



CHAMBAL FERTILISERS AND CHEMICALS LIMITED

## FY 2013-14 Q2 Results

### Investor/Analyst Conference Call Transcript November 8, 2013

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- Moderator** Ladies and gentleman, good day and welcome to the Chambal Fertilisers and Chemicals Limited quarterly investor relation conference call. As a reminder for the duration of the conference, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Neha Patil.
- Neha Patil** Thank you. Good evening and thank you for joining us on Chambal Fertilisers and Chemicals Limited Quarter 2 FY14 earnings conference call. Today we have with us the senior management represented by Mr. Anil Kapoor – the Managing Director; Mr. Abhay Bajjal – the CFO; Mr. M.S. Rathore – Vice President, Legal, Corporate Communications and Secretary; Mr. V K Gupta – Vice President Marketing; Mr. Rajveer Singh, General Manager (Legal) and Mr. Anuj Jain – General Manager, Finance.
- Before we begin, I would like to add that some of the statements to be made in today's discussion may be forward looking in nature. We will begin the call with the opening remarks from the management, after which we will have the forum open for interactive Q&A session. I would now request Mr. Kapoor to make his opening remarks.
- Anil Kapoor** Thank you. Good evening ladies and gentlemen. Welcome to the Earnings Call post declaration of half yearly results. I would like to share with you some of the financial highlights for the half year ended 30<sup>th</sup> September 2013. In the first half of this financial year, our sales have increased by 13% to Rs. 4180 crores and profit after tax has increased to Rs. 207 crores from Rs. 187 crores as compared to corresponding period last year. This increase in profit is largely due to tax credit related to earlier years which we recognized during the first quarter and increase in other income.

You are aware that the company has three business segments – Fertiliser, Textile and Shipping. The revenue of own manufactured fertiliser went up to Rs. 2370 crores, an increase of 31% over corresponding half year last year. The revenue of traded goods was down by Rs. 214 crores and that of shipping and textile went up by Rs. 115 and Rs. 14 crores respectively. Profit before Interest and Tax of own manufactured fertiliser in the first half is Rs. 263 crores, traded goods is Rs. 47 crores, textile is 15.6 crores and shipping is a negative of Rs. 20 crores.

As compared to corresponding period of financial year 2012-13, we have done better in own manufactured fertiliser and textile. However, shipping continues to face recessionary trend. Trading segment is however substantially lower than the first half of FY 2012-13.

Friends, these are challenging times for the fertiliser industry. We have been paid Urea subsidy only upto May 2013 and we are uncertain about the subsidy for the remaining period. Subsidy payment on import is also pending. This is having serious financial implication on the working capital of the fertiliser industry. If the government does not address the issue of subsidy release promptly, some of the plants may face closure in view of high interest cost and lenders unwilling to take further exposure in fertiliser industry.

I now request you to ask questions which you may have with regards to our results. Thank you.

**Moderator**

Thank you very much Sir. We will now begin with the question and answer session. First question from the line of Balvinder Singh from Prabhudas Lillader. Please go ahead.

**Balvinder Singh**

Hi. Thank you for taking my question. I would like to know what is happening on the shipping side because this quarter we have seen revenues increased by 126%, almost doubling on a year on year basis. So what's happening on that side?

**Abhay Baijal**

There are two things that are happening there. One - there is an improvement in the TCY rates as compared to the previous quarter by 40 – 50%. Second - we have also taken some ships on 'in-chartering'; of course they are not very much for the entire quarter but only for the first month of the quarter. So these are the two reasons why there has been an increase in the revenue.

**Balvinder Singh**

If I read it correctly, you said on a quarter on quarter basis rates have improved by 40 – 50% and why is that so?

**Abhay Baijal**

Yes. Market has shown some amount of firmness of late. out of the 5 ships that are operating, 2 were put at pretty high rates. So they have pulled the average up.

**Balvinder Singh** So is this a contract done for the entire year?

**Abhay Baijal** Some of them are spot charters. Spot charters are showing favorable results because of firming of cycle.

**Balvinder Singh** Do you think this is sustainable, close to Rs. 150 crores of revenues on a quarterly basis, going forward?

**Abhay Baijal** Some amount of this is sustainable but if we continue to do in-chartering activity then we could continue with this type of revenue. That will depend opportunistically whether we can continue with that or not?

**Balvinder Singh** And Sir what was the second reason you highlighted apart from the rate increase?

**Abhay Baijal** I said, there was some amount of 'in-chartering' in the first month of this quarter. But whether we carry in-chartering business in the next quarter, we will have to see. That depends on the charter rates.

