



Deepak Fertilisers And Petrochemicals Corporation Ltd.

Q3 FY'11

Earnings Conference Call

January 27, 2011



MODERATOR: MR. MANOJ BAHETY, EDELWEISS SECURITIES

**FOR DFPCL: MR. SOMNATH PATIL
MR. VIVEK Y. KELKAR**



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Moderator: Ladies and gentlemen good morning and welcome to the Q3 FY'11 earnings conference call of Deepak Fertilisers And Petrochemicals Corporation Ltd. hosted by Edelweiss Securities Limited. As a reminder, for the duration of this conference all participant lines will be 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 any assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone telephone. At this time, I would like to hand the conference over to Mr. Manoj Bahety of Edelweiss Securities Ltd. Thank you and over to you Sir.

Manoj Bahety: Thanks Farah. Good morning everyone on behalf of Edelweiss Securities I welcome all the participants to Q3 FY'11 post earning concall with Deepak Fertilisers And Petrochemicals. Today, we have Mr. Somnath Patil, President and CFO of the company. Good morning sir. Now I request Mr. Patil to give a brief overview of operations during Q3 FY'11 and then we can follow it up with Q&A session. Sir, over to you please.

Somnath Patil: Thank you Manoj. Good morning ladies and gentlemen. I welcome you all to the Q3 FY'11 earnings call of Deepak Fertilisers & Petrochemicals Corporation Limited. I have with me Mr. Vivek Kelkar. Let me start by taking you through the performance highlights for Q3 of FY'11. The income from operations rose by just about 2% from Rs. 366.84 Crores in the corresponding quarter of last year to Rs. 375 Crores in this year. The important point to be noted is that the company's component of own manufactured sale has actually grown by 20% in Q3 of this year as compared to the previous year's same quarter and it is the trading turnover of fertilizers, which has actually come down mainly because of drop in volume in this quarter and in prices as well. You would have noticed that the company's EBITDA margin has grown by 17% from 18.63% to 21.84% in this quarter and the healthy margins are a result of improved realizations and margins mainly in the chemical segment.

Profit before tax after excluding the exceptional items grew by 31% to Rs. 60.35 Crores from Rs.46.12 Crores in the corresponding quarter of the



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previous financial year. The exceptional items were mainly on account of sale of land, which were registered in the last year same quarter at about Rs.25 Crores and if you exclude that our PBT has grown by healthy 31%. Profit after tax stood at Rs. 40.26 Crores for the current year Q3 as against Rs.52.86 Crores in Q3 of FY'10. Again the PAT is not comparable with the corresponding quarter's figure given the exceptional gain of around Rs.26 Crores arising from sale of surplus land in the previous year.

The chemicals business registered a growth of 23% for Q3 of FY'11 over Rs.213.41 Crores, which was recorded in the corresponding quarter of FY'10. Sales for the fertiliser business stood at Rs.120.27 Crores of Q3 of FY'11 against Rs.157.64 Crores in Q3 of FY'10. The own manufactured fertiliser component of sales was higher in Q3 FY'11 by 9% as compared to that in Q3 of FY'10. The trading component of fertiliser sales was lower mainly in account of the lower price of bulk fertilisers like MOP.

On the raw material front, the average price for the basket of gas available to us was around \$6 per MMBtu. The quantity that we got 0.67 million MMBtu in Q3 and for nine months it was 0.65 million MMBtu per day. Coming to our new technical ammonium nitrate project of 300,000 tonnes per annum, we have had trial production of about 5000 tonnes till date. The complex is currently in a stabilization mode and I must admit that it has taken slightly longer than we expected particularly in the context of what we spoke to you on our last call. We expect the complex to stabilize very soon and, as we speak, the technical teams from the technology suppliers are actually working on resolving some of the minor issues that are still being confronted by us, things like moisture and bagging, etc. So once the plant is stabilized, we are quite sure that we will be able to produce initially at the rate of 12,000 - 15000 tonnes per month and for the next year of course we will be targeting a capacity utilization of around 70% from the new complex.

The complex will be completed within Rs. 600 Crores. Our original estimate was Rs. 655 Crores. Our marketing plan for the enhanced technical ammonium



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nitrate volumes are in place and we are opening about seven depots across the country, particularly in central and southern India. Out of the new production we are also targeting to export about anywhere between 50,000 and 70,000 tonnes in FY'12. Our product's quality is superior to imported fertiliser grade ammonium nitrate and we hope to be doing well on this front. We do not expect any problems in selling the additional volumes given the large demand-supply of gap for this product in the country.

On the own manufactured fertilisers the volume was lower in Q3 because one shipment of phos acid, which was to arrive in December, had to be diverted because of oil spillage in the Arabian Sea. Hence we could not manufacture the volumes that we had originally targeted. Sales in traded fertilisers has declined because the prices of MOP were lower as compared to the prices of the product prevailing in the previous same quarter.

Overall trading volumes, if you see over a nine-month period, we have achieved a trading of over of Rs. 243 Crores as against Rs. 261 Crores in the corresponding nine-month of the previous year. The drop is because of drop in prices of MOP, which is the key traded product in our basket of fertiliser's products. We are happy to also announce that the company has introduced an enhanced version of its Nitrophosphate fertiliser product Mahadhan with the grading of 24:24:0 from its earlier 23:23:0 and this will give additional contribution to this segment.

