



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Quarter 4 FY 2017-18 Results

Investor/Analyst Conference Call Transcript May 11, 2018

Neha A. Patil: Good morning and thank you for joining us on the Chambal Fertilisers Q4 and FY18 conference call. Today, we have with us the senior management represented by Mr. Anil Kapoor – Managing Director, Mr. Abhay Baijal – Chief Financial Officer, Mr. V.K Gupta – Vice President – Marketing, Mr. Anuj Jain – Assistant Vice President - Finance and Mr. Rajveer Singh – 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 statements in nature. We will begin the call with 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 our annual results for F.Y 2017-2018. I am happy to share with you that the Company has achieved the highest ever annual profit after tax. The Company registered approximately 17% increase in profit before tax from continuing operations, which is Rs. 720 crores as against Rs. 616 crores achieved during the previous financial year. The profit after tax increased by about 13% to Rs. 480 crores as compared to Rs. 425 crores of previous financial year. Our total income increased marginally to Rs. 7,618 crores as compared to Rs. 7,609 crores of the corresponding year.

The profitability was backed by strong performance of own manufactured urea and better margins in some of our marketed products. During the year we sold 2.07 million tons of urea in comparison to 1.95 million tons sold last year. We also sold 2.56 lakh tons of MOP, which is the highest ever sales

achieved by the Company during any financial year. The DAP sales volume was marginally lower in comparison to the previous year which was partly compensated by higher sales volume of MOP.

I am also happy to inform you that the new project is progressing as per schedule. Necessary civil work related to buildings, equipment foundations and structures are all complete. Construction activity in Offsite and Utility facilities are also complete and those of ammonia and urea plants are near completion. We expect to achieve the commercial production as per schedule by January 2019. Total expenditure on the new urea project till 30th April, 2018, is approximately Rs. 4,200 crores.

I will now request all the 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. We have the first question from the line of Apoorva Bahadur from ICICI Securities. Please go ahead.

Apoorva Bahadur: Sir, I wanted to know the reason behind decline in DAP volume, particularly in Q4. Is it something to do with increase in subsidy under NBS as well? So basically have we postponed our channel push?

Anil Kapoor: You are partially right. We did not want to do any channel push. We had the inventory with us, but we took a conscious decision of not making any channel push.

Apoorva Bahadur: Okay. Sir, there is an increased focus on MOP. So am I correct to assume that the margins were better in marketing of MOP?

Anil Kapoor: These are a little bit of confidential numbers, but I can share that DAP margins were very good and that is why, despite our lower volumes in DAP, we were able to retain our total gross margin in traded products compared to previous year.

Apoorva Bahadur: Sir, if I look at the subsidy numbers, for the subsidy or the loan received under special banking arrangement, that was for partial amount only, is it correct?

Anil Kapoor: Yes but regarding subsidy related matters I will ask Abhay Baijal to respond to your query.

Abhay Baijal: Yes. What you rightly said is in the imported P&K segment, we have been given about Rs. 384 crores as we have mentioned in the presentation. This does not completely cover our entire subsidy which was supposed to have been paid.

Apoorva Bahadur: Okay. So why was this partial payment, any update from the government?

Abhay Baijal: Because the funds that were given were only to that extent. The total subsidy that was given, if I am not wrong, was Rs. 7,000 crores. It covered only on-account claims and not the balance claims.

Apoorva Bahadur: Okay. Lastly just some update on DBT. If you could provide the implementation and impact, if any, if it is visible?

Anil Kapoor: DBT implementation is going satisfactorily. Chambal has successfully been able to raise bills of November, December and January sales. We are expecting the government to release the funds any time soon. Initially, there were teething problems but I must say government is working hard on this subject and we expect resolution on all aspects.

Apoorva Bahadur: Still the subsidy has not been paid. Government initially wanted to clear all subsidies within 10 days, that phase has not yet reached?