**Balvinder Singh** And outlook is still more or less weak only if I read it correctly?

**Abhay Baijal** I would say it is slightly improved from the previous quarter because it gives little bit of optimism going forward.

**Balvinder Singh** Will we continue to see losses in this segment for another few quarters going forward?

**Anil Kapoor** Yes.

**Balvinder Singh** Other income this quarter has gone up to 41 crores. So does it include any kind of dividend or something or any one off item?

**Anil Kapoor** We received the dividend from our overseas shipping subsidiary.

**Balvinder Singh** Can you quantify it?

**Anil Kapoor** It is Rs. 21 crores.

**Balvinder Singh** Normal run rate will be around Rs. 20 crores.

**Anil Kapoor** That's right.

**Moderator** We are going to take our next question from the line of Mr. Satish Mishra of HDFC Securities. Please go ahead.

**Satish Mishra** First question again on trading, definitely first half of performance is very weak as compared to last year but off late there is a correction in DAP prices globally, so lower DAP prices as well as rising subsidy. How you see the trading segment performing in the second half?

**Anil Kapoor** Satish, we expect trading in second half to substantially improve compared to first half and you are spot on to pick that. In the first half, our ships were contracted at a higher rate. And now the phosphatic fertiliser has been contacted at much lower rate. They are

averaging around Rs. 400–410. So we should have a good increase in both revenue and contribution in the second half.

**Satish Mishra** So as of now, are we completely done with our previous inventories or still it is there in the channel?

**Anil Kapoor** We are done with the previous inventory; minor quantity is left here and there.

**Satish Mishra** And Sir, second question is related to the Urea policy which we discuss every quarter. Anything on that front, any positive or any development?

**Anil Kapoor** Nothing so far. Paper is circulating in the Department. No final policy announcement has yet been made.

**Moderator** Next question from the line of Hardik Shah from ICICI Securities. Please go ahead.

**Hardik Shah** Just one question, status of IPP link volume in light of the international urea which is trading around \$298 to 300 per tonne and high gas cost. So what is the status of IPP linked volumes?

**Anil Kapoor** If this trend continues, you probably know that certain amount of our production is based on import parity. That production will not be viable unless the government changes the policy.

**Hardik Shah** Just one more question, can you just throw some light on the higher profitability reported by fertiliser business in terms of volumes and in terms of margins?

**Anil Kapoor** Business in urea fertilizer has done slightly better because of higher sales. We have sold approximately 93,000 tonnes more than last year and basically that is the major contributor to increase in profits and revenue during the half year.

**Moderator** We shall take a next question from the line of Badrinath Srinivasan from Credit Suisse. Please go ahead.

**Badrinath Srinivasan** I have two questions. First - what is the current mix of your gas between D6 and LNG and second - if you had any more clarity on input pricing for the next year?

**Anil Kapoor** What do you mean by input pricing?

**Badrinath Srinivasan** If there has been any ministry communication to you on the gas pricing for next year ?

**Anil Kapoor** Presently we consume approximately 4 million standard cubic meter per day of gas. Out of that approximately 0.9 to 0.95 million standard cubic meter per day is KG-D6. About 2 is RLNG portion of it. As far as outlook is concerned, unless KG-D6 further collapses the trend will remain the same.