On the fertiliser policy front, on NBS, when one looks at the food situation and inflation, we expect the government to align the NBS policy with market reality to ensure adequate availability of fertilisers.

On the fourth segment of our business, which is the realty, I am pleased to announce that at Ishanya we have signed over 1-lakh square feet of additional tenants and we are looking at launching this through 2011 and 2012. The current occupancy levels are just around 40% and the current average rental is around Rs.30. But with Ishanya's new enhanced offering we add food, entertainment and lifestyle products to the erstwhile home and interiors



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products. Ishanya should now see an increase in footfalls and generate better rentals in the coming year.

With this I now leave the floor open for questions.

Moderator: Thank you very much sir. The first question is from the line of Phalguni Datta from Jet Age Securities. Please go ahead.

Falguni Datta: Good morning Sir. Few questions firstly on the sales value for this quarter and comparable with Q3 FY'10 for IPA, TAN and TAN Solutions methanol and ANP?

Somnath Patil: For methanol for this quarter our sales value is Rs. 37 Crores.

Falguni Datta: IPA?

Somnath Patil: IPA was about Rs. 100 Crores.

Falguni Datta: TAN and TAN solutions?

Somnath Patil: That was about Rs. 63 Crores.

Falguni Datta: And ANP?

Somnath Patil: ANP for this quarter was Rs. 44 Crores.

Falguni Datta: Sir if you could just please give for Q3 of FY'10 to compare?

Somnath Patil: For methanol the total figure was Rs. 18 Crores then for IPA we had Rs. 77 Crores. TAN on solid and solutions was Rs. 60 Crores. You wanted ANP right? For Ammonium Nitro Phosphate Rs. 41 Crores.

Falguni Datta: Sir, these ANP volumes were low just on account the delayed shipment of phos acid?

Somnath Patil: That is right.



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- Falguni Datta:** Sir, when do we expect this ANP volumes to happen I mean can it come in Q4 or it would be practical to expect it from FY12 onwards?
- Somnath Patil:** The Ammonium Nitrate you are saying?
- Falguni Datta:** The 3-lakh tonne plant.
- Somnath Patil:** We should get something in this Q4, but surely in FY'12 we are targeting 70% capacity utilization.
- Falguni Datta:** Sir. What is the kind of volume that we should be doing in ANP for FY'12?
- Somnath Patil:** In ANP we are targeting around 180,000 to 200,000 tonnes.
- Falguni Datta:** Sir in this do you not see that revised subsidy rates will impact the margins? Because I guess some price revisions on the upper side have happened again recently, so if this goes on with the raw materials price increase then the difference between urea and such products will increase and would not that be affecting demands if we want to maintain margins going forward?
- Somnath Patil:** Actually the subsidy has been announced in 2011 for 2012 and that is lower than the prevailing subsidy by about Rs.1900. So actually it all depends on how input costs play out particularly the DAP prices. As I said earlier if one looks at the food situation in the country and also the inflation we feel the govt. will have to align their NBS policy with what is prevailing in the market in order to ensure adequate availability of fertilisers to the farmers at reasonable prices. So while MRP is one lever that we have increased somewhat, but then again NBS will have to play an important role and will have to align itself with the market reality of global prices.
- Falguni Datta:** So why have, the govt. certainly gone in and announced lower prices because ultimately, initially when the plan was there it was to link it to the raw material prices the subsidy so if the cost elements move up so logically the subsidiary should have been revised upwards?



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- Somnath Patil:** You see actually it has to do with the international prices of DAP, so the government feels that the subsidy should be good enough to compensate us for whatever prices, and their own expectations of prices that will prevail in 2011 and 2012. So based on that they announced these subsidy rates.
- Falguni Datta:** Sir lastly what are the TAN margins currently prevailing?
- Somnath Patil:** We have current margins of about 25%.
- Falguni Datta:** This would be at the EBIDTA level. Sir they have come down a bit now because earlier we were enjoying 30% on our own captive ammonia usage. I mean which we are doing now. So they have come down a bit?
- Somnath Patil:** They have come down a bit mainly because of increased in ammonia cost.
- Falguni Datta:** Is not ours only partially, what I understand is we are partially relying on imported ammonia for a present tonne so that should not have impacted so much?
- Somnath Patil:** Actually, presently we are not importing any ammonia. We are buying locally. Those prices moved up and because of that our margin.
- Falguni Datta:** But our current captive capacity of ammonia is mostly sufficient to take care of the current capacity that we have?
- Somnath Patil:** No that is not sufficient. We require a total amount of 180000 tonnes of Ammonia, but as what we produce here is 120000 thousand tonnes and also the gas cost moved up this year from an average of around Rs.7 to around Rs.8.5 per SM3.
- Falguni Datta:** This Rs. 7 would be for which quarter?
- Somnath Patil:** This is for the nine months period.
- Falguni Datta:** This Rs. 8.5 is for Q3?



