arrangement and how it works?

Anil Kapoor: What Government does is, for the entire industry, it arranges funds from the bank and the government then in the subsequent year repays it back to the bank from the subsidy. So, we get a sort of an interest subvention in this.

Prashant Hazariwala: What kind of interest you are paying on it like any ballpark number?

Anil Kapoor: Approximately 0.5%.

Prashant Hazariwala: Currently, we already have a ROE of around 20%. With this new plant working out, what kind of ROE we can get. Is it more than 25% kind of ROE we can generate?

Anil Kapoor: Prashant, on an open forum and on a concall for me to answer those types of questions are very difficult.

Prashant Hazariwala: ROE is like, profit after tax divided by networth?

Anil Kapoor: I can only assure you our ROE will be better than previous year.

Moderator: The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir, we have seen a slightly elevated level of outstanding and working capital at the end of the year. A part of it would be due to Gadepan-III and part of it would be due to, as what you have said, industry outstanding is slightly higher. So, my question is that what do you think is normalized level of outstanding working capital you would see post Gadepan-III and in that context you said our priority would be, as and when we get the subsidy from the government, to repay the debt. So, what is the ideal level of debt repayment that you think will be, assuming that we get to a level where our subsidy outstanding is normalized. Say, based on 6 or 12 months before, what was our level because I saw in the presentation that the outstanding subsidies increased from Rs. 1,464 crore to Rs. 3,600 crore on urea. How much is due to Gadepan-III and how much is due to slightly more delay due to these election issues may be?

Anil Kapoor: There is no delay because of election issue and Gadepan-III outstanding was approximately Rs. 800 crores. That happened because it was a new plant and for the government to fix the exact subsidy number it took time. It is a first plant under this policy, so there was a lot of internal discussion which was taking place on implementation. However, the same has been done and we received the subsidy in the month of April. Around Rs. 450 Crores was received in the month of April.

Amish Kanani: So, any sense in that context about our debt repayment plans for this year assuming that things gets normalized and what was our net worth at end of the year as there is no mention of that at least in the presentation. So, what is our debt equity in that context and are there any levels that we are looking at in terms of either debt to EBITDA or debt equity ratio which is ideal. You mentioned that we would like to think of our expansion plan only after we pay some debt, so what is the thought process?

Abhay Baijal: The net worth at the end of 31st March was 3,240 crores and from this figure you can figure out what the debt equity is. It is roughly about 2.75 that includes the special banking arrangement of Rs. 700 crores which is actually repaid back so it is just a transient figure in the balance sheet as on 31st March. Actually, the liability of paying is on the government, but it appears in our books because we signed the papers as if we have borrowed. That is only

accounting entry. So, you have to reduce it by Rs. 700 crores and then if you do the calculation then it comes down to 2.6 or so.

Amish Kanani: And what is the ideal level that we are now looking at?

Anil Kapoor: Ideally, we would be looking at, in the next couple of years, to bring down this number to below 1.5. That is our target. For a new plant having commissioned, this is okay and this is tolerable, but in the long run we have to bring this number down and we will be able to bring it down.

Amish Kanani: And sir any sense on the subsidy outstanding; the way it will move. So the point is at Rs. 4,500 crore, is there some element which is excess and which will get repaid?

Anil Kapoor: We are expecting this subsidy level to come down. It will come down during the year and in the last quarter it may increase depending on the finances of government of India wherein the government of India finances were to improve say GST improve, tax collections improves. I am quite sure government will provide more subsidy. So, this will happen for the entire fertilizers segment not to Chambal only. As we speak, in the month from June to December it starts coming down substantially.

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

Rohan Gupta: What is our average interest cost on our working capital loan?

Anil Kapoor: See our average interest cost on working capital will be approximately 7 to 7.25 %.

Rohan Gupta: On the new project it is 6-6.5%?

Anil Kapoor: New project it is sub 5% for term-loans.

Rohan Gupta: Yes, term-loan only not for the working capital and this is including all the hedging and everything?

Anil Kapoor: It is a dollarized loan and our revenue is also on dollar basis, so we have a natural hedge.

Rohan Gupta: So, the interest cost is sub 5% you are saying on the term loan that is Rs. 4,283 crores?

Anil Kapoor: That is Rs. 4,283 crores you are right as at March 31, 2019.

Rohan Gupta: But this will be final number right I mean is it going to increase further?

Anil Kapoor: Yes, small amount will increase. As we start settling with our contractors, remnant small amount balance to be paid which we will make payment in the next couple of months.

Rohan Gupta: So, given such an attractive rate of interest 5%, so when you will have a surplus cash flows you will first like to repay your working capital debt only rather than paying your long term debt?

Anil Kapoor: See we have a commitment.

Rohan Gupta: No apart from that Rs. 420 crore commitment?

Anil Kapoor: Correct, so that we will make. It is always prudent to first knock off long term debt while I fully agree. You are Bombayite, always think of money.

Rohan Gupta: Sir I think all the shareholders also think about the money.

Anil Kapoor: You are absolutely right. I should first use it for working capital and why retire long term debt. Long term debt we should retire as early as possible and it also then strengthens our position with the banks. How, we have reduced this term loan interest is because we have got good strength as far Chambal is concerned. So, when we retire it early, we can renegotiate it.

Rohan Gupta: So, not necessary that only working capital debt will come down once you have this. Because the whole reason being, and I think previous participant also emphasized on that, we are going to have a huge cash flow generation if not this year then next year?

Anil Kapoor: I agree with you because this year what will happen is that some amount will go towards working capital.

Rohan Gupta: So, after that there would not be any increase in working capital. So from next year onwards you will be having this cash flow?

- Anil Kapoor:** Your reading is correct. So, next year our situation will be substantially different.
- Rohan Gupta:** And sir, any particular reason that 7.25% rate of interest for our working capital when the entire market is at 9% to 10%?
- Anil Kapoor:** Working capital is a short-term debt so there is no asset liability mismatch. So, we are basically borrowing with commercial paper.
- Rohan Gupta:** But even a current scenario, I am surprised that we are able to get the money at such a lucrative rate 7%, unheard from any other corporate?
- Anil Kapoor:** My treasury department always keep saying that there are companies who are doing better than us.
- Rohan Gupta:** But you must congratulate Mr. Abhay Baijal for doing a commendable job and getting this.
- Anil Kapoor:** After this meeting, I will definitely congratulate him.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. On behalf of Chambal Fertilisers and Chemicals Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.