CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Quarter 1 FY 2015-16 Results

Investor/Analyst Conference Call Transcript
August 11, 2015

Neha Patil: Good morning and thank you for joining us on Chambal Fertilisers and Chemicals Limited Quarter 1 of FY-16 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. Anuj Jain – Assistant Vice President- Finance and Mr. Rajveer Singh - Assistant Vice President- Legal and Company Secretary. Before we begin, I would like to add that some of the statements 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 will now request Mr. Anil Kapoor to make his opening remarks. Over to you Sir. Thank you.

Anil Kapoor: Good morning Ladies and Gentlemen, welcome to our first earnings call of FY-2016 post declaration of quarterly results. I would like to share with you some of the highlights of the first quarter ended June 30,2015. It has been a decent quarter for Chambal Fertilisers; we have done well both on revenue and profitability front. Our revenue has increased by 22% to Rs. 2440 crores against Rs. 1996 crores and profit before tax has increased by 67% to Rs. 204 crores from Rs. 123 crores in the corresponding quarter, last year. The revenue of fertilizers and agri- input segment went up to Rs. 2184 crores, an increase of 25% over corresponding quarter last year. The revenue of shipping segment went up by Rs. 32 crores while textile went down by Rs. 25 crores. As you are aware, we have entered into business purchase agreement with Sutlej Textiles and Industries Limited for sale of our textile business. Profit before interest and tax for fertilizers and agri input segment in Q1 is Rs.189 crores, shipping is Rs.22 crores and textile is Rs. 7 crores. As mentioned earlier, we have done better in fertilizer and shipping. The coming months will be challenging for our fertilizers and agri input division due to uneven monsoon in the country leading to excess rains in some states and deficient rains in others.

I will now request all the participants to ask questions, you may have with regards to the result. It should also be noted that we are covered under code for fair disclosure of Un-published Price Sensitive Information. Hence due to this code, I may not be able to give too much forward guidance but within this code, I will try and give as much information as possible. Thank you.

Moderator: Thank you very much Sir. Ladies and Gentlemen we will now begin the Q & A session. We have first question from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel: Congratulation on a very strong set of numbers. Sir two questions; one with regard to shipping division, we have been given to understand in past that once the cycle recovers we would look forward to divest this divison . So what is the progress made on that side?

Anil Kapoor: Those are price sensitive information.

Prakash Goel: Basically, we are more interested on the strategic side of the story rather than what is actual progress per say.

Anil Kapoor: As regards strategy, we have maintained in the past also that Chambal Fertilisers is always on the lookout for strategic partners for both; software and shipping business.

Prakash Goel: That answers actually my second question. What has led to superior performance in the Urea segment compared to the peers in this quarter? Your peers have struggled during the quarter because of the gas pooling policy not getting notified on time and the lack of price disclosure or lack of agreement on the prices on the NPK side whereas your company has done exceedingly well on the fertilizer segment, so if you can narrate what has been the reason behind it?

Anil Kapoor: Regarding my peers and my competitors, I will not be able to answer.

Prakash Goel: No I am just saying versus industry.

Anil Kapoor: I can only give you information regarding Chambal. In this quarter, our production has been higher, by approximately 53,000 tons and that reflects an increase in profitability in fertilizer division and as far as trading is concerned we have been consistent, even though the margins have been lower compared to last year, that is why if you look at it from a gross margin basis, we are down this year compared to last year.

Moderator: We have next question from the line of Falguni Dutta from Jet Age Securities, please go ahead.

Falguni Dutta: On the fertilizer division, can you tell me the urea sales volume for the quarter versus the same time last year?

Anil Kapoor: This year we sold 525,000 tons compared to 474,000 tons last year.

Falguni Dutta: How is the gas pricing policy working ? I mean what I understand is, the debits credits are yet to get cleared. In your case, Chambal would be the recipient of the benefit because your actual contracted price would have been higher but the pooled price is lower. But, is the policy is working fine in general?