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- Somnath Patil:** Rs. 8.5 is for again nine months.
- Falguni Datta:** Okay this is nine-month of FY'10 Rs. 7 and nine-month FY'11 is Rs. 8.5?
- Somnath Patil:** Yes, and for Q3 in fact it is over Rs.9. For Q3 of FY'11 in cash cost, average cost is around Rs.9.25 and Rs.7 for Q3 of last year.
- Falguni Datta:** What are the realizations privileging currently in TAN?
- Somnath Patil:** Around Rs.18500 per tonne for Q3.
- Falguni Datta:** So these are mostly the same, margins have been impacted only on account of the raw material cost increase?
- Somnath Patil:** Yes that is right.
- Falguni Datta:** Sir secondly on methanol and IPA margins, how are they currently?
- Somnath Patil:** IPA margins were around 20%.
- Falguni Datta:** This is also an EBITDA level?
- Somnath Patil:** Yes EBITDA level.
- Falguni Datta:** Are the RGP cost prices moving?
- Somnath Patil:** They have also gone up and also selling price has gone up, so RGP prices are currently hovering around Rs.52000 per tonne and selling prices are around Rs.63000. We need about 0.78 per tonne.
- Falguni Datta:** Lastly on methanol, what are the margins now and have the methanol prices improved over Q2?
- Somnath Patil:** Yes methanol prices have actually improved significantly. In Q2 there were Rs.11000 per tone. Now in December quarter they were close to Rs.16000 per tonne, so in this quarter we have enjoyed a good margin of about 38% EBITDA on methanol.



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- Falguni Datta:** Finally on this, Ishanya the losses have not come off here, so when exactly do we think that we can start seeing coming off of losses?
- Somnath Patil:** As we have said on the previous calls also, we are now actually modifying the whole mall to bring in more of the lifestyle and food and other offerings and this modification is expected to cost us around Rs. 55 Crores. We have so far spent about Rs. 12 Crores on that and we are now in the process of signing up very good names for the mall and, we have actually, as we speak, signed out additional 100,000 square feet of area and beyond that another 100,000 square feet of area will be signed off towards the second half of next year. We feel that that is when we will really be able to breakeven particularly in the last quarter of next year at the runrate wise.
- Falguni Datta:** Sir we do not plan any other capital expenditure other than this TAN, which has just got over?
- Somnath Patil:** There are small capital expenditures but no major project is going to be straightaway implemented immediately. But we are actually working on a couple of very good projects in the chemical space.
- Falguni Datta:** This would be existing chemicals or new chemicals?
- Somnath Patil:** They are new chemicals, but closely linked to some of our existing products, so we are just waiting for a few things to happen there, few tie ups to take place and once that happens then we can go ahead and announce the plans.
- Falguni Datta:** That is all from my side, thank you Sir.
- Somnath Patil:** Thank you.
- Moderator:** Thank you. The next question is from the line of Tarun Surana from Sunidhi Securities. Please go ahead.
- Tarun Surana:** Hi Sir good morning. Sir my question pertains to margins from the fertilisers in last Q1 EBIT margin was almost 11%, in Q3 it fell to 6%, now it is 3.5%. So what



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is the reason are you not able to take price hikes for ANP? Cost pressures have gone up but I understand that is there a resistance to hiking the MRP of these to decontrolled fertilisers now?

Somnath Patil: Actually the margins have dropped and this drop is mainly on account of increasing gas cost. The major reason is the increase in APM gas cost, it has doubled actually.

Tarun Surana: Have not you taken any prices hike since April in ANP?

Somnath Patil: Yes we have taken some price hikes.

Tarun Surana: What would be the percentage over the last year?

Somnath Patil: It is around 7%.

Tarun Surana: Any plans to take price hike in Q4 or FY'12 because the margins at the EBIT level is 3.5% is really low and after NBS the reduction it will further put a lot of pressures. Assuming the scenario remains as it is do you think you will be able to take price hikes of as high as Rs.2000 per tonne without affecting the volume uptake from farmers?

Somnath Patil: Yes. Again as I said we should segregate our own manufactured product margin and as I said it all depends on how the prices prevail in the international market for the input cost. As I said earlier given the new subsidy that has been announced by the Government of India effective April 1, 2011, it is lower as close to Rs.1900 per tonne, but the expectation is that the prices will also shuffle the input costs. If that does not happen then we expect the government to allow the NBS policy in line with the market reality. The price hike shows there is adequate offtake of fertilisers.

Tarun Surana: But just to understand the scenario, does it not happen how much volume uptake will get affected if you have to take the entire cost down to the farmers that is hike of about Rs.2000 per tonne in MRPS and ANP?



