CHAMBAL FERTILISERS AND CHEMICALS LIMITED

Q2 FY 2011-12 Results

Earning Call Transcript
October 19, 2011

Moderator: Ladies and gentlemen welcome to Q2 FY'12 Earnings Conference Call for Chambal Fertilisers. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Raghavendra Jaipuria from Perfect Relations. Thank you and over to you, Sir.

Raghavendra Jaipuria: Good evening everyone and thank you for joining us on Chambal Fertilisers and Chemicals Limited Earnings Conference Call. Today we have with us Mr. Anil Kapoor, Managing Director, Mr. Abhai Baijal, the CFO, and Mr. M.S. Rathore, Vice President, Legal and Company Secretary. Before we begin, I would like to add that some of the statements to be made in today's discussion may be forward-looking in nature. We would begin the call with the opening remarks from the Management following which we will have the forum open for an interactive Q&A session. I would now request, Mr. Kapoor to make his opening remarks.

Anil Kapoor: Welcome to our first earnings call post declaration of half-yearly results. Hopefully, we will have many more such interactions. With me in the room are Mr. Abhai Baijal, our CFO and Mr. Rathore, our Vice President, Legal and Company Secretary.

In the meeting of the Board of Directors held on October 18, apart from declaration of results we took two decisions. First one was to set up an SSP plant at Dahej with an annual capacity of 5 lakh tonnes at a project cost of approximately Rs. 122 crore. This is in addition to a plant, which Chambal is setting up a 2-lakh tonne SSP Plant at Gadepan construction work of which has already commenced. Once this is complete Chambal Fertiliser will be a lead player in SSP with a capacity of about 7-lakh tones.

The second one was to withdraw the demerger scheme of the shipping business. I will now request all the participants to ask any questions which they have with regards to our results. Thank you

Moderator: Thank you Sir. We will now begin the question and answer session. The first question is from the line of Mr. Tarun Surana from Sunidhi Securities.

Tarun Surana: Can you tell the time line of SSP expansion plans at Gadepan and Dahej?

Anil Kapoor: At Gadepan, we expect to complete the project by May 2012. Dahej project would take around 18-20 months because we should be getting the land allocation very soon and then the procedure of environmental clearance and going ahead with the construction.

Tarun Surana: What would be the sourcing plan for Rock Phosphate?

Anil Kapoor: In case of Gadepan SSP Plant, we will have to rely on a mixture of RSSM as well as imported rock. At Dahej it will be completely imported rock.

Tarun Surana: For imported rock what kind of margins does happen in the current scenario at the current pricing? What kind of per tonne margins would be coming in this project at the current level?

Anil Kapoor: Margins are very attractive and the territory in which Chambal operates has got market dominance and we will definitely command a premium over market share. Chambal gets a clear Rs.150-Rs.200 per metric tonnes advantage over its competitors. We have looked at the numbers and returns are very attractive.

Tarun Surana: Typically, SSP plants are very small as it is a low value bulk commodity but the transportation and distribution costs through roads is typically expensive. So what are your plans for that? Whether you will use railways to transport it to the northern region or make hubs there, how will it happen?

Anil Kapoor: There is a railway siding next to the plant. Everything will be moved to the rail and rail transportation is the cheapest mode of transportation for the fertiliser industry. In fertilisers it is a manufacturing play first and then after that it is a logistic play and then comes the marketing play. For us Dahej is a very important and strategic location because we can then move the products very effectively to any place in the country. In case of per tonnes of SSP you consume about 0.57 tonnes of rock and about 0.36 tonnes of sulphuric acid. Wherever you put the plant we will have to move these two products to that site. For us there will not be much inward movement of these products.

Tarun Surana: Why were the volumes for urea lower this time as compared to the same quarter last year?

Anil Kapoor: In this quarter the urea production was somewhere around 5,45,000 tonnes, dispatches were 5,51,000 tonnes and sales was 5,67,000 tonnes. As far as the last year Q2 was concerned, there was 5,95,000 tonnes as compared to 5,67,000 tonnes this quarter. This is partly because of some stock buildup, etc. Though in the first quarter of the same year we have done only 4,33,000 tonnes.

Tarun Surana: Last year in Q2 the inventory from Q1 was higher?

Anil Kapoor: That is as compared to last year. This year it has been more or less the same way. To a point-to-point comparison maybe we will find a little better, but that is seasonal.

Moderator: The next question is from the line of Mr. Prasad Deshmukh from DSP Merrill Lynch.