Anil Kapoor: True. That is why I said there were teething troubles. Any issue of this magnitude, when it is implemented, one anticipates some amount of teething troubles. You would recall November subsidy would normally have been paid in the month of January. And in the previous year we anyway did not get money up to November, December. On subsidy front as far as urea is concerned we are comfortable compared to previous year. It is the phosphatic segment where there is a stretch.

Moderator: Thank you. Our next question is from the line of Siddharth Mohta from Principle India. Please go ahead.

Siddharth Mohta: Sir, can you please provide some update on new energy norms which were supposed to be effective from 1st of April, 2018?

Anil Kapoor: New energy norms effective 1st April, 2018, has been implemented. The way it has been implemented is, units which had achieved their energy norms, which is, in case of gas based fertilizer plants will be 5.5 million kilocalorie per ton, they will be now getting 5.5 and units which were higher than 5.5 and there are other segments like the one which was 6.5 etc, who have not achieved, they have been penalized by a very small amount and two years' extension has been provided to all those units. As far as Chambal is concerned, since we have efficient units we qualify below 5.5, hence our new energy norms will now come down to 5.5 million kilocalorie per ton effective 1st April, 2018.

Siddharth Mohta: And sir earlier it was how much?

Anil Kapoor: Earlier as far as Gadepan-I was concerned, it was 5.587 and Gadepan-II was 5.533 million kilocalorie per ton.

Siddharth Mohta: Okay, so it was 5.587 and 5.533?

Anil Kapoor: That is right, which will now be 5.5.

Siddharth Mohta: In both the cases, so it means that it will be losing some benefit which was there till FY18?

Anil Kapoor: True, we would have a financial loss.

Siddharth Mohta: And sir if you can just quantify how much that will be?

Anil Kapoor: It will be approximately Rs. 25 crores.

Siddharth Mohta: Including both the units, Gadepan-I and Gadepan-II?

Anil Kapoor: Rs. 25 crores on an annual basis.

Siddharth Mohta: Including both the plants?

Anil Kapoor: Yes, that is for both the units.

Siddharth Mohta: At current DAP prices, do you think that we will be able to maintain FY18 margins?

Anil Kapoor: As far as urea is concerned we have no problems. As far as DAP is concerned, it had to be tested. You know rupee has depreciated substantially and the entire industry is in sort of a flux right now, prices have been increased but yet after taking the price increase, margins are slightly stretched at this moment. As far as Chambal is concerned, since we were carrying some amount of old stocks, as far as Q1 is concerned we are comfortable, Q2, Q3 remains to be seen.

Siddharth Mohta: And sir finally, can you also update on IPP that is the capacity which we generally produce beyond cut off, so there has been some change in formula or whether it is status quo?

Anil Kapoor: There is no change in formula, IPP plus cost plus customs, etc., which the Secretary Fertilizers has within her powers, is still there. Personally, I believe as far as Chambal is concerned, since we are efficient at the current IPP, we should approximately be able to retain our earnings.

Siddharth Mohta: So, earlier it used to be IPP plus \$15, then they have revised to \$25 for one year and upper cap was around Rs. 2,300, so that continues to be there?

Anil Kapoor: That \$10 that was given, there was a caveat, it can be structured and increased and the powers are given to Secretary Fertilizers.

Siddharth Mohta: So currently it is at what, IPP plus \$15 or \$25?

Anil Kapoor: Right now, it is \$15, can be enhanced to \$25 comfortably because that is the past practice. Beyond that also, I do not know whether Secretary Fertilizers will do it, but I think some powers have been given to her.