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- Somnath Patil:** It would not affect the volume. It will affect the margins for sure, if you are not able to pass on the hike in input cost through the MRP increase then slowly the margins will come under pressure, from the last year 11-12% it will come down significantly. But this does not seem to be what will happen because we are quite sure that the government will align its policies to the market reality.
- Tarun Surana:** On the Ishanya front, what is the total leasable area after notification?
- Somnath Patil:** The total leasable area after modification will be 5.5 lakhs square feet.
- Tarun Surana:** There is no change from previous message?
- Somnath Patil:** No substantial change.
- Tarun Surana:** You said that 40% is already occupied and you have signed up a 1 lakh more?
- Somnath Patil:** Yes, we have signed up a 1 lakh more and they will start their fit outs and other things.
- Tarun Surana:** Can you name any key tenants or it would be confidential right now?
- Somnath Patil:** On the new tenants we would not like to announce the names at this juncture. We would like to keep it confidential.
- Tarun Surana:** By when do you think they will start the operations?
- Somnath Patil:** They should start operations sometime closer to Diwali.
- Tarun Surana:** So the rental begins at that time?
- Somnath Patil:** Yes that time. That is right.
- Tarun Surana:** In terms of TAN sir this 70% the guidance on the capacity utilization is for the new plant itself. Will old plant will run at 100%?
- Somnath Patil:** Yes typically these plants operate at about 90%.



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- Tarun Surana:** It is for the new plant that is 70% and not for the combined capacity?
- Somnath Patil:** That is right. It is for the new plant.
- Tarun Surana:** What has been the phosphoric acid price right now for you?
- Somnath Patil:** Now, it is \$830 per tonne.
- Tarun Surana:** Any guidance where and what could be the rate could be or it is still having upward pressures or it will settle down?
- Somnath Patil:** It should be around the same level. That clarity will be more as we enter the New Year.
- Tarun Surana:** Thank you.
- Moderator:** Thank you. The next question is from the line of Shiladitya Dasgupta from ICICI Prudential. Please go ahead.
- Shiladitya Dasgupta:** Good morning Sir. I just wanted to get an understanding on this TAN thing. When do we expect to commence commercial production?
- Somnath Patil:** It should actually, we feel, start within a month's time or so. We should start getting commercial production on a sustained basis. We have been able to produce about 5000 tonnes; we are comfortable with the quality and all that. The consistency part is still missing and we are facing some problems on that. Some of the technology suppliers at present are working at the site to help us work on these issues so that the plant runs on a continuous basis. Once it starts on sustained basis then we can easily expect 12,000 to 15,000 tonnes per month as a starting number.
- Shiladitya Dasgupta:** For FY'12 is we expecting around 200,000 tonnes?
- Somnath Patil:** Yes that is what we are targeting. Let us put it that way.



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Shiladitya Dasgupta: So what we are saying is that immediately we will be able to ramp up to 15000-16,000 tonnes per month, so it is not that will take three-four months to reach that level?

Somnath Patil: No we will not take very long to reach that level. It is just a question of stabilizing the plant completely on all parameters and then once everything is stabilized these plants run very well.

Shiladitya Dasgupta: Second, I wanted to touch upon these losses which we have covered with Rs.3 Crores towards restructuring the real estate business. The comment you made on about Rs. 55 Crores is the total expense and Rs.12 Crores is what you have provided for so far. So do you expect this number to be the kind of losses to be recurrent for the next five or six quarters?

Somnath Patil: You see the total cost that we are going to incur is around Rs.55 Crores. This spend will go on till June, even today as of end December we have spent about Rs. 12 Crores. The balance is expected to be spent over the next two quarters.

Shiladitya Dasgupta: What is the loss being booked? On the basis of what? How is the loss figure being arrived at?

Somnath Patil: That is actually the book entry. Actually we had to modify the mall and in the course of modification we had to demolish a portion of one of the arcades and therefore the auditor said that since you have demolish this you have to pro-rata take the written down value and you have to book it as an expense.

Shiladitya Dasgupta: That is what I am telling whether we will see more of expense or losses coming in the year as extraordinary item or this is done?

Somnath Patil: No, we have done with this; we do not feel such similar things will happen again.

Shiladitya Dasgupta: In terms of whatever remaining Rs. 42 Crores we will see spread over two quarters?



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Somnath Patil: That is right yes.

Shiladitya Dasgupta: So in this EBITDA what you have reported this quarter we have just accounted for say Rs.12 Crores of expenses?

Somnath Patil: No in the EBITDA it would not come, it is capitalized, it is the CapEx that we have incurred of Rs.12 Crores.

Shiladitya Dasgupta: So again the remaining Rs.42 Crores also will not see in the EBITDA?

Somnath Patil: No, not in the EBITDA.

Shiladitya Dasgupta: Then it will come to the amortization depreciation number?

Somnath Patil: Definitely.

Shiladitya Dasgupta: Right. Thank you so much.

Moderator: Thank you. The next question is from the line of Vishal Gajwani from Reliance PMS. Please go ahead.

Vishal Gajwani: Good morning Sir. Sir just wanted to know the gas price that is hovering at around \$9 per SMQ then what is the guidance of Q4?

Somnath Patil: Q4 it will be around the same.

Vishal Gajwani: I believe a certain portion of gas comes from Reliance, but that should be \$6, so why is that the gas cost is increasing, you also have fallback arrangement with GAIL, so why is that the cost is increasing for you?

Somnath Patil: The cost has increased because the APM gas cost has doubled as compared to last year from about \$2 per MMBtu. The APM gas cost increased to \$4.2 per Mmbtu with effect from June 1 this year that is why you see that spike in the prices.

Vishal Gajwani: Even future gas cost is going up over the last two to three quarters?