Prasad Deshmukh: How is the expansion funded? Is it all through internal accruals or are there any loans we are using here?

Anil Kapoor: With Chambal's profitability, expansion of Rs. 120-150 crore will all be done through internal accruals.

Moderator: The next question is from the line of Mr. Prakash Goel from ICICI Securities.

Prakash Goel: What is the gas cost today and what is the breakup of the gas? What are the sources that you are receiving gas from and what is the average cost and non APM average cost for you?

Abhai Baijal: In gas we have got three sources: APM, RLNG and RIL. RIL is roughly about 1.15, RLNG from both IOC and from GAIL is roughly about 1.7 to 1.8, and the balance is APM and small amount of PMT. So this is the mix.

Prakash Goel: What would be the balance number?

Abhai Baijal: Out of 3.8 let us say it will be about 1.

Prakash Goel: What would be the pricing for all the three gasses?

Abhai Baijal: For the co-mingled gasses if you include APM I think we are currently running at $8.6 to 8.7. Without APM we will touch almost $9 to 9.25.

Prakash Goel: What is the RLNG price that you are paying?

Abhai Baijal: RLNG is about $9.2. We can check that and get back to you.

Prakash Goel: Basically, RIL and RLNG both put together is the average 9.25?

Abhai Baijal: RIL is around 7 dollars and RLNG is 10.5 dollars.

Prakash Goel: The other question that I had was on the urea decontrol visibility. Right now discussions are on that the government may come out with NPS modified, NPS version instead of going for a full decontrol. What is your view on that and what is the timeline that you are seeing for urea decontrol?

Anil Kapoor: Chambal is one of the lowest cost producers. Both our plants are operating at energy efficiency level, which are best in class literally. Whichever policy comes through, will be beneficial to Chambal. If I suppose NPS III modified comes through where they talk of $ 350 per tonnes, Chambal stands to get about Rs. 58 crore a year and if decontrol comes the numbers will be even better. So in either case Chambal is better placed and will be better placed than what we are today. Just if NPS III has to happen, I personally believe that in the long run government will have no option but to bring some parity of pricing between phosphatic and urea. Just a year and a half back when phosphatic was Rs. 9,350, urea was Rs. 5,350. Today, the price of DAP is Rs. 18,200 to 18,700 and urea is still the same number. As you rightly said there will be a phosphatic and nitrogenous imbalance in the soil and the marginal farmer will have a tendency to use more urea.

Prakash Goel: Last question is on the software segment. What is the strategy now and how you see things panning out? We have seen significant losses last year and we are getting a sense that this year may not be significantly better than last year. How do you see we are evaluating more in terms of the reported profitability? I understand that there are significant improvements on ground which will reflect probably in the following year. What is your view on that and by when we would be breaking even and what is the rationale of holding on to this business?

Anil Kapoor: We have got into a vertical in the American home mortgage section, where the normal business that we are talking is of USD 7 billion in a year, which is fragmented between many players plus one or two large nationwide players and we happen to be one of those with a full spectrum capability. So we have a very strong business rationale to be in this particular business.

It is only a matter of getting the right operating model into the system and we feel confident about that. We had certain offers in the past, which were 1x or 1.5x or even 2x of revenue, so we feel that there is lot of go in this business and that kind of valuation is still possible provided we get the market upturn. So we feel very confident about this business. As far as the present kind of operations is concerned, the first half was difficult where we had to do a lot of restructuring and those costs are reflected in our Q1 results. Going forward, we have significantly curtailed the losses and we are EBITDA positive. We feel that going forward in the next year, we will definitely break-even, if not with a small profitability.

Prakash Goel: From the analyst fraternity, I would like to request you if we can have access to the consolidated data on a quarterly basis, that will be really helpful in analyzing the Company’s performance.

Abhai Baijal: We will take your suggestion.

Moderator: The next question is from the line of Mr. Varun Guntupalli from Edelweiss Securities.

Varun Guntupalli: With regard to the gas availability, compared to last year, are we getting a similar quantum from RIL or had we been using higher quantum of RLNG?

Anil Kapoor: The Group of Ministers gave a preferable order to the fertiliser industry. Post May, the entire industry has reverted back to its original position and today we are getting the RIL gas quantity as per contracts.

Varun Guntupalli: So it is like only during the short period of couple of quarters?

Anil Kapoor: For first one or two months.

Varun Guntupalli: Wanted to get an indication on the shipping business outlook and the current contracts that we are having on the shipping?