Anil Kapoor: Falguni, the policy in effect has been in place from 1st June 2015. For month of June, they have now announced the pooled price and we have been given to believe that all the modalities are now complete and GAIL will now be asking for companies who have got cheaper gas to pay up and companies who have got high cost gas will be paid. We expect that whole process to be completed in the next 10 days. Since this was the first month, there has been a delay and we have been given to understand that going forward, this process will be faster. As far as Chambal is concerned, in Gadepan-1 , our existing price is approximately equal to the pool price, so we do not get much impacted, it is in Gadepan-2 where we get our benefit of lower cost.

Falguni Dutta: And sir, our interest costs this quarter has been quite a bit lower but the subsidy situation still remains worrying, I mean to say the outstanding dues from the government. So how did you achieve lower interest?

Anil Kapoor: Better receivables from the market. Our net outstanding from the market has come down substantially and we have been able to recover practically all our cash which is outstanding from the market.

Falguni Dutta: On shipping, how is it doing currently; I mean this is the sector I do not follow? So how has it done. I mean in Q2 , have things improved significantly in shipping and how is it now in short?

Anil Kapoor: Shipping is a segment which goes up and down every month. So, for us to give a forward call is difficult but what we can say is that going forward we expect the shipping division to do better than last year.

Falguni Dutta: And as of now, is it doing better than what we did in Q1, I mean just to understand the direction now?

Anil Kapoor: Directionally, we would be at par or slightly better than Q1.

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

Satish Mishra: Sir, first question is related to the channel inventory, you mentioned in the opening remarks related to the uneven rains. So what sort of challenges we should look forward to, in the context of channel inventories?

Anil Kapoor: See, we are slightly fortunate as far as Chambal is concerned. The rainfall in the segment in which we operate, has been decent. I would not say very excessive but it has not been bad either and if you look at the DAP balance sheet as of right now, last year we sold 7.6 million tons and there was an opening inventory of approximately 1.5 million tons. If you look at it, this was approximately 8.8-9 million tons. This year, there was very limited opening stock. The purchase so far until the month of July has been approximately 3.2 million tons and we expect approximately 2.8 million tons for the arrivals going forward. These are country numbers. There should also be a production of approximately 3 million tons. So, I expect that the country's requirement will be met comfortably. As far as the challenges are concerned, companies who get their act right and do not give too much credit in the marketplace and run their operations tight, will survive. If companies go into a phase which we went through in 2012-13 where excessive credit was given into the market and then receivables deteriorated, those are the companies which will suffer.

Satish Mishra: And sir related to subsidy receivables, if you can give some sense related to March to June outstanding.?

Anil Kapoor: As far as market is concerned, those are confidential numbers but as I had said in my earlier statement our market receivables are down to absolutely bare bottom. As far as government subsidy receivable is concerned, I will let Abhay Baijal answer that question.

Abhay Baijal: As of March end, we had a total subsidy outstanding of Rs. 2672 crores vis-a-vis Rs. 2348 crores as of June end.

Satish Mishra: Sir it means the majority of the interest saving was related to farm receivables?

Anil Kapoor: That is right.

Satish Mishra: Why is our Other Income so high in this quarter?

Anil Kapoor: Reasons for high Other Income are dividend receipts - Rs. 19.32 crores from IMACID, our Moroccan venture and Rs. 17.96 crores from our Singapore subsidiary - India Steamship PTE Limited.

Satish Mishra: Sir regarding production beyond re assessed capacity, will we take that into account in each quarter or we will do that only in Q4, the way we used to do while it was under IPP regime?

Anil Kapoor: We continue to have the same accounting system, we take it in Q4.

Moderator: Next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: On the urea front, I wanted to understand couple of policy changes - one your energy benefit has been cut down and on the production side you will benefit from the pool pricing, so just wanted to understand the net effect of all this?

Anil Kapoor: I will give you a broad statement Amit. For Chambal, it will be literally a zero sum game. There could be marginal gain or marginal loss but it is nearly a zero sum game because of the policy.