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- Somnath Patil:** This is exactly the same thing. If you compare with the previous years quarter you had a much lower number. Half of our gas comes from GAIL under APM, nearly half and therefore that has doubled because there is double and this rupees what you said is not dollar per MMBtu it is Rs. 9.25 per SM3.
- Vishal Gajwani:** Sir in IPA you mentioned that your margins are right now are 20%. So these are substantially lower than what they were earlier, so how do you see incrementally the margins to be shaping up?
- Somnath Patil:** We think they will remain around these levels as we do not see any scope for any great significant increase given the volatility in the crude oil prices. The crude costs are now rising slowly so therefore there is a correlation between all the products between crude, RGP as well as the IPA. So, we feel that these will continue at these margins.
- Vishal Gajwani:** Sir in Technical Ammonium Nitrate the margins of TAN have come down for the existing quantity, so similarly for the new quantity as we are going to import ammonia what kind of margin we can expect for the new capacity?
- Somnath Patil:** We can actually expect around the same levels of 25%.
- Vishal Gajwani:** But there the import content will be very high?
- Somnath Patil:** Yes that is right, but plant efficiency and imported ammonia actually is just about 45% of the cost. So, we should be able to pass on the increase to the customer.
- Vishal Gajwani:** So you plan to increase the prices of TAN?
- Somnath Patil:** Actually we are planning to increase and as we speak we have increased the prices.
- Vishal Gajwani:** By how much Sir?
- Somnath Patil:** We have increased the prices by around Rs.3000 roughly on LDAN.



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- Vishal Gajwani:** Rs.3000 roughly how much?
- Somnath Patil:** Yes it is around 15%
- Vishal Gajwani:** 15% of price increase in TAN already?
- Somnath Patil:** Overall yes it is.
- Vishal Gajwani:** Thanks a lot.
- Moderator:** Thank you. Our next question is from a line of Gauri Anand from MF Global. Please go ahead.
- Gauri Anand:** Good afternoon Sir. A few questions on gas; gas price on QoQ basis have they gone up Sir and if you can give the number exact number?
- Somnath Patil:** QoQ not much of an increase.
- Gauri Anand:** Because ONGC for its non-fertiliser non-priority sector they have again raised their price by above 10% or so. I think effective November so I just wanted to see if that is led to a gas price raise did that effect Sir?
- Somnath Patil:** We are not getting that C-series gas, ONGC yet.
- Gauri Anand:** This is for the APM fields only. One was effective in June and other than was effective November?
- Somnath Patil:** For the APM, effective November there is no increase in the prices for us. It has not affected us.
- Gauri Anand:** Sir with this Reliance gas declining, are we sort of sourcing imported gas?
- Somnath Patil:** Yes we are to the extent that is required to buy the imported gas, but the Reliance gas the reduction is just 10%. Our allocation is 0.18 from Reliance and therefore the 10% out of 0.18 and it does not make any significant dent overall.



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- Gauri Anand:** Just to understand what will be the delivered cost of LNG for us, spot LNG?
- Somnath Patil:** Spot LNG delivered cost will be around Rs.13 to Rs.14.
- Gauri Anand:** Sir just to understand if you sort of start getting as from Dabhol, Ratnagiri. In terms of the connectivity to pipeline you would be closer to that pipeline or you are closer to east-west pipeline sir, the Reliance pipeline because from next year onwards you may start getting as from Dabhol also?
- Somnath Patil:** Actually, we might get but then we should also be getting from ONGC, C-series. If we get from there then that gas will be adequate for us and that will be the cheapest for us. It will be cheaper than even Reliance gas because we will get right it at our own landfall point actually and not from Dabhol.
- Gauri Anand:** Sir, is there a scope to retrofit our ammonia plant further?
- Somnath Patil:** There is scope to retrofit and our technical guys are looking at it. There is scope to increase capacity by about 20%.
- Gauri Anand:** Sir, on this IIP growth has fallen to both 2.7% and the expectations are that, it will weaken and further be negative, so just wanted to understand is this is kind of threat for the consumption of ammonium nitrate volumes going forward, the new capacity?
- Somnath Patil:** Actually if you look at the overall scenario, the country consumes about 5.5 to 6 lakhs tonne of ammonium nitrate and what is produced in the country is just about 2.5 lakhs tones. So there is actually a gap of 3.5 lakhs tonnes, which is met by imports and the imports are of inferior quality, fertiliser grade ammonium nitrate. So once our product is available on a larger scale then we surely will be the preferred choice for sourcing ammonium nitrate for the explosive manufacturers. The mining sector, the cement sector, and the infrastructure sector, they are actually growing. Cement of course is a little bit subdued, but then the other sectors are growing at 8% to 9% and on the back of that I do not see any difficulty for us to be actually able to sell this additional quantity. Now having said that we are also targeting to export



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about 50-70 thousand tonnes from the new plant, so as to reduce the pressure on the domestic front.

Gauri Anand: Sir have we sort of entered into any firm uptake agreement with any customer?

Somnath Patil: We do not need to enter into firm uptake agreements. These are regular customers that we have and their volumes will go up, their inputs will substituted by local sourcing from us.

Gauri Anand: Sir then this rise in ammonia cost you are confident that we will be able to pass on. In terms of the chemicals methanol, ammonium nitrate and IPA, this time it seems methanol has done quite well compared to other two so what is the outlook for Q4?