Abhai Baijal: As for Shipping business, after about June, our time chartered contracts expired. The ships were redelivered to us and since then four ships have been working on spot basis. We had managed average daily rate of something like $17,000 or $17,500 per day till August. But as we entered into the pre-Christmas season, the rates have sharply dipped in the market and we feel that winter may be slightly better. The earnings in this quarter possibly will be little soft. That is what the impression we have. They may recover later on, but as of now the situation is soft.

Varun Guntupalli: So it is like we would be continuing with spot basis for some more time before entering into some kind of long-term contracts?

Anil Kapoor: This is not a good time to enter into a long-term contract. At this moment, long term charter rates are really running low. So we lock in ourselves at lower rates for a long period. Of course we will never get the upside. It is important that we go through this cycle and when the rates start going up, lock ourselves at higher rates.

Varun Guntupalli: When are the other two long-term contracts expiring?

Anil Kapoor: There is an old ship called Ratna Urvi, which is working on a contract of afreightment. Its employment is basically from the eastern coast of Africa to the MRPL refinery and back. What happens is that by trans-chart which is the Indian government contracting agency for all these tankers they float their enquiry. In last 3-5 years, GE, etc., keep winning it. If they don't have a ship then they ask some other company to participate in that. This is called as a contract of afreightment. So that takes care of our Ratna Urvi. For some time, during the last six months one particular ship – Ratna Shalini was tied up with Heidmar Pool. What happens is that there is a pool of something like 15 to 20 or may be 50-60 ships and they take a wholesale contract to transport oil and the pools earnings are then divided amongst the owners based on the ships performance. So that is the kind of deployment we have.

Moderator: The next question is from the line of Mr. Bharat Subramanian from Sundaram Mutual Fund.

Bharat Subramanian: If you can comment on the scheme of demerger that we have withdrawn on the shipping division. Has it been withdrawn or have we deferred it? What kind of bottlenecks are there in case we have to reintroduce it again?

Anil Kapoor: The reason why we were looking at a demerger at that time was - the shipping industry was doing fairly well and downturn was visible. But adverse things which had happened in the recent past and also what has happen the European crisis has made the bankers also ask for substantial guarantee from Chambal for letting the demerger go. We thought this is not the right time for Chambal to merge the shipping division. Maybe at a later date when the shipping business starts improving and there is more robustness in the market we will review the decision and take a decision appropriately at that time.

Bharat Subramanian: Can you throw some light on our debt repayment schedule for the shipping business?

Anil Kapoor: We have got five ships, which are currently indebted and the sixth one is free. Each of these ships are paying about a million dollar a quarter, so 5 x 4 would be USD 20 million. Even at Rs.50 we are talking of maximum Rs.100 crore on that repayment. Fortunately, the combined average interest rates on these are not more than 2%. So total debt service burden as of now is about Rs. 120 crore per annum and if they are making cash profit to an extent of at least Rs.40 crore to Rs.45 crore so the cash shortfall is about Rs.70 crore to Rs.80 crore at the maximum. Also if you understand that some of the results have been vitiated by mark-to-market conditions on some of the interest rates, so those itself are non-cash charges which are somewhere around Rs.20-25 crore. Roughly, we are talking of a shortfall of Rs.40 crore to Rs.50 crore on the debt service which is not too much.

Bharat Subramanian: In terms of our fertiliser trading division, are the profits that we have reported in the first two quarters, sustainable? In terms of our trading strategy, how would it shape up from here on?

Anil Kapoor: Chambal is a dominant player in the market in which it operates. We have got a trading plan; our trading strategy is to be an agri-supplier to our farmers. We trade in pesticides, sulphur; this is something known as Bentonite Sulphur, seeds, micronutrients and phosphatic fertilisers including SSP. In the future I think we expect this to continue and probably improve as we go forward.

Bharat Subramanian: As a Company would we look at getting into manufacturing of complexes also at some point in time?

Anil Kapoor: You may be aware that Chambal has a JV in Morocco where we manufacture 440,000 tonnes of phosphoric acid. JV is with Tata Chemicals and OCP of Morocco. That phosphoric acid is then supplied to Zuari and Tata in India. This venture is looking at a substantial expansion in Morocco and we are actively pursuing that expansion. Financial closure has not yet taken place, but that venture is sitting on substantial cash at this moment. The funding to that extent from Chambal may not be required. In the expansion we will manufacture not only phosphoric acid, but we will also make a million tonnes of DAP. That DAPs will then be shared by the three partners, i.e., OCP, Tata and Chambal. We will get about 3.3 lakh tonne of DAP as our share.

