



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Q2 FY 2014-15 Results

Investor/Analyst Conference Call Transcript November 7, 2014

Neha Patil: Good Evening and thank you for joining us on Chambal Fertilisers and Chemicals Limited Quarter 2 FY 15 Earnings Call.

Today we have with us the senior management represented by Mr. Anil Kapoor (Managing Director); Mr. Abhay Bajjal (CFO); Mr. M. S. Rathore (Vice President - Legal, Corp Com & CS); Mr. V. K. Gupta (Vice President- Marketing), Mr. Anuj Jain (General Manager-Finance) and Mr. Rajveer Singh (General Manager-Legal & Secretarial). 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 an interactive Q&A session. I would now request Mr. Kapoor to make his opening remarks. Thank you.

Anil Kapoor: Thank you. Good Evening, Ladies and Gentlemen. Welcome to our Earnings Call post declaration of Half Yearly Results for Financial Year 2014-15. I would like to share with you some of the financial highlights for the half year-ended 30th September 2014.

It has been a good quarter for Chambal Fertilisers. We have done fairly well both on the revenue and profitability front. In the first half of financial year 2014-15, our revenue has increased by 8% to Rs. 4,504 crores against Rs.4,180 crores and Profit Before Tax increased by 44% to Rs.296 crores from Rs.205 crores as compared to the corresponding period of last year. In the first half, the revenue of our Fertiliser and other Agri-Input segment went up to Rs.3988 crores against Rs.3690 crores in the corresponding period last year. Revenue of Shipping was up marginally by Rs. 36 crores. However, Textiles was down by Rs.9 crores.

The Government has notified the changes in new investment policy. We find the new investment policy favorable and we will be reverting back to you on the future course of action by Chambal Fertilisers.

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

Prakash Goel: I have primarily two questions; one, with regard to what is the incremental thing that you are seeing on the Urea side in terms of reform, where we are not seeing much beyond this Urea Investment Policy. Is it going to be a comprehensive effort from the government to bring down the subsidy that is being given today or it is just the Urea Investment Policy which has been modified, basically want to get a flavor of what is the incremental stuff that you see in the next six months?

Anil Kapoor: Prakash, at this moment, we are not seeing any movement at the government front on Urea reforms. Discussion on gas pooling is going on, but I think we will wait and see how the gas pooling in power sector is implemented. I think any reforms in Fertiliser sector will only take place after gas pooling has been implemented.

Prakash Goel: Gas price pooling, how would it impact a company like ours in terms of the current operation and future expansion?

Anil Kapoor: It will be favorable to Chambal Fertilisers as far as both current operations and new investments are concerned.

Prakash Goel: Basically, your RLNG cost will come down because you would use more of a pooled gas, but at a system level, the gas which is getting allocated to NTPC for a power side, will get diverted to the entire system in terms of bringing down the system cost?

Anil Kapoor: Power sector gas pooling and Fertiliser sector gas pooling are two different aspects. They are not going to merge the entire gas in the country. So we are only discussing gas which has been allocated to Fertiliser sector.

Prakash Goel: That being the case, the incremental requirement for most of the guys are coming at RLNG cost how would it be helpful in terms of bringing down the cost structure? Are you saying that your proportion of the controlled gas price compared to the peers is lower hence you would benefit?

Anil Kapoor: Yes.

Prakash Goel: Many of your peers are not suggesting that incremental Urea policy is very attractive given the fact that assured buy-back is only for eight years. So where is the source of comfort for Chambal Fertilisers?

Anil Kapoor: The stress for any company is in the first eight years when the loans have to be repaid. Once the loans are repaid, the interest cost for the project comes down considerably. Once the gas is pooled, this project then becomes the lowest cost producer in the country, as it will be the most efficient.

Prakash Goel: But compared to the import, it will not be the lowest cost?

Anil Kapoor: If the gas is pooled, compared to imports also it will be lower.