Amit Murarka: But what is the new energy norm now for Chambal's plants?

Anil Kapoor: See government has not disclosed it yet; hence it will be difficult for us to go public with it. I am bound by those codes. You will appreciate that I have to follow those codes very carefully and I can't disclose anything in this call that has not been made public.I will be happy to answer all the questions about the previous quarter and about the industry in general, as you people know that I am the first person to share the entire industry issues.

Moderator: Next question is from the line of Balwinder Singh from BNK Securities. Please go ahead.

Balwinder Singh: Sir, firstly on IT business, what kind of outlook do you share for CY 2015 and what is the kind of losses that we foresee there?

Abhay Baijal: See, as far as the outlook is concerned, it will be more or less on the lines of last year. There is very little difference in terms of the profit number or the loss numbers.We are also running at the same rate up to Q2 .

Balwinder Singh: And what was the last year's loss, if I recollect, it was to the tune of around Rs. 55 crores?

Abhay Baijal: Yes so, it will be around similar this time.

Balwinder Singh: And secondly, if you can briefly explain the broad contours of the new policy and when you say that it is kind of a zero sum game for you, you must have done some calculation based on which you are saying that. So if you can just reflect on that, not exactly the details of the policy but some broad contours of the policy?

Anil Kapoor: I will give you the broad contours of the policy. What does the policy do; they have taken our previous norms on energy. They have taken the last 3 years' actual energy. They have first calculated the average of last 3 years and then they have taken the average of last 3 years with our norm. I am giving you a hypothetical case,supposing a company's norm was 6, and its last 3 year average was 5.5.they will again average 5.5 and 6, which becomes new norm that is 5.75. And this is for 3 years, subsequent to that there are preset numbers which is given to each group. This is what happens on the energy front. The Government of India has declared in the month of June the pooled gas price of $10.6 per million BTU. India has imported Urea in the first 4-5 months at an average price of approximately $280 to $290. This is on a CFR basis plus Government gives us some handling charges which is not yet disclosed. Last year, they were giving Rs. 1500 for those miscellaneous charges. Now, you can do the calculation. You know Chambal's energy number at which we have normally run. We should be in a position to make the additional production, so there will be a loss in energy, there will be a gain in additional production and that is why I said, it will be a zero sum game.

Balwinder Singh: And broadly, what is the kind of per ton margin on a sustainable basis, not looking on a quarterly basis, but over a medium term, what is the sustainable EBIT per ton that as a company you want to achieve?

Anil Kapoor: See, it all depends how the government pays our subsidy as Mr. Baijal has just mentioned, our government subsidy outstanding at this moment is around Rs. 2300 crores. As a company, we have tried to keep our fixed cost the lowest in the industry and that is one reason why in a pressure situation, Chambal will always survive and you can see from the last 5 years, we have consistently performed better as compared to the industry.

Balwinder Singh: You said that more or less it seems from your comments that lowering of farm receivables has led to your reduction in interest cost but at the same time I see that the markets sentiments in rural India are not very good, so am I reading something wrong in this?

Anil Kapoor: As I said in the beginning, it depends on company to company, some companies run a very tight ship in the market and there are some companies which throw away good money into the market. So each organization will have a different play in the market.

Balwinder Singh: So what is the credit you give on DAP trading that you do?

Anil Kapoor: It also depends on a State and time of the year.For example, if I am selling in June, I will not give any credit but suppose it comes in the month of August, the season is somewhere in September end or October middle; we will give credit in states where we are confident that the money will be given to us on time else we will continue our operation on cash and carry.

Balwinder Singh: And what is the leeway that you give in terms of say, 2 months?

Anil Kapoor: Yes. So sales in August would imply a credit of 2 months.

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

Rohan Gupta: One question on subsidy; just wanted to check the current pending subsidy by June, you mentioned was Rs. 2348 crores. How much is pertaining to previous year?

Anil Kapoor: Can I get back to you, it is little difficult to say right now because there are both current year and previous year components.