Therefore we will be manufacturing our phosphatic in Morocco. SSP is a very good source for phosphate to the farmer. So far SSP industry has not succeeded because it has been such a fragmented industry and large players have not taken interest barring say Coromondal or Tata Chemical. It is only now that large companies like Chambal are looking at manufacturing SSP. Going forward, in my personal view, SSP industry will start gearing around these four or five large companies and there will be a substantial shift the way SSP is marketed in the future.

Bharat Subramanian: As a strategy, would you also look at buying any distress assets in the Fertiliser space?

Anil Kapoor: Chambal at present is actively pursuing substantial expansion at Gadepan facility. We have obtained the environmental clearance. We are now awaiting the government policy, which is being formulated at this moment as we speak. As soon as the government goes ahead and announces its policy, Chambal will be one of the first companies to take off and implement an expansion at Gadepan itself. This will be a new brand Rs. 3,500 - Rs. 4,000 crore gas based Fertiliser plant, the best in class on global basis.

Bharat Subramanian: In terms of software subsidiary do you think you need to infuse more cash into the business or is there a restriction that we need to do to make it further profitable?

Anil Kapoor: The way Mr. Baijal explained earlier we personally believe that next year we should be looking at a PAT positive for that business. That business has now turned around. It has been sort of EBITDA positive in the last two quarters. Going forward, Chambal will infuse the necessary cash if required by that business.

Bharat Subramanian: In the medium term, do we intend to hold on to the unit or are we willing to monetize and get out of the business by locking some value there?

Anil Kapoor: If we want it to monetize we would have monitized it last year when we were getting substantial multiple to our sales revenue. We did not get out at that time, because we personally believe that there would be a major upside in that business. So that is the space in which we are sort of market leaders in US and it is a very interesting space in which we would like to grow.

Moderator: The next question is from the line of Mr. Ajit Dange from SBI Mutual Fund.

Ajit Dange: My belief is that the strong trading margins in this quarter are partly because of gains on DAP inventory that you would be holding. Can you quantify the nature of that inventory gain? Will the normal margin in trading segment still continue to be 2 to 2.5% or do you see any improvement over there?

Anil Kapoor: There was a minor inventory gain which was to the tune of about Rs.6-7 crore.

Ajit Dange: Can you please explain that?

Anil Kapoor: We are in two segments of trading. One part of trading is phosphatic and the other part is agri-chemical, which we supply to the farmer. In the agri-chemical space we operate at a margin of 12%-13%. We will continue to operate at 2% to 3% in the phosphatic segment.

Ajit Dange: If I go to the last year's numbers, roughly 10% each would be seeds and agri-chem and around 70% to 80% would be DAP and complex. Am I right on that?

Anil Kapoor: I think, ratio should be about 30% in agrochemicals and 70% in phosphatics. We have also started trading SSP where our margins would be in the tune of 6% to 7%.

Ajit Dange: Do you expect this 5% to 6% margins to continue going forward as well?

Anil Kapoor: On a block basis I personally believe it will continue.

Moderator: The next question is from the line of Mr. Vineet Sambre from DSP Black-Rock.

Vineet Sambre: If you can take us through the rationale behind the delay in the demerger of the shipping division? How will that impact our whole business plan?

Abhai Baijal: The merger of the shipping division was planned with a view to lighten the burden from the balance sheet and secondly we will focus on our key businesses. These are the two basic issues. We have grown the business to a size which could be independent. When we had merged the business it was basically one-ship Company. From one-ship Company we grew it to a six-ship company. From that point of time we thought that we could monetize it or take advantage of it at some point of time and grow the business without additional capital infusion from Chambal Fertilisers. It could be by way of IPO or rights issue or whichever combination was possible, we would have gone through with that particular model. I would like to assure you that the Management focus continues to be on the Fertiliser business and we have just seen one major investment which has been cleared by the board and as Mr. Kapoor has just told you that we are fully geared up to do another major mega investment. From the strategic sense, as we told you that at an appropriate time we will definitely like to move forward with the delinking of the shipping and the Fertiliser businesses. But this is not to say that the shipping business is today in anyway coming in the way of an expansion even of this magnitude. I would like to re-assure the investors that the focus of the Company and the Management is on expanding the fertiliser businesses, for which the market conditions and the policy environment are improving day-by-day.

Vineet Sambre: When you say enhanced profile, what does that mean? Is this enhanced earning going to come from trading or you believe this is because of the policy framework changing?