Prakash Goel: My last question is with regard to the investment in preference share of Upper Ganges entity. Sir, what is the rationale for this investment? And is it going to be a recurring kind of thing or just a one-time thing?

Anil Kapoor: Firstly, this is a one-time thing. It is a preference capital at 12% post-tax return. We found that return to be attractive and since this is a short term investment we have made.

Prakash Goel: What is the tenure for preference capital redemption?

M S Rathore: There is a call option after one year and tenure is upto to five years. It is not a put option, it is a calling option.

Prakash Goel: What is the current credit rating of the company that we have invested in?

M S Rathore: We will have to find out Credit rating, off hand it is not available right now. But we can get back to you.

Moderator: Thank you. The next question is from the line of Balwinder Singh from Batlivala & Karani Securities. Please go ahead.

Balwinder Singh: Coming on the margin side, we have seen that margin performance has been pretty good. So, if you can give some color as to where the margin in Fertilisers has been higher? Have we benefited from low cost inventory in trading?

Anil Kapoor: Basically, the reason is two-fold; one is the margins in non-Urea segment is better and there has been a slight reduction in interest cost because government has paid out the subsidies and market receivables have improved substantially.

Balwinder Singh: But that will be coming below EBIT, the segmental margins that we report?

Abhay Baijal: This year we have accounted for higher fixed cost reimbursement. So that also has an impact in the Urea business.

Balwinder Singh: Sir, is it possible for you to share generally the absolute margin in Urea, not specifically for this quarter?

Abhay Baijal: Urea margin and other margins can be estimated from the numbers which are there. So I do not think it is very difficult for you to figure that out.

Balwinder Singh: Going forward, what is your view on trading? Like in this quarter you highlighted that you have benefited from the low cost inventory because the margins in non-Urea segment was better. So how are we positioned for the Rabi season – are we holding sufficient inventory?

Anil Kapoor: Rabi season is in line with the previous quarter.

Balwinder Singh: Because DAP prices continue to remain elevated globally, so have we done any new contracts or we have sufficient inventory from previous contracts?

Anil Kapoor: We had some quantity from previous quarter and also our volume has increased.

Balwinder Singh: Sir, coming to this gas price increase, have you received any notification from the government regarding the gas price increase; whether the subsidy is going to be increased or you need to raise MRP, how is it working?

Anil Kapoor: No MRP increase is going to take place. Increase in gas price will result in increase in subsidy payable by Government of India.

Balwinder Singh: So this is happening from November 1st?

Anil Kapoor: Yes, this is happening from November 1st.

Balwinder Singh: So subsidy element in Urea has further increased. What is the current subsidy outstanding receivable from the government? And till when it is received?

Abhay Baijal: Accounted upto October 2014, subsidy outstanding is Rs.1,760 crores. Subsidy received in this year, up to October is Rs.4,035 crores.

Balwinder Singh: Sir, how does this subsidy due of Rs. 1,760 crores stands up as compared to last year?

Abhay Baijal: If I were to compare September-to-September, last year September the subsidy outstanding was Rs.1,861 crores and this year is Rs.1,485 crores, so the situation is better.

Balwinder Singh: We have received subsidy till which month?

Anil Kapoor: We have received subsidy totally up to July, part of August and P&K, fully up to August.

Balwinder Singh: Urea till July?

Anil Kapoor: Yes.

Balwinder Singh: This quarter Shipping has done pretty good. I fail to reconcile because when you see the Baltic Index it is continuously falling and has not grown in the last three-four months. So how is that? If you can help me reconcile that?

Anil Kapoor: There were couple of favorable contracts.

Balwinder Singh: So those were spot contracts?

Anil Kapoor: Yes, spot contracts, which may continue in this quarter also.

Balwinder Singh: So this quarter we have done Rs. 22 crores of Shipping EBIT margins. You expect that to continue or what can be the normalized run rate?

Anil Kapoor: Too early to call, let us see how the next 1.5 months goes.

Balwinder Singh: But overall, how is the outlook there?