Rohan Gupta: Second question once again on subsidy.We have seen in first quarter, a sharp increase in complex fertilizer usage in the industry at least aggregate numbers say so that almost 40% consumption has been there, while the provisioning of the Government in the start of the year was almost equal to previous year for the complex fertilizer. Do you see that even this year also, we may face a situation that after September-October Government may dry down on all the provisioning they have made for the complex fertilizer and can cause an increased working capital for the industry?

Anil Kapoor: Yes.

Rohan Gupta: So with the current rate, even the current subsidy will not last more than, may be, September-October and then do you see if there are any plans of revision in subsidies and additional subsidy provisioning during the year or it will only happen in the next budget?

Anil Kapoor: We will make efforts because things are deteriorating. For example, last year we got subsidies up to x month, this year it may be y and y would be lower than x, so things continue to deteriorate. So we are making efforts with Government to come up with some supplementary grants.

Rohan Gupta: Next question on a strategy level, though I respect your code of conduct and with the new norms, I just like to understand the company's strategy going forward as almost Rs. 500 crores, free cash flow is generated every year and you have recently shown an inclination towards hiving off your textile business and also if opportunity arises, shipping business also. So where do you see that company will make its future investment and which part of the Agri business, you will be most comfortable by putting your money or the cash flows which you are generating?

Anil Kapoor: Good question Rohan. One of our reasons for reduced interest cost is also cash profit which we have been generating in the previous years. And that has also been ploughed back into our business. As far as Chambal Fertilisers is concerned, we have said in the past that we are actively looking at investments. As and when we take a final decision and the board approves it, we will come back in public with it. For us, that is the primary focus at this moment.

Rohan Gupta: Sir, you definitely appreciated my question but I did not get a satisfactory answer still but it is okay.

Moderator: Next question is from the line of Gauri Anand from Phillip Capital. Please go ahead.

Gauri Anand: Just wanted to know, this question is again on growth in outlook for Urea business. Last we were told, you intend doubling your capacity at your current site and you were also short listed to partner with ONGC to excavate the Tripura gas find, so what is the update there?

Anil Kapoor: We have an MoU with ONGC, you are absolutely right for our Tripura project. At this moment we are actively working on our Gadepan-3 project. As soon as we finalize the details, we will take it to the board and announce it to the public. But as a company, we are committed to Gadepan-3.

Gauri Anand: Then you have not finalized your funding and CAPEX yet and those details you will let us know later but you are committed to expanding.

Anil Kapoor: Absolutely, after we discuss in the board.

Gauri Anand: Okay and sir there are so many assets on the block, are you still keen in pursuing your Brownfield expansion or would you also look at acquisitions and consolidation?

Anil Kapoor: On a lighter wane, we have read some valuations in the newspapers and those scare us and if and when this investment is made by our company and we find the valuation right, Chambal would look at it but as I said, Gadepan-3 is a long term plan for Chambal. After all whatever is available in the market today, all plants are 25 years old. They are 94 vintage, so that is approximately 30 years old and new plants are with current technology, very efficient plant, so those will be futuristic.

Gauri Anand: Understood, so can you give us some sense on the CAPEX for a Brownfield expansion at today's cost?

Anil Kapoor: Sure. A Brownfield expansion in India would cost between $850 million and $950 million.

Gauri Anand: And a Greenfield will be about $1 billion ?

Anil Kapoor: Greenfield depending on site can be higher. It could even go up to $1.1 billion and internationally a Greenfield will cost upwards of $1.5 billion.

Gauri Anand: Any timelines, by when you would be able to crystallize on your expansion plans?

Anil Kapoor: As I said, we are actively considering it, as soon as we finalize it, we will announce it to the public.

Moderator: Next question is from the line of Chintan Seth from SKS Capital & Research. Please go ahead.

Chintan Seth: A bit stretching again on CAPEX and growth part; you are strategically looking at active investment plan. It will be totally in the Agri-commodity business or you will shift to other business?