- Badrinath Srinivasan** Has there been any more clarity on gas pricing for the next year?
- Anil Kapoor** There is no clarity on gas pricing so far. We really don't know what would happen to our APM pricing and KG-D6. The government has not yet spelt out the policy.
- Moderator** We are going to take a follow up question from the line of Balvinder Singh from Prabhudas Lillader. Please go ahead.
- Balvinder Singh** On the trading business, you said DAP mostly has been contracted at \$400 – 410 per tonne. While I see currently global DAP prices have fallen to around \$350 per tonne, so what is the sense on that? Have we contracted a large quantity that we will not be able to contract at \$350 per tonne? I am asking for the industry as a whole if you can give some color on that.
- Anil Kapoor** Balvinder, firstly our prices in the first half was much higher than the second half and DAP price of \$350 which you mentioned which all the journals are probably reporting is 350 FOB Tampa, USA. There is a \$50 freight and when you talk of \$400 – 410, it is CFR India. So to that extent a landed cost remains the same.
- Balvinder Singh** What is happening on the subsidy front, you said we have received urea subsidy only till May 2013 and what is the current subsidy pending receivable from the government and till when have we received the subsidy on complex fertiliser trading?
- Anil Kapoor** At this moment subsidy outstanding is Rs. 1850 crores from government of India. As far as Urea is concerned, we have received subsidy up to May. Government is making some special banking arrangement and we expect the subsidy of June and July to be released by next week. Subsequently, we don't know what will happen. As far as phosphatic is concerned, subsidy for the month of August will be paid. July subsidy has been received. What will happen from September onwards, we don't know?
- Balvinder Singh** Sir I missed the gas part. You said the total requirement is 4 million cubic meters daily and you received 0.9 to 0.95 from KG-D6 and 1.6 to 1.7 is LNG. What is the remaining APM?
- Anil Kapoor** Balance is APM, PMT, we get the plethora of gases. So 0.1 or 0.2 of spot gas.
- Balvinder Singh** Lastly on the IPP linked production, what I wanted to understand is how is the accounting done, is the accounting done quarterly or the whole of the above cut of production is accounted for in the fourth quarter?
- Anil Kapoor** We normally take it in the 4<sup>th</sup> quarter.

**Balvinder Singh** Okay, so if you are producing say 2 or 2.1 million tonne which is around 2,50,000 above the cut off production. So the entire above cut off production will be booked in the 4<sup>th</sup> quarter only.

**Anil Kapoor** That's right.

**Moderator** We are going to take a follow up question from the line of Saurabh Arya from Bajaj Allianz Life Insurance. Please go ahead.

**Saurabh Arya** My question is in shipping, you are saying we have seen improvement in yield by 40 – 50%. But still if I see the profitability, there is not much movement in the way I would have taken is, its realization has gone up. Actually most of it should have flown to EBIT or EBITDA, because cost would not have increased much.

**Abhay Baijal** Could you repeat the last part, I didn't get it exactly.

**Saurabh Arya** Yes, so I was saying that realizations have increased by 40 – 50%, while cost would not have increased Q-on-Q with such a big number. So what I was expecting may be with this kind of revenue, profitability in shipping should have been higher but actually it seems pretty subdued.

**Abhay Baijal** No, if you see the number in these segments, there is a swing of almost Rs. 30 crores from quarter 1 to quarter 2.

**Saurabh Araya** If I see Y-o-Y, the sales are of Rs. 100 crores while profitability is down Rs. 20 crores.

**Abhay Baijal** No, if you see YoY, the first half was pretty bad because two ships went into drydock, so those expenses were booked and as a result of drydocking there wasn't any earning out of these ships. So you can see that our revenue was very badly impacted in the first quarter. It was made up only because of 'in-chartering' of ships. And in 'in-chartering' of ships, you don't get much margin because it is like trading on the ships. Quarter 2, we have built up on our ship operating days and therefore there has been an increase in the EBITDA number.

**Saurabh Arya** So we can see this kind of profitability at least in the coming quarters, what we have achieved in the quarter?

**Abhay Baijal** That is the million dollar question. Going forward if the rates hold up and we are able to do some amount of trading on ships, maybe we will be able to sustain this performance.

**Saurabh Arya** Have we seen any further increase in rates?

**Abhay Baijal** They are stable as of now, whatever numbers we saw up till September. They have not gone up but we have not done much 'in-chartering'.

**Saurabh Arya** Secondly on textiles, the margins have improved quite a lot. So are we exporting too much or what exactly is happening here.

**Anil Kapoor** Contributions were better. But this is not sustainable. In Q3, the margins are going to go down.

**Saurabh Arya** But there is whole lot of news going around these days about textiles. People are targeting exports once again for textiles because of the dollar - rupee rates. So are we allocating further capital in textile or we won't do that?

**Anil Kapoor** Whenever, in case, we plan to expand we will be the first ones to announce it.

**Saurabh Arya** But till now there are no further plans?

**Anil Kapoor** Expansion plans are reviewed from time to time. Whenever it fructifies we will announce it properly.

**Saurabh Arya** Lastly if we see the results in IT in all companies, it has been coming pretty good. If you could give update about our IT business, that would be really helpful?

**Anil Kapoor** See, our performance in IT is showing a steady improvement compared to last year. Its FY is a calendar year and the net loss for the period 9 months has shrunk to Rs. 15 crores against last year's loss of Rs. 51 crores.

**Saurabh Arya** But the way other companies are reporting, I would have expected a much sharper turnaround in this business which is still not visible. Do we expect any further improvement in this?