Anil Kapoor: Outlook continues to be challenging, it has improved from the past, but it is a challenging environment.

Balwinder Singh: How many of our ships are currently on spot and how many on fixed long-term contract?

Abhay Baijal: There is one ship on charter and four are on spot.

Balwinder Singh: If you can just share the IT business outlook and what kind of money is required to be pumped in it this year?

Abhay Baijal: As of now the company has some surplus cash. So at the moment we are not anticipating any further investment in the IT business.

Balwinder Singh: What kind of losses can be expected in IT business this year CY14, since 9-10 months are already over?

Abhay Baijal: Should be of the order of \$8-9 million.

Balwinder Singh: That is PAT?

Abhay Baijal: Yes.

Balwinder Singh: Last year it was how much?

Abhay Baijal: I think it was half of that.

Balwinder Singh: How is this CY15 looking?

Abhay Baijal: We have not got the full visibility into CY15, we have a board meeting coming up in 2-3 days. We will know after that as they would be making the budget for the next year.

Balwinder Singh: Any update on the committee formed on the non-core business?

Anil Kapoor: Not yet, we are looking at all the non-core businesses and as soon as there is some favorable response, we will come back.

Balwinder Singh: But, what is the management's thinking about forming this committee. There must be some rationale behind this?

Anil Kapoor: Rationale is that we will look at a disposal of non-core business.

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

Satish Mishra: Why are Urea volumes low?

Anil Kapoor: We had a shutdown in Urea plant which has affected the volume. We had informed the stock exchange about the same.

Satish Mishra: Our total debt has reduced whereas interest cost are at a higher level. Any specific reason?

Anil Kapoor: There is a greater mix of Rupee debt. Hedging costs for foreign borrowing is accounted elsewhere.

Satish Mishra: You mentioned that you have taken the benefit of Rs.350/ton per Urea, whereas in Urea it was reported that government has asked further data. Where is the situation right now?

Abhay Baijal: We have not taken Rs.350/ton for both the plants, it is somewhere number in between, and that is based on our best estimate of what we will get as per the current policy, and we are in a fairly advanced stage of this. We have had the necessary papers sent to the government and they have also done their necessary inspections.

Satish Mishra: As we now have modified investment policy, so what are our investment plans, are we going ahead with our plans?

Anil Kapoor: Chambal is actively considering investment.

Satish Mishra: It is at what stage, means have we finalized any technical partner, when can we expect the zero date?

Anil Kapoor: We have shortlisted the technical partner. In fact, last year we had received the bid, now we are asking for revalidation of those bid. We are also looking for financial closure, once that is achieved, we will come back and inform stock exchange regarding our intention to invest.

Satish Mishra: Is there any one-off in Textiles like the numbers are very low year-on-year, even quarter-on-quarter?

Anil Kapoor: Textiles business is stressed right now.

Satish Mishra: Even for a coming period also, the outlook is ...?

Anil Kapoor: Outlook going forward seems to be better than the first half.

Moderator: Thank you. The next question is from the line of Gauri Anand from Phillip Capital. Please go ahead.

Gauri Anand: You just mentioned that you have not accounted Rs.350 but something which is below that. So what we understood is that Rs.350 is a minimum ad hoc increase in subsidy that the government allowed. So first, clarify if our understanding is right? The second is, should that also mean there is some upside risk because you have accounted maybe not Rs.350 and something lesser than that? The third question that I have is on quantities beyond cut off limit. What is the current thinking, if you can update on that?

Anil Kapoor: I will take the third question first; as far as quantity above cut off is concerned, government is formulating a policy, at an active stage right now. We are awaiting the contours of the policy I think which should be announced shortly.

Gauri Anand: So it is essentially what you told us in the last call, like it maybe delinking from the international prices and giving you some ad hoc subsidy of about Rs.2400 or so. So, is that understanding right?

Anil Kapoor: There is a cap of Rs.2300. We really do not know. The government has still not finalized the policy, hence it will be very difficult for me to indicate the contours. The moment it is finalized, we will come back to you. And if it is viable, we will produce above cut off, if not viable, we will shut the plant.