Somnath Patil: Q4 so we are targeting to produce another 25,000 tonnes of methanol. Rest of products will be more or less as per the trend except in ANP where again because of what happened to phosphoric acid we suffered. But we will pick that again in Q4 and we should produce much better than what we produced in Q3.

Gauri Anand: Sir these margins in methanol will continue Q4 and they can be sustained at these levels?

Somnath Patil: We have visibility up to let us say February end. You know very well methanol is a highly volatile product. Prices swing within a month's time. So up to February end we are sure that we will be able to make good money. We are firm with our production plan. In the month of March we will see how things play out after end of February.

Gauri Anand: Are you seeing ammonia prices softening Sir?

Somnath Patil: This should happen in fact. We thought it should, but as of now they are around \$430 per tonne so we have to wait and watch for sometime.



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- Gauri Anand:** One last question, the other industry players have taken a hike in ANP that is retail price effective January. Are you also contemplating raising the prices?
- Somnath Patil:** We have already raised prices. One raise was there in December and now in January also we have increased those prices.
- Gauri Anand:** December you said was 7%. For January?
- Somnath Patil:** All put together we have increased about them 7% compared to what was prevailing in Q2.
- Gauri Anand:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Rohan Gupta from Emkay Global Financial Services. Please go ahead
- Rohan Gupta:** Good afternoon. Sir once again my question on gas. Basically you mentioned that current availability is close to 0.67 SMQ per day with average gas cost of \$6 MMBtu, am I right Sir?
- Somnath Patil:** Average gas at fixed dollar that is right.
- Rohan Gupta:** That is for Q2 and Q3 right?
- Somnath Patil:** Yes.
- Rohan Gupta:** If I understand our total requirement is close to 0.9 SMQ per day so how we are?
- Somnath Patil:** Our requirement 0.65.
- Rohan Gupta:** Total requirement on a daily basis 0.65 only as against which we are getting 0.67.
- Somnath Patil:** That is what we have got; in fact total we have got 0.65.



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- Rohan Gupta:** So and this average gas cost was \$6 what is the average gas cost as of now when we speak in the month of January?
- Somnath Patil:** It is same as what was prevailing in the Q2 and Q3. It is at the same level.
- Rohan Gupta:** There has been no increasing gas cost.
- Somnath Patil:** There has been no increase.
- Rohan Gupta:** Sir, 50% we will get from APM gas. What is the percentage of the RLNG in our total requirement or in the total consumption we are doing?
- Somnath Patil:** It is around 13% you can say.
- Rohan Gupta:** That is close to 0.1 out of 0.65. Okay, it is roughly 14% to 15%. There you expect these prices to move up further from \$13 to \$14 or it will be at that price itself?
- Somnath Patil:** Actually it depends on how the crude prices behave.
- Rohan Gupta:** Sir second question on ammonia. You mentioned the current prices are \$430. Is this contracted price for ammonia for our next quarter or is it lower than that for our requirement?
- Somnath Patil:** Our contract is on market-linked prices and we get some kind of rebate for quantities, so the price that I told you is the spot price.
- Rohan Gupta:** What was the average price in the month of Q3?
- Somnath Patil:** See we have not been importing so far by the way, so I can give you the average of the domestic ammonia that one needs to buy. It was Rs.16,000 per tonne in Q3, and this was all purchased locally.
- Rohan Gupta:** Local prices for ammonia how much is it right now?
- Somnath Patil:** Local prices are around the Rs.16,000 per tonne.



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- Rohan Gupta:** But they are at same level?
- Somnath Patil:** Yes.
- Rohan Gupta:** Just for EBIT costing, also TAN, what is the cost of ammonia in our total cost or as a percentage of revenue can you give some sense?
- Somnath Patil:** If you take today, it should be around Rs.9000 per tonne.
- Rohan Gupta:** Rs. 9000 of ammonia cost that is at Rs.15,000 correct?
- Somnath Patil:** This is on imported basis. As for the new TAN plant we are going to go for imported ammonia.
- Rohan Gupta:** Okay, so ammonia cost on a \$430 will be Rs.9000 per tonne of TAN and we get almost 25% margins in TAN.
- Somnath Patil:** Yes that is right.
- Rohan Gupta:** Sir you mentioned right now the TAN prices are close to Rs.18,500 is that right Sir?
- Somnath Patil:** That's the average that we got.
- Rohan Gupta:** Average Rs. 18500. And above this you have taken Rs.3000 hike?
- Somnath Patil:** Around Rs. 3000 is what I said. Actually we have taken around Rs.2700 hike. Today our prices are around Rs.21,000 on LDAN.
- Rohan Gupta:** This is not only on new TAN, it is on overall all the TAN you have taken this price increase.
- Somnath Patil:** All the TAN i.e. LDAN.
- Rohan Gupta:** Sir, second for the interest and depreciation for the quarter, did we charge anything for this new plant?