- Siddharth Mohta:** So in quarter four they have given what, \$25 or \$15?
- Anil Kapoor:** Chambal would be comfortable at \$25. We should be able to get our entire margins. You see there are few companies only who are efficient and both plants are fairly comfortable, even though the IPP has now come down a little bit and gas prices have increased a little bit. So there is a squeeze but we shall be able to manage.
- Siddharth Mohta:** And sir if you can also update on the gas prices which has gone up. So what are the current gas prices?
- Anil Kapoor:** Gas prices currently are at approximately \$11.6 /mmbtu April pooled price on NCV basis.
- Siddharth Mohta:** Sir, now generally beyond this cut off whatever increase in the gas prices it will dent our margins also, is that the correct assessment?
- Anil Kapoor:** You see the way it works is, government will give us IPP plus say \$25, and on the cost side you have got this gas at 11.6 / mmbtu and energy level at which you operate, there is a differential available. Does that differential cover all your Rs. 2300 plus cost, that is the way to calculate. With the rupee at 67 vs. USD, you need lower difference between IPP and cost. So what we see for Chambal, we should be okay.
- Siddharth Mohta:** And sir just one question, globally we are seeing that ammonia prices are going down and it looks that for the time being, a year or so, ammonia prices will continue to be at lower level. Sir, so how we can benefit from lower ammonia prices?
- Anil Kapoor:** We do not manufacture DAP in India, but we can probably negotiate with our suppliers for lower DAP price, but I am sure you are aware that phos acid prices have increased to \$730 per ton and at these acid prices manufacturing of DAP is a stretch in India.
- Moderator:** Thank you. Our next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: I was just on the presentation and noticed that there has been significantly higher production of urea than sales. So, can we expect in 1Q the inventory will be completely sold down whereas the production can remain at the normal level?

Anil Kapoor: In fact we are in the process of putting Gadepan-III which will start commissioning process by end of the year. So if we were not comfortable selling then we should not have been putting the Gadepan-III project.

Amit Murarka: No, what I mean to say is that the production will be normal, I mean in 1Q production will not be hampered?

Anil Kapoor: Absolutely, production will be normal. The Company has taken a conscious call not to stock the channel. And anyway, now subsidy is given when the material is sold to the farmers through POS machines which will happen in the month of June and July. So there was no point in selling it to the channel and giving them extended credit terms. So it is better to carry it in your books, selling is not a problem, we will be able to sell it even at middle of the night.

Amit Murarka: And on this trading, currently how do you assess the situation regarding DAP prices versus domestic manufacturing, because I believe the domestic manufactures have not raised the prices in the market, the retail prices, even though your phos acid imported price for them has gone up. So how do you assess the current situation for imports then?

Anil Kapoor: Manufacturing question you should ask manufacturers, it would be unfair for me to answer. Even though I am a manufacturer of phos acid in Morocco, but as far as prices are concerned we have increased the prices of DAP in the market. The current MRP has been increased by Rs. 1,000 and the current MRP is now Rs. 25,000 by most of the industry players. But at this level also margins are tight.

Amit Murarka: And just lastly on the DBT, so you are not seeing any issues as of now. Do you think the system and all is coping up well, whatever the higher volumes that we see in this kharif season?

Anil Kapoor: Teething troubles?

Amit Murarka: No, I mean to say is the system ready to cope up with the higher volumes that is expected to come through in the season?

Anil Kapoor: That we will have to see it in the season what happens, it is too early for me to react on that. But I am quite sure, they will be able to resolve the issues.

Moderator: Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Sir, a few questions from my side. First, can you highlight what is the level of channel inventory in NPK fertilizer today in our core markets? And this price increase that you are highlighting, has it got passed through or you see certain risk of this not getting adjusted in the market?

Anil Kapoor: Which segment are you referring to, Rakesh? Urea or NPK?

Rakesh Vyas: NPK. In the NPK, the channel inventory that exists and the price increase that we have taken as industry, has it gone through or you expect that there could be some moderation in price ?

Anil Kapoor: There is hardly any channel inventory in the segment in which Chambal Fertilizer is, because I can only react to the situation in our territory. Our territory is predominantly, a DAP territory and channel inventory is not much.

Rakesh Vyas: So should we expect that in current fiscal FY19, we should revert back to our earlier level of volumes in DAP. Given that if there is a normalized demand, we should be able to cater to our earlier numbers of more than a million ton of sales?

Anil Kapoor: We expect to do that.

Rakesh Vyas: Second question, this de-escalation of more than Rs. 500 crores, how does that gets accounted in P&L, already it is prior year getting adjusted?