**Anil Kapoor** Yes we expect further improvement going forward.

**Moderator** Next question from the line of Abhijeet Akella from IIFL. Please go ahead.

**Abhijeet Akella** Good afternoon, Sir. Just a clarification regarding the trading economics that you were alluding to. So the \$400 – 410 DAP contracted price, that equate to a landed price of somewhere around just north of Rs. 30,000 per tonne, would that be fair?

**Anil Kapoor** That's right. If you take a hedging cost of imports because this came when the rupee was approximately 63 – 64, the cost would be about Rs. 27,000 – 28,000. But then there are expenses like port handling charges, bagging charges, secondary freight, visa margins, etc. which are over and above this.

**Abhijeet Akella** So what will be an all inclusive cost Sir? Would that be at least around Rs. 30,000 or 30,500?

**Anil Kapoor** Approximately Rs. 30,000 plus or minus 500.

**Abhijeet Akella** Given that kind of cost structure and given the fact the manufacturer....

**Anil Kapoor** It would be higher than 30K. It could be approximately Rs. 31 – 32K.

**Abhijeet Akella** As far as I understand, the domestic industry is planning to take some small price reductions because of the falling Phos acid and ammonia prices. And already the blended realizations including the subsidies, probably just around Rs. 33,000 or 34,000. So does that leave any margin on the table for trading, in your opinion?

**Anil Kapoor** At Rs. 400 – 410, there is good margin on the table.

**Abhijeet Akella** So the landed cost of 31 and if the domestic realizations have cut to lets say 32 or 33?

**Anil Kapoor** Abhijeet it's a straight forward calculation. The MRP is approximately Rs. 22,500. We get a subsidy of Rs. 12,350. That makes it Rs. 34,850. Subsidy plus market realization is Rs. 34,850. If we make Rs. 31 – 32, even if it is at Rs. 32K, there is a good margin on the tables. Even if there is price reduction, we are still left with some margins.

**Abhijeet Akella** The Indian manufacturers claim that they have been giving some rebates on top of the MRP of Rs. 22,500, so the net realization to them is not Rs. 22500 but may be Rs. 1000 or 1500 lower.

**Anil Kapoor** They are right.

**Abhijeet Akella** So in that case this Rs. 34,850 wouldn't it come down closer to Rs. 33 or so?

**Anil Kapoor** Lets assume 33,000. Even at Rs. 33, and if my all cost is Rs. 32, I actually make Rs. 1000, I am not saying that's the number because these are confidential numbers. I cannot share with you these numbers. But let us hypothetically assume what you are saying is correct. That still leaves a margin of Rs. 1000 and for trading Rs. 1000 is a good number.

**Abhijeet Akella** So we are absolutely assured that it makes sense for traders to bring quantities?

**Anil Kapoor** Absolutely.

**Moderator** Next question from the line of Vaibhav Goel from SBI Life Insurance. Please go ahead.

**Vaibhav Goel** I have been trying to understand what kind of arrangement government is entering into to pay the subsidies? Is it applicable from October onwards also?

**Anil Kapoor** We don't know. Right now the money which has been provided for will be just about adequate for month of June and July. Post that we don't know what the government will do.



**Vaibhav Goel** But whether there are thoughts going on to this because budget exhausted much earlier than probably it should have?

**Anil Kapoor** I will not be able to say anything. There are enough documents floating around. But till there is a sign on the dotted line, it will be unfair to comment.

**Moderator** Next question from the line of Chintan Shete from SKS Capital and Research. Please go ahead.

**Chintan Shete** You mentioned that trading business will do substantially better in the second half of the year and if we see the proposition of trading this first half is around 32% versus 41% last year. So I just wanted to know how the business will pan out for the second half. What will be the proposition-skew towards either towards the manufactured or towards the traded goods?

**Anil Kapoor** Chintan, it will be difficult for me to answer that question. We are in the thick of a season right now. I will be better able to answer that question when we do a concall for Q3. But on a general note, our number should be substantially better than first half.

**Chintan Shete** Again we see half-yearly basis, our margins have declined substantially this first half versus last year first half, in a traded goods. So just wanted to know if we are making good money under own manufacturing and we are making a better margin over there. So what we are looking at is more emphasis on capital employed in the own manufacturing side or we will again see low margin traded business as you mentioned that it will improve going forward?

**Anil Kapoor** As far as Q3 is concerned I have already mentioned earlier, in the first half our phosphatic was priced at a higher price and that is why the margins were lower. The DAP which we have contracted subsequently is at a lower price and hence the margins will be better which will get reflected in Q3.