Anil Kapoor: It is partly to do with the policy as there will be a policy announcement. Be it NPS III or ABS, in either case Chambal will try to gain and we will aggressively look at trading strategy going forward. Also let us not forget that India does import everything which we use in manufacture in DAP. Any company which is there in the DAP phosphatic sector imports everything. Be it ammonia or rock or phosphoric acid there is an import dependent strategy. Our strategy is to import the finished product.

Vineet Sambre: What is your assessment about the decontrol happening? When do you feel this can take place?

Anil Kapoor: It is difficult to answer it right now. These are governmental issues for which we do not have much control.

Moderator: The next question is from the line of Mr. Rohan Gupta from Emkay Global.

Rohan Gupta: On a new investment policy, especially in urea, you highlighted that you are ready with your plan of mega plant at Gadepan facility. Where you think that this new investment policy is struck now?

Anil Kapoor: The policy at present is being formulated with the Department of Fertiliser and Planning Commission and between them they are working out this policy. There are some internal guidelines which we keep on hearing about, and which is likely to happen very soon.

Rohan Gupta: Is there no particular timeline for this which we can expect?

Anil Kapoor: We cannot give any guidance in the government matters because it would be unfair for me to give you a guideline. I will just give you a little bit more perspective about this business. Fertiliser is a logistic play and a manufacturing play. Today India is importing around 5-6 million tonnes and the imports are going to grow by the rate of at least a million tonne a year. Going forward in the next four years, by the time these plants come to fructify we are looking at imports for somewhere around 8-9 million tonnes. Can you imagine the havoc which will be played at the ports because the entire DAP is being imported; there are ports that are getting congested. Secondly, when we import urea, with multiple handling, the urea tends to get crushed and the farmers prefer domestic production over imports. If given choice farmers would like to use domestic production over imports and today we are importing urea at more than $ 500. If this trend continues, I do not know where the prices will go. It is important for government to take a decision so that the country goes ahead and puts at least 3-4 plants immediately to ease the pressure on imports.

Rohan Gupta: Completely agree with you on the same point. We had been thinking in the same line from last two years, but government has not incentivized enough to put in a new policy. I do not know the reason but we have been seeing that continued delay from last two years. The same thing is happening with the NPS; so far, on the policy front we have been fetching a lot of disappointment from the government.

Anil Kapoor: There is a slight difference in the investment and NPS front. Certain ministers have taken certain stance on the NPS whereas there is unanimity on investment in the decision making. Both, ministers and other parts of the government like finance or planning want investment. I personally believe that whenever the policy is made it will go through fast.

Rohan Gupta: Some players have already started screening the opportunity outside India where they can get gas at a lower cost probably because in India we are still facing some issues related to gas. Will you still go ahead with your plans of putting urea plant in India or are you also screening something outside of country for urea capacity?

Anil Kapoor: We retain the option of looking overseas all the time since India is largely dependent on imports. Chambal is a large tax paying company and wherever we put up a plant in India we will get substantial tax benefit. If we put a plant in India, there will be a huge upside because of the tax. It is important that we put a capacity in India. Our first choice would be to put up a capacity in India. Today the government has put Fertiliser into the priority sector. Gas is being given to Fertiliser sector on a priority basis and this was a policy of EGOM in the past also.

Rohan Gupta: We have definitely seen a very strong double digit growth in SSP in the last couple of years. But now almost all the players have started talking about SSP and on the other there are a whole new set of companies which have entered in this SSP market in the last one and a half years. What I feel is that there is a lot of clutter in the market in SSP. How is the SSP dynamics working right now? Why is it so lucrative that everybody is putting plant in SSP?

Anil Kapoor: In India every third person thinks he can put up a SSP plant and make money out of it. Chambal believes in the state-of-art-technology and put in world-class plants. Our plant at Gadepan is world class. We operate literally without shutdown for two years so we know how to run plants. Secondly, you should look at our dealer network. In our territory we have about 2,000 dealers and we have around 20,000 retailers. Those retailers are given a choice whether they will sell Chambal products or will they sell a marginal player's product. Further, these small players will have an issue related to working capital. Sometimes your subsidy gets stuck for three or six months then how will these small players survive. It is good to let these smaller players come into picture as they will sooner or later get attached to the big companies. Today, there are two small players who are already attached to Chambal who would manufacture only for Chambal. Going forward, I think, we will have more of them attached to Chambal.

Moderator: The next question is from the line of Atul Rastogi from RBS.