Abhay Baijal: See, Rakesh what happens is when the management estimates income on subsidy that part is already factored in. We do not accrue that income because we are correctly estimating on the basis of gas prices and other parameters. This is because the government sometimes keeps giving you the old rate, they mop-up after they have done the calculation which may take some time, so this is the result of that. In the accrual part, we are absolutely accurate, may be a few lakhs here or there in terms of what we actually finally receive from the government.

Rakesh Vyas: So this mop up has been done till which year, sir?

Abhay Baijal: This mop up was with respect to the financial year FY16-17.

Rakesh Vyas: Sir, secondly, the other expenses has increased again. Is there a fixed component or is there anything else that we should look as one-off or anything?

Abhay Baijal: No, what is happening is, last time also I explained this fact. As per the current standards of accounting of foreign exchange hedging, on the quarter end date, we are valuing both the balance value of the hedge and the ERV from spot. If we are in-the-money in the hedge, it becomes positive which goes into the other income part and to the extent that it has moved from the initial spot estimate, it becomes an ERV loss. So there is a contra entry in the Other Expenses. So both ways there is plus and minus of similar amount.

Rakesh Vyas: Have you quantified the impact of FX in the quarter?

Abhay Baijal: About Rs. 22 crores to Rs. 23 crores.

Rakesh Vyas: This share of JV in consolidated numbers, this I believe pertains to IMACID number that we are reporting?

Abhay Baijal: Yes, you are right.

Rakesh Vyas: And this is for calendar year 2017?

Abhay Baijal: Yes.

Rakesh Vyas: And how has been their overall utilization or performance, if you can just highlight given that now phos acid prices have also moved up. So should we expect better profitability from there on year end and better volumes or they have been operating at optimal capacity?

Anil Kapoor: The plant is running at optimal capacity, I do not think it can go further. We are doing a minor debottlenecking this year. Post that debottlenecking, we should be able to increase the capacity. As far as margins are concerned, we do expect better margins this year.

Moderator: Thank you. Our next question is from the line of Mahantesh Maralinga from Finquest Securities. Please go ahead.

Mahantesh Maralinga: Sir, for a question asked before, you just mentioned about some financial loss of Rs. 25 crores per annum for the two plants, can you just clarify what was that loss for?

Anil Kapoor: Yes, that is the energy compensation which the government was giving to us earlier vis-à-vis what they will reimburse to us this year.

Mahantesh Maralinga: So that will be reduced you mean?

Anil Kapoor: Yes. That is what I was saying earlier, the norms have been revised. The norms effective 1st April, 2018, it has reduced to 5.5 million kilocalories per ton of Urea.

Mahantesh Maralinga: Okay. But the amount which was paid earlier will not be paid this year?

Anil Kapoor: Amount which was paid earlier will not be paid this year, you are absolutely right.

Mahantesh Maralinga: Okay. But you will also be saving on energy also, on the gas?

Anil Kapoor: See, Rs. 25 crores from a Chambal balance sheet is not a very large amount. Moreover Gadepan-III coming in this year, Rs. 25 crores will really not impact our bottom-line.

Mahantesh Maralinga: Sir, you were also mentioning about the penalty that will be levied for other manufacturers who are not meeting the norms. What might be the penalty? Is it just a marginal penalty or how it will be circulated?

Anil Kapoor: It is very minor, I think first year is 2% and then goes to 5%. But that is not applicable to Chambal, so it was for companies which are not achieving the norms.

Mahantesh Maralinga: And sir coming to the DBT part, is it applicable pan-India. It is already on stream or it is few parts of country and how is that?

Anil Kapoor: DBT is across the country.

Mahantesh Maralinga: It has been operationalized already or it is just in the final stages, what is the percentage pan-India?

Anil Kapoor: Now, implemented pan-India.

Mahantesh Maralinga: Okay, so there is no subsidy base, everything will be farmers to POS?

Anil Kapoor: Everything is POS and the biggest advantage here is that in our earlier regime, we used to have balance claim which would get stuck for four, five years. Now that balance claim issue is not there anymore.