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- Somnath Patil:** We charged interest of about Rs. 3 Crores. We had partially commissioned the plant and depreciation is about Rs. 2.7 Crores.
- Rohan Gupta:** The commercial production started from December month and for what timeframe we charge this?
- Somnath Patil:** No, what we have started was a part of the whole complex. The high density ammonium nitrate and the AN solutions plant and the utilities were all commissioned towards the end of September. So of course you could only produce HDAN. LDAN, which is the low density ammonium nitrate and the acid plant were not stabilized, they have not been commissioned as yet and therefore no interest and depreciation on that account has been charged in Q3. So on the part of the plant we have started we have interest and depreciation for Q3.
- Rohan Gupta:** Q4 we expect full impact coming on interest and depreciation?
- Somnath Patil:** Yes, you can expect full impact.
- Rohan Gupta:** This TAN plan cost has increased earlier from Rs. 650 to now at Rs. 700 Crore right?
- Somnath Patil:** No, it has come down; in fact it is less than Rs. 600 Crores.
- Rohan Gupta:** Less than Rs. 600 Crores. Sir did I hear you right that you mentioned that you were planning additional 20,000 tonnes of methanol production for Q4?
- Somnath Patil:** Not additional, we have capacity.
- Rohan Gupta:** I mean this is the part of quarter month production only like 25,000 tonnes.
- Somnath Patil:** Yes.
- Rohan Gupta:** Thank you very much.



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- Moderator:** Thank you. The next question is from the line of Varun Guntupalli from Edelweiss Securities Limited. Please go ahead.
- Varun Guntupalli:** Good afternoon sir. Just a couple of question, one in terms of this own manufactured fertiliser, we are expecting to return to Q2 level of production in Q4?
- Somnath Patil:** Yes, I can say that we are targeting that.
- Varun Guntupalli:** In terms of target for FY12, we would be looking at a capacity utilization of?
- Somnath Patil:** 1,80,000 to 2,00,000 tonnes.
- Varun Guntupalli:** So this year for the second half we were targeting close to one lakh production, but because of the Q3, because of the raw material issues, we would be lesser than that right, around 70,000 will it be fair in H2 of this year?
- Somnath Patil:** Yes, that is right.
- Varun Guntupalli:** In terms of this customized fertiliser plant where do we stand right now sir? Are we are planning to incur some CapEx on that?
- Somnath Patil:** We have not started any CapEx spend on that, we have identified a location for that, but we have not taken any final decision yet on that.
- Varun Guntupalli:** Any timeline by when you would be starting off CapEx on that front?
- Somnath Patil:** Actually, we will wait for some more time. We will have to get back to you on that.
- Varun Guntupalli:** CapEx would be to the tune off Rs. 100 Crores which you are looking at?
- Somnath Patil:** It should be around Rs. 60 - 70 Crores.
- Varun Guntupalli:** Okay Rs. 60 - 70 Crores spread across one-and-a-half years, right?
- Somnath Patil:** Yes, at least over a year.



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- Varun Guntupalli:** With regards to the new TAN plant this quarter you would be looking at producing something like 10,000 to 15,000 tonnes in this quarter from the new plant?
- Somnath Patil:** We are targeting that, we are hoping to produce that. Once the plant is stabilized we will be able to produce that.
- Varun Guntupalli:** In this Rs. 600 Crore CapEx how much is debt in the Rs. 600 Crores CapEx which we have incurred on this new TAN plant?
- Somnath Patil:** It is about Rs. 400 Crores.
- Varun Guntupalli:** Rs. 400 Crore debt. That is all I have Sir. Thank you.
- Somnath Patil:** On the nitrophosphate you said a figure of 70,000 tonnes for second half.
- Varun Guntupalli:** Second half. I was asking what it will be?
- Somnath Patil:** It will be less than that; it will be actually below 60,000 tonnes because in the third quarter we produce just about 24,000 tonnes.
- Varun Guntupalli:** 24 right?
- Somnath Patil:** We sold just over 23000 tonnes.
- Varun Guntupalli:** So, in the fourth quarter you would be targeting around 40,000 tonnes?
- Somnath Patil:** We can assume 35,000 safely.
- Varun Guntupalli:** So overall it will be around 60,000 tonnes for the second half right?
- Somnath Patil:** That is right.
- Varun Guntupalli:** Thank you very much sir. That is all I have.
- Moderator:** Thank you. The next question is from the line of Niraj Toshniwal from SPA Securities. Please go ahead.



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- Niraj Toshniwal:** Hello. I wanted to know more about the Ishanya, you have 5,50,000 square feet of land and you are adding one lakh square feet of land, you have already signed up for that?
- Somnath Patil:** We are not adding beyond 5,50,000. Out of 550 our current occupancy is about 40%. We are signing of beyond that 40% for another 100,000 square feet.
- Niraj Toshniwal:** Okay and rest of that?
- Somnath Patil:** Another 100,000 will be happening in the next year second half.
- Niraj Toshniwal:** Okay and what is the rate one is getting for that?
- Somnath Patil:** That we are targeting the rate of around Rs.45. In fact Rs.45 will become our average rate next year.
- Niraj Toshniwal:** Increasing from Rs. 30?
- Somnath Patil:** Increasing from Rs. 30, yes.
- Niraj Toshniwal:** What is the value per square feet of land if you can tell me?
- Somnath Patil:** Vivek you want to take this?
- Vivek Kelkar:** I may just clarify that we have been talking about 5,50,000 square feet of land; it is not really land. What you talking about is the leasable area. If you look at the land entirely on which it is based, it is about 10 acres, but leasable area is 5,50,000 square feet roughly.
- Niraj Toshniwal:** Okay and land part will be 10 acres?
- Vivek Kelkar:** The plot size is 10 acres.
- Niraj Toshniwal:** What will be the value for that?