**Moderator** The next question from the line of Chandan Gehlot from Deutsche Asset Management. Please go ahead.

**Chandan Gehlot** Just wanted to know what the total outstanding debt amount is at this point.

**Abhay Baijal** You are talking of both secured and unsecured?

**Chandan Gehlot** Yes.

**Abhay Baijal** The total secured loans as of now is Rs. 1430 crores and including the working capital that becomes Rs. 4,585 crores.

**Chandan Gehlot** What this time gave you discomfort on subsidy front because in March the subsidy amount has already peaked to around Rs. 2600

crores which has now come down to Rs. 1850 crores. So I just wanted to understand...

- Anil Kapoor** The way trend is, our numbers will increase by end of the year.
- Chandan Gehlot** So do you think this number will be substantial high than the last year March number?
- Anil Kapoor** It will not be substantially higher as some special banking arrangement is being made. So we expect subsidy to the tune of Rs. 500 crores to be released this month and then there will be an add-on to our subsidy. The number will be, give or take Rs. 100 – 200 crores, the same number as last year.
- Moderator** We will take a follow up question from the line of Balvinder Singh from Prabhudas Lillader. Please go ahead.
- Balvinder Singh** Can you just help me within the trading segment how has the non fertiliser business done in H1?
- V K Gupta** Mr. Balvinder, our total sales of non-fertiliser traded products were Rs. 240 crores against the last year half-yearly sales of Rs. 293 crores.
- Balvinder Singh** Why is that so, monsoons have been pretty good this year?
- V K Gupta** There were some opening stocks in the channel and Kharif was not that good in certain segments. So this volume has come down because of that.
- Balvinder Singh** This inventory that you are talking about was in agrochemicals or seeds?
- V K Gupta** Agrochemical more or less we were there. There was not much of a difference. But in micronutrients, etc there was some difference.
- Moderator** We are going to take a follow up question from the line of Abhijeet Akella from IIFL. Please go ahead.
- Abhijeet Akella** Just wondering whether the KG-D6 gas that we get, whether a portion of that comes through a contract with GAIL and is that a take or pay contract? Because I believe GAIL has signed a take or pay contract with a number of fertiliser company and just trying to understand whether if the KG-D6 Gas supply dwindles and we are forced to look for alternative sources of gas, in that case, how would we renegotiate the contract with GAIL?
- Anil Kapoor** Good question. Yes there is a ship or pay Contract. Gas Authority of India Limited is in fact levying the ship or pay. Even though we have met GAIL officials to seek exemptions to that effect because we are taking alternative gas also from GAIL. So it's from the same pipeline which was moving the KG-D6. However, all these contracts terminate in March next year. And we will rework that contract at that time.

**Moderator** Next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

**Viraj Kacharia** Most of my questions have been answered, just one question. What's your view on the inventory situation particularly in North for P&K products?

**Anil Kapoor** We expect the inventory to substantially reduce in North post Rabi.

**Viraj Kacharia** The beginning of the season say from September end onwards, what will be the inventory in system in north, any approximate figure?

**Anil Kapoor** We will let you know the inventory when we do the Q3 call. Right now we are in the midst of a season. Season is in full swing.

**Viraj Kacharia** And what's the company's approach for penetrating in the Southern market. Because primarily we have been more of a northern player. But going forward you have mentioned couple of times that you want to target South as well. So what are we doing to enter Southern markets?

**Anil Kapoor** Good question. We have already opened a regional office in Maharashtra. So that's our first foray into South and we have opened a regional office in Bihar in the East. While, we have to establish ourselves fully in Maharashtra but we are establishing ourselves in Bihar and our brand is now becoming popular. We expect, we will be able to establish our brands firmly in next 2 – 3 years.

**Viraj Kacharia** When we already have an investment in Paradeep Phosphates Limited, so are we leveraging the distribution network of the company or we are operating on an independent behavior?

**Anil Kapoor** Chambal does not have any investment in Paradeep Phosphate. Chambal has an investment in IMACID and that is with OCP and Tata Chemicals. Those are two independent companies with separate distribution channels.

**Viraj Kacharia** And the same goes with Zuari Group. So there is no rationale tying up the distribution...

**Anil Kapoor** We do not have any understanding with each other.

**Moderator** On behalf of Chambal Fertilisers and Chemicals Limited, that concludes this conference call. Thank you for joining us.