Mahantesh Maralinga: Sir, what will be the impact on your working capital, it might reduce because of that?

Anil Kapoor: Working capital is neutral, we did our calculation. It is absolutely neutral, we do not have any positives or negatives.

Mahantesh Maralinga: Any other impact from DBT, any benefit for you?

Anil Kapoor: Pardon me?

Mahantesh Maralinga: I mean on sales front or something, is there any benefit on sales or what?

Anil Kapoor: It does not increase the sales, in the long run, it will ease the way we work and I am quite sure in the next few years, the government will implement DBT

to the farmer. And when that happens, can you imagine the entire industry will be unshackled.

Mahantesh Maralinga: Sir, currently for example there might be many land owners, there might some tenant farmers, how is it done there?

Anil Kapoor: DBT is through POS machines, linked with Aadhar cards.

Mahantesh Maralinga: But actually, one should be a land holder or he should be a tenant farm holder, how is that?

Anil Kapoor: He should just hold an Aadhar card.

Mahantesh Maralinga: There might be some siphoning-off for industry or some other reasons, if that is the case?

Anil Kapoor: That is the government intention to curb diversion of fertilizer to non-agriculture use. Through this mechanism they will be able to curb this tendency.

Mahantesh Maralinga: That is true, but even a non-farmer, by just showing Aadhar card can get the fertilizer at lower prices?

Anil Kapoor: He will be able to get it, but the government is also now tracking what is the sales taking place through each Aadhar card. So they will be able to track if there is a large volume taken and industry can pick up few bags here or there. But that does not help the industry, industry needs volumes.

Mahantesh Maralinga: Sir, I was just reading the news sometime back that this neem coated urea can still be used for industrial use, is it true?

Anil Kapoor: I am not aware of that.

Mahantesh Maralinga: I mean it can still be removed from the urea?

Anil Kapoor: I am not aware of that. My impression was that they are not able to remove it.

Mahantesh Maralinga: I heard some plants or some small scale industries in Himachal or somewhere in Haryana, I think they do that and supply it to industries or something.

Anil Kapoor: We sell in Haryana, we have not heard this.

Moderator: Thank you. Our next question is from the line of Girish Raj from Quest Investment. Please go ahead.

Girish Raj: Sir, just wanted more clarity on one of your statement that at farm gate price of Rs.25,000, the margin is actually tight. So this Rs. 25,000 MRP would mean 20% increase in farm gate prices and another 16% increase in the subsidy. Can you please throw some more light on that statement?

Anil Kapoor: Girish, I would suggest you people are highly knowledgeable, you can do your calculation. You can take an acid price of USD 730 / MT, take ammonia price at approximately \$300/MT, the norms you are aware of, by what norms the industry converts. Convert it to DAP price and assume that importers are importing at the same price, because I cannot divulge the numbers at which we import.

Girish Raj: What are the imported DAP prices currently and what was it before. Is there much increase on that front also?

Anil Kapoor: Two things have happened. The DAP prices have gone up and we are currently in the range of approximately \$425 a ton and the rupee which was at approximately Rs. 64 last year, we are now at Rs. 67 plus. Now when these two factors you put in and take the average DAP price last year which was approximately \$360, you will get the numbers.

Moderator: Thank you. Our next question is from the line of Rohan of Edelweiss. Please go ahead.

Rohan: Sir, last year we had some drop in DAP and NPK sales from your side that was close to 8.9 lakh ton you did as against 10 lakh ton last year in 2017. So we had industry growth in last year, so it means that you definitely must have lost some sort of market share. What is the scenario this year? How are you

looking at, either you are going up to previous level or looking up to gaining market share again?

Anil Kapoor: Last year, Chambal was very focused on margins and in fact our margins were higher than the previous year. So, despite selling lower volumes, we were able to achieve the total gross contribution we were expecting. This year we expect to go back to our original sales of DAP which we have achieved in previous year.