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- Vivek Kelkar:** We have not valued the land currently. You know that is a speculative question.
- Niraj Toshniwal:** Regarding IPA, can you tell me how much was the volumes in this quarter?
- Somnath Patil:** 16000 tonnes.
- Niraj Toshniwal:** And then in terms of value?
- Somnath Patil:** In terms of value it is Rs. 100 Crores.
- Niraj Toshniwal:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Tarun Surana from Sunidhi Securities. Please go ahead.
- Tarun Surana:** I want some clarity on the total price hike on ammonium nitrophosphate that you have taken in the current year compared to Q4 of last year, Q4 FY'10?
- Somnath Patil:** In TAN you say. Our prices were same more or less at Rs.18500, but we have recently taken a price hike of about Rs.2700 on LDAN. Still December quarter prices were more or more or less same.
- Tarun Surana:** ANP, one would have been in April and another would have been in December - January you said?
- Somnath Patil:** In ANP in April, we took a price hike of around Rs.600, and then in December and January put together we have taken a price hike of about Rs.400.
- Tarun Surana:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vishal Gajwani from Reliance PMS. Please go ahead.
- Vishal Gajwani:** Sir you mentioned that for TAN you will be producing around 15,000 roughly tonnes for this quarter, so I believe that stabilization will take one more month



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from now, so do you plan to provide for entire interest and depreciation for the full quarter in this in Q4?

Somnath Patil: No it will have to be for that month as soon as we start commercial production. We will charge the interest and depreciation for that period.

Vishal Gajwani: For FY'12 can you give us a rough idea of how much interest and depreciation incrementally will come through because of TAN?

Somnath Patil: It will be around Rs. 65 Crores.

Vishal Gajwani: Both put together?

Somnath Patil: Yes.

Vishal Gajwani: Thank you.

Moderator: Thank you. Our next question is from the line of Jaideep Merchant from Janak Merchant. Please go ahead.

Jaideep Merchant: Mr. Patil, you mentioned that you have taken a 15% price hike in TAN in this month. Does that mean that the margins, which you said, and will the old TAN capacity go up in this quarter?

Somnath Patil: They should be better than what we saw in Q3.

Jaideep Merchant: In the past, they have all gone up to 35% also, so I mean what are we in terms of numbers, what are we looking at Sir?

Somnath Patil: It will be between 25% and 30%, now for Q3 we had around 25%, but we can expect this to be going up accordingly.

Jaideep Merchant: Thank you.

Moderator: Thank you. Our next question is from the line of Rohan Gupta from Emkay Global Financial Services. Please go ahead.



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- Rohan Gupta:** Just small question only. On methanol, the price you said currently it is Rs.16,000 per tone. Q3 average would have been close to how much?
- Somnath Patil:** It is the same. Q3 average is Rs. 16,000 and today's prices are also around the same, Rs. 16,000.
- Rohan Gupta:** Rs. 11,000 you mentioned as in last year?
- Somnath Patil:** Rs. 11,000 was in the last quarter, September quarter.
- Rohan Gupta:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Paresh Jain from Max New York Life. Please go ahead.
- Paresh Jain:** Good afternoon. Just wanted to understand that on the raw material side, it is like we are doing a spot purchase or is it like contracts, which are, re-priced quarterly. How is that like?
- Somnath Patil:** This is all spot purchase. The quantities are contracted, market prices prevailing at the time of shipment.
- Paresh Jain:** Both for sulphuric acid and phosphoric acid?
- Somnath Patil:** Yes for phosphoric acid.
- Paresh Jain:** For sulphuric?
- Somnath Patil:** Sulphur also. We do not consume sulphuric acid, some small quantity, and very small quantity. Phosphoric acid is the main raw material for all nitrophosphates.
- Paresh Jain:** So it is entirely spot actually?
- Somnath Patil:** It is spot.
- Paresh Jain:** For ammonia?



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- Somnath Patil:** Ammonia also it is almost spot. We have been buying ammonia locally, so we enter into contract for very short periods of time say for max two months or three months at a time. For that period, the prices are fixed and we get volume discount.
- Paresh Jain:** What is the sense that you are getting for let the phosphoric acid for the next six-month order flow?
- Somnath Patil:** We expect the prices to be around \$830 per tonne.
- Paresh Jain:** You do not expect them to fall from the current level?
- Somnath Patil:** Yes, we do not expect that to shoot up from the current level.
- Paresh Jain:** Are there any talks in the government on the subsidy that has been reduced on some of the fertilisers and all for the next year?
- Somnath Patil:** There is no talk as such, but we will have to wait and watch how the situation unfolds itself towards the end of the quarter and we will get some sense of the international prices that are likely to prevail in the next year.
- Paresh Jain:** Because on one