Gauri Anand: This Rs.350, is this notified, do you have a formal notification from the Ministry?

Anil Kapoor: It is not yet notified. Government is actively working on calculation of each plant, whether it is going to be Rs.350 or lower. So we have taken a conservative stance. In one plant, we have put Rs.350, in the other plant we have taken a lower number which we believe is what we will get.

Gauri Anand: Just to understand, what is the blended delivered cost of gas for you currently, let us say, for Q2?

Anil Kapoor: \$13 approximately per million BTU.

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

Falguni Dutta: Just one volume question. What was the Urea manufactured during the quarter and YoY?

Abhay Baijal: For the quarter was 503,000 tonnes and the half year ended is 981,000 tonnes.

Falguni Dutta: Q2 last year was how much?

Abhay Baijal: Last year Q2 July to September 2013 was 538,000 tonnes and half year was about 10,00,000 tonnes.

Falguni Dutta: Urea sales for the quarter?

Abhay Baijal: July-September was 537,000 tonnes as compared to the corresponding quarter last year was 569,000 tonnes. This half year April to September was 1,011,000 million tonnes as compared to 1,171,000 million tonnes in corresponding last half year.

Moderator: Thank you. The next question is from Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta: Sir, first question is on putting investment in Urea plant. As you mentioned that though 8-years buyback arrangements guaranteed by the government, is enough to repay your debt and hence interest cost come down significantly. But, you must have worked some calculation in terms of gas prices in long-term. So what is according to you is the minimum level of gas prices one should look at in a local market even at the pool gas prices versus the global Urea prices maybe after 8 years. Have we done some calculation that below that gas level prices will not make sense to produce Urea in domestic market?

Anil Kapoor: Firstly, it is very difficult to forecast what is the Urea price going to be after 8 years, but assuming the Urea price will be in line with what it is today, we will be comfortable to pay gas price between \$13 and \$14 and still compete with international companies.

Rohan Gupta: So if we take the current scenario, you had mentioned that even if the global Urea prices are at \$310-315 and if we get pooled gas at \$14, we still be profitable or it will make sense to produce?

Anil Kapoor: We will be profitable.

Rohan Gupta: Taking assumption that at that time you will be able to repay all your debt?

Anil Kapoor: No, that is why the government has given a guarantee of 8 years to repay your debt. If they are guaranteeing you 8 years subsidy payment, and by which your debt would have been repaid, then you are in a free market scenario. At \$14, we would be fairly comfortable, because \$310 works out to a farm gate pricing of somewhere near \$375-380. So we will have contribution of approximately \$100-110/ton, which is about Rs.6,000 in today's exchange rate. Assuming our conversion cost of \$15, it is a net contribution of 85. So we are talking of about Rs.600 crores contribution after 8 years, all loans repaid. You can yourself do the mathematics.

Rohan Gupta: Though you are sounding very positive on the same policy, but I do not know, even some of the counterparts in the industry are not taking it in a very positive way and they are still rethinking about their decision to whether to go ahead with the new plant or not. I do not know, how the industry will be taking it. The second is that you will be putting a Brownfield plant at your existing facility. Will that reduce your cost of putting the plant or CAPEX?

Anil Kapoor: Yes, the difference between Greenfield and Brownfield is approximately 15-20% of project cost.

Rohan Gupta: Sir, no new plant has been put up at least in last five years. So what is the current CAPEX for 1.3 million which is standard capacity now, so...?

Anil Kapoor: I would like to correct you, there has been no new capacity for last 15 years, and same industry in 1999 were skeptical of putting up of a plant. The only company which put up the plant in 1999 was Chambal Fertilisers. We were confident then and we are confident now. The approximate cost I will not be able to say because we are waiting revalidation of the numbers from the LSTK Contractor. But it will be to the tune of about Rs.5,000 crores.

Rohan Gupta: Still it will be Rs.5,000 crores for 1.3 million ton plant?