Rohan: But, sir definitely you had better margin, that was industry scenario. So it should not have done anything with the volume. So I am saying that we have lost some sort of market share. Margin for the entire industry last year was good because the prices were rising. So is it something that trading probably last year was not so positioned as against own manufactured product last year and this year, you see the reversal happening because already you mentioned that domestic manufacturer of DAP may have some margin compression. So is current year FY19 is year of traders once again that used to be scenario almost three years back, four years back?

Anil Kapoor: Typically what happens is that in the month of January, February, we used to sell some amount of DAP which was also like filling the channel inventory which we did not do last year. True you are right, last year there was a large amount of DAP which was manufactured in India, substantially higher than the previous year. This year as far as April production is concerned, I do not know what will happen in the balance 11 months. As far as April production is concerned, the DAP manufactured in India has fallen substantially. And if this trend continues that will have opportunities for Chambal to increase market share.

Rohan: Sir, will you give any idea that average per ton margin you made in trading last year?

Anil Kapoor: Sorry, Rohan, these are things I just cannot share.

Moderator: Thank you. Our next question is from the line of Pratik Tholia from Emkay Global. Please go ahead.

Pratik Tholia: Sir, I just missed this thing, the FOREX impact you said in the fourth quarter in the other expense was around Rs. 22 crores, just if you can clarify that?

Abhay Baijal: That is what I said that these are the entry for the ERV loss, it is factored in the other expenses, is around that.

Pratik Tholia: And if you can just throw some light on how the urea prices you are expecting in the coming quarters on the back of China imports also coming down and gas prices moving up. So globally where do you see the urea prices trending in next say two quarters?

Anil Kapoor: Urea prices as of right now are stable, so we do not anticipate any major changes in urea prices.

Pratik Tholia: So it is currently around I think \$230 and you expect that to remain in the same range?

Anil Kapoor: Last year at which urea tender took place was approximately \$260 per ton.

Pratik Tholia: Okay. Sir, but the imports from China are expected to remain at lower levels?

Anil Kapoor: As far as urea is concerned?

Pratik Tholia: Yes.

Anil Kapoor: Yes. In China, cost for manufacturing of urea has increased. And they manufacture bulk of urea through coal and there are issues around that.

Moderator: Thank you. Our next question is a follow-up from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: Sir, I was just trying to do a rough calculation on the DAP margins. So just to understand this better, when you say that the margin is tight, based on a Rs. 25,000 MRP and Rs. 10,400 subsidy the gross realization in total comes to

about \$530 roughly, a ton. So at \$425 - \$430 a ton, isn't that a strong margin, just to understand?

Anil Kapoor: Amit, I did not get your question.

Amit Murarka: Sir, the subsidy per ton for DAP is Rs. 10,400 and MRP for DAP you are saying is currently at Rs. 25,000 after the hike. That gives the total realization of Rs. 35,400 or about \$530 a ton.

Anil Kapoor: Okay, you must have done the calculation, okay.

Amit Murarka: Yes, I have done that calculation. So you are saying DAP is currently \$425-odd, so that is a \$100 per ton gross margin. I know there will be OPEX and all but still isn't this strong margin per say, because you just mentioned that it is looking a bit tight?

Anil Kapoor: See, few elements of cost which you have not taken. There is approximately 5.5% of custom duty, then there is an impact of GST, while we pay GST on full price at import, the GST recovered from the customer is at Rs. 25,000. So as a result of which there is approximately \$7 or \$8 per ton or approximately \$9 a ton loss which the industry takes. Then, there are stevedoring charges and port handling charges. There is a dealer margin which also goes into it. And then there is an issue of secondary freight. When you take all this together and add up then you look at the margins. What is gross margin to the company, that gross margin will include for company's cost of selling, interest cost and then net margin, and inventory carrying cost, interest, cost of borrowing, I think this is where Chambal is benefitted because our channel cost is very low, our interest cost is low, we are a AA- rated company.

Amit Murarka: Sir, just to confirm, dealer margin is Rs. 450 a ton, or has that increased?