Anil Kapoor: You are absolutely right Chintan. We will stick to Agri-business. We are committed as a company on two fronts; one is to expansion of the capacity and on the other front is to increase our market share in Agriinputs.We are fortunate that we are in a business segment which is witnessing good growth.

Chintan Seth: So in Agri, we are currently in complexes mostly on Urea, DAP, NPK; are we looking into more specialized like insecticides, pesticides or seeds business investments or you will stick to your core business of Urea and Complex Fertilizer?

Anil Kapoor: Chintan, Chambal Fertiliser, itself has a very large volume of pesticides and insecticides. We do business upwards of Rs. 300 crores and we are into the seed market.Last year we had sold I think upwards of 17,000 tons of Varietal wheat seeds. So in all the Agri-input segments, Chambal is sort of a dominant force in the segments in which we operate.

Chintan Seth: And can you give us your debt figures as of June that is on consolidated as well as on standalone basis?

Abhay Baijal: The total debt figures as of June including long and short term debt was Rs. 4042 crores.

Chintan Seth: On a consolidated basis?

Abhay Baijal: No, this is the standalone figure.

Chintan Seth: Okay and what will be that figure on consolidated?

Abhay Baijal: On consolidated results, we are not publishing it.

Chintan Seth: So, this figure obviously on a seasonality basis, it moves up and down depending on your working capital cycle. Any broad guidance in terms of how are we looking to reduce it or any debt-equity leverage ratio you are having in mind to sustain over the longer term in 2-3 years?

Anil Kapoor: We can only reduce it if the government gives the money on time. As Abhay had mentioned, government owes Chambal at this moment around Rs. 2300 crores.

Chintan Seth: So net of debt will be Rs. 2300 crores.

Anil Kapoor: Net debt is Rs. 1600- 1700 crores and bulk of it is a long term debt in shipping. If you look at it from a working capital of a fertilizer division, net of receivables on Government due, net of our long term loans of shipping divison, we are down to hardly Rs. 700 crores, even less than that probably.

Chintan Seth: So what is the shipping debt?

Abhay Baijal: Shipping debt as on June end was Rs. 897 crores.

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

Rohan Gupta: Just a quick question on our interest cost.Even if I strip off shipping debt, that is roughly Rs. 1000 crores you mentioned, so on Rs. 3000 crores of debt we paid almost Rs. 33 crores interest; that is roughly 4% interest cost on an annualized basis, so why such a low interest cost, if you can just give that number?

Abhay Baijal: See, we finance the majority through buyers' credit. For our trading business, we have the facility of import through buyer's credit. When we actually show you the interest numbers, the amortization of the premium is treated as other expense in the expense side. So what you see is actually the interest debit which is LIBOR plus a small amount. So it is not a very high rate of interest. The shipping loans are all dollar denominated loans. So the number is a quite low.

Rohan Gupta: How many days buyer credit right now we are getting?

Anil Kapoor: Majority of it is Buyer credit. Out of the total Rs. 3000 crores of short term borrowing, it is roughly 85%.

Rohan Gupta: So whenever we do high trading, then we avail this buyers' credit facility, right?

Anil Kapoor: That is right, yes.

Rohan Gupta: So, are these suppliers considerate in view of Indian Government making so much delays in the payment of subsidies. They consider that factor and that is why the Indian companies are able to enjoy such a high buyers' credit or that is a general practice these suppliers follow?

Abhay Baijal: It is not the job of the suppliers to ask us how we finance the import because this is purely on sight LC. We pay them off on sight LC. We are able to access the market because of our better rating.

Anil Kapoor: It is not the suppliers' credit; it is the buyers' credit. So it will also depend on the company's rating.

Rohan Gupta: So it will be only available if we will be doing imports and DAP trading,That will define the buyers' credit availability, right?

Anil Kapoor: And the rate of buyers' credit, it depends on the company's rating, not everybody can access.

Moderator: Ladies and Gentlemen, that was the last question. On behalf of Chambal Fertilisers and Chemicals Ltd. that concludes this conference call, thank you for joining us and you may now disconnect your lines.