Atul Rastogi: You mentioned that the gap between urea and DAP has gone quite significantly over the last 12 months. Are you seeing any signs of maybe urea sales accelerating or maybe phosphetic sales coming down?

Anil Kapoor: Before making any comment on that, I would like to see one full season's statistics; it is too early to call. Because prices of DAP have gone up only in the last three months. Three months back they were about Rs.12,000 and because of the compounding effect of increase in DAP prices and rupee devaluation this price has gone up from

Rs.12,000 to Rs.18,000. So I would not like to comment on that immediately. I would like to see the statistics before I come back to you.

Atul Rastogi: Would Rabi off-take be starting now or it has already started?

Anil Kapoor: The way the sowing takes place, there is first application of DAP and then is the application of urea. In Punjab and Haryana, come what may, the farmer will use phosphatics first. Below the seed they will put DAP and then they put the seed and after that when the cropping takes place they put the urea. Farmers in Punjab and Haryana will put it. They may reduce the quantity of DAP; if today he puts 1.5 bags per acre he may put 1 bag per acre but he will use DAP. So I would like to wait for this season to get over before making that comment whether how much shift has taken place. I personally believe that if the shift takes place, it will take place at the end of marginal farmer, not at the big farmers.

Moderator: We have a follow up question from Mr. Tarun Surana from Sunidhi Securities.

Tarun Surana: What would be the volume tie-ups for MOP for H2 FY12 by Chambal?

Anil Kapoor: We have tied up for 100,000 tonnes.

Tarun Surana: There was an exceptional item in segmental reporting of EBIT, but there was no explanation in the notes, just wanted to know what that was?

Abhai Baijal: When we have merged our India Steamship for the first time in 2004-05 there was an unabsorbed depreciation and carry-forward loss of Rs.106 crore. Logically, in any merging situations when the loss is taken forward in the merging company it was allowed a benefit of that tax loss. It was at certain assessing level that it was sort of disallowed by them and that went into appeal. We won the first level of appeal and also won the second level of appeal at Tribunal level. In fact, at the second level when we assessed the matter, the objection that the department had raised came out to be very technical in nature and that was summarily set aside in the judgment. The judgment is a very strong one in favor of Chambal. Looking to that judgment, we felt that it was appropriate to take that as a write back in taxation. So there was this substantial amount of this resource there. There was of course a negative also of a small amount, the net of which we were seeing. That small amount negative was on account of a case that we lost in the same tribunal hearing which was related to deferred tax and book profit. Earlier deferred taxation was allowed to book profit and when we were in MAT we took advantage of that but that was set aside in 2008 by way of retrospective amendment and therefore we lost that particular case. So the net asset of 32 crores is what we wrote back.

Tarun Surana: What would be the total net impact of loss or gain on fertiliser bond sale and write back of provision this quarter?

Anil Kapoor: The government has agreed and they have given us an indication that they will reimburse 50% of losses which we incur. I think we can look at a write back to the tune of Rs. 13-14 crore whenever the policy changes.

Tarun Surana: Have you not taken a write back yet?

Anil Kapoor: No.

Moderator: The next question is from the line of Mr. Satish Mishra from PINC Research.

Satish Mishra: This is the second sequential quarter when we are seeing loss in textile division. Can you throw some color on that? How is the situation shaping up?

Anil Kapoor: The textile division had a problem that the net value of the stock came down because they had high priced stock when the market value of cotton prices came down substantially. So we took adjustments both in the first quarter and the second quarter on that account. In fact, it was a very steep decline in July. Having taken this into account, I think there is a slight improvement in October month. We are possibly going to move with a small positive of about a crore. But the global situation is still dicey and we cannot say how the rest of the year will pan out.

Moderator: We have a follow up question from Mr. Rohan Gupta from Emkay Global.

Rohan Gupta: You mentioned the current contract freight rate in shipping business were USD 17,500 while they have declined sharply as we speak. What is the current run-rate now? Can you give us some sense on that?

Anil Kapoor: I would say that it is plus or minus USD 2,000 from there and that is the kind of decline that we are seeing.

Rohan Gupta: What level of the shipping rate we will see at EBIT level i.e., no profit, no loss kind of a situation or break-even?

Anil Kapoor: At EBIT it is still positive. When we talk of cash we take into account loan repayments. At EBITDA level we are talking of levels of 13,000 $ kind of number.

Moderator: On behalf of Chambal Fertilisers and Perfect Relations that concludes this conference. Thank you for joining the Chorus Call Conference Service.