Anil Kapoor: Dealer margin is Rs. 450, he never sells at Rs. 450 per ton. There is a large credit period which you give to the dealer. I can only talk of last year, the dealer margin was in excess of Rs. 800 to Rs. 900 a ton.

Amit Murarka: And generally to understand, inventory will be including shipping and everything. So you pay basically when you place the order, so that will in a way be your inventory?

Anil Kapoor: No, what we are buying is CFR price, so the freight is included in the pricing.

Amit Murarka: Yes, not freight, but just to understand the working capital basically. So payment is made when you place the order for DAP or is it paid on receipt?

Anil Kapoor: We are paying through LC at sight and typically the payment is made to the supplier around the time the material lands in India.

Amit Murarka: Okay, so since then may be that 1-1.5 months should be your selling period and then that is what the working capital would be?

Anil Kapoor: Yes, but to that extent, the inefficiency in the system takes care also.

Amit Murarka: Okay , in terms of subsidy payouts, yes.

Moderator: Thank you. Our next question is a follow-up from the line of Mahantesh Maralinga from Finquest Securities. Please go ahead.

Mahantesh Maralinga: Sir, one more question here. When a farmer typically goes to a fertilizer store, apart from urea when he is trying to purchase a phosphatic fertilizer there might be number of options like DAP, SSP or NPK. How does he choose a fertilizer?

Anil Kapoor: It is over the years the farmer has become very educated. He exactly knows what fertilizer to buy. There is also a push by the government to do soil testing. As a company, Chambal Fertilizer also does approximately 25,000 to 30,000 soil tests every year. Good companies like IFFCO also do soil testing extensively. By now the farmer knows what his soil requires and that is why in north India NPK is not sold much, potash is sold whatever the farmer requires through direct application. And P and N is sold either through urea or through DAP.

Mahantesh Maralinga: Typically a competitor will also be selling slight variant of phosphatic fertilizer, so how does he chose, that is what I was trying to understand?

Anil Kapoor: Competitor is also selling only DAP

Mahantesh Maralinga: Okay, so the same fertilizer is being sold by all of them?

Anil Kapoor: So what becomes important is the quality of DAP which you sell, the quality of produce which you sell. And that is why Chambal takes a lot of effort, a lot of pain in buying our DAP, we only buy directly from manufacturers, we seldom buy from traders.

Mahantesh Maralinga: But what would be the typical price differential between products of different manufactures in the same store or something like that?

Anil Kapoor: There is hardly any, by and large everybody sells it at around the same price.

Mahantesh Maralinga: May be depending on the yield, the farmer will chose the same fertilizer next year and next time also?

Anil Kapoor: Yes. By now the farmer, as I said, is very clear what he wants. North India is a DAP market, in the southern belt, the NPKs are sold.

Moderator: Thank you. Our next question is a follow-up from the line of Siddharth Mohta from Principle India. Please go ahead.

Siddharth Mohta: Sir, for this our new urea plant whether government has also revised the energy norm?

Anil Kapoor: The new urea plant policy is different, there the policy is based on energy norm of 5 million kilocalorie per ton where you are reimbursed your energy. And there is a fixed cost element over that price.

Siddharth Mohta: And just for simplification purpose, so on a per metric ton basis if I have to compare our new plant i.e. Gadepan-III versus I and II, so our EBIT margin per metric ton would be higher by 10% - 15%, is that a safe assumption?

Anil Kapoor: For the new plant it will be substantially higher.

Siddharth Mohta: If you can just quantify, that would be very helpful, if it is possible.

Anil Kapoor: See, these are figures which have already given on the site at various times. There is a government policy, we can post the government policy on our site. And looking at the government policy you can calculate the margins very easily.

Siddharth Mohta: Okay, then I will take this particular thing.

Anil Kapoor: For me to give this statement is very difficult.

Moderator: Thank you. As there are no further questions from the participants, with this we conclude today's conference call. On behalf of Chambal Fertilisers and Chemicals Limited, we thank you for joining us. And you may now disconnect your lines.