Abhay Baijal: Approximately.

Rohan Gupta: Sir, you just shared the Urea volume. Can you also share the traded volume for the quarter and the first half?

Abhay Baijal: In terms of tonnage, we sold half year ended about 4 lakh tonnes of P&K as against last year we did about 3,50,000 tonnes, this includes DAP, MOP and SSP traded. We have done about 250,000 tonnes in this quarter September 14-15 and in September 13-14 we did 270,000 tonnes.

Anil Kapoor: In line with last year.

Rohan Gupta: Sir, you have stopped giving between traded Fertilisers and own Fertilisers. So what would have been average margin for our traded Fertilisers, per ton basis also will be fine if you can share that number?

Anil Kapoor: These are very confidential numbers.

Rohan Gupta: Sir, you mentioned that non-Fertiliser business has done pretty well during the current quarter also probably in first half. If you can share some numbers, would be possible?

Anil Kapoor: What I meant was, non-Urea sector has done well.

Rohan Gupta: So when you said non-Urea, you are talking about traded Fertiliser?

Anil Kapoor: Yes, I am talking of traded Fertiliser.

Rohan Gupta: Now we have resumed almost last to last year level in terms of trading. Do you see that this trading still has a huge potential because now the inventory situation in the market has corrected or you are confident in second half you will be doing much trading than what you have done last to last year or probably in the first half of the year?

Anil Kapoor: It will be in line with first half. More important is Chambal is establishing its place as far as selling of non-Urea Fertiliser is concerned. And going forward, I see a robust outlook for Chambal Fertiliser in non-Urea business.

Rohan Gupta: Apart from investment which you are planning to put in Urea, are you also planning further investment in Complex Fertilisers, because now you have made huge market for yourself or you always want to depend on trading in Complex Fertilisers?

Anil Kapoor: You should not forget Chambal was the first investor in Phosphoric Acid plant in Morocco. We still have 33% share in that plant and...

Rohan Gupta: So whatever investment happening is outside India?

Anil Kapoor: What manufacture takes place with imported acid, is just tolling off that acid in India. It is a very small conversion cost game. We are talking of a conversion cost of that acid, is approximately \$20-25. Whether I do it in India or I do it overseas, it does not really matter. Once I bring the acid in and I bring the ammonia in, the conversion cost is \$25. That is all. How does it matter if I make in India or I make in overseas? Because from a variable cost perspective, 80-85% of the input is imported.

Rohan Gupta: Sir, You want to indicate probably that if investment will happen in Complex, it may happen more in a tie up for Phosphoric Acid or maybe Ammonia globally, not in India?

Anil Kapoor: I have not said that. At this moment our focus is Urea expansion, we are focused in that, we would like to first complete that investment, then only look at any other capital investments, so first we would like to concentrate on our third Urea plant.

Rohan Gupta: Sir, there has been significant reduction in probably investment in your Fertiliser business. I am talking about the total invested capital. I think that is primarily coming from the reduction in subsidy and also from payment from your dealers. So what is the credit terms you are offering to your dealers right

now in both Urea as well as in Complex Fertilisers? I understand in Urea hardly you have ever given any credit days.

Anil Kapoor: These numbers are there and is a very confidential statement. But Chambal credit line is always lower than the competitors, we are the lowest in the marketplace.

Rohan Gupta: From industry, we have been hearing the high inventory in Complex Fertilisers have always been highest in north markets. So, has that been corrected in north market also – there is a very absolute normal inventory in those market or still you have higher Complex Fertilisers inventory?

Anil Kapoor: North India is not a Complex Fertiliser market business, it is DAP business.

Rohan Gupta: Or DAP I meant, sorry sir.

Anil Kapoor: DAP inventories have come down to reasonable levels.

Rohan Gupta: At the old level or a slightly higher than that?

Anil Kapoor: No, at old level, it is not slightly lower.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Chambal Fertilisers and Chemicals Limited that concludes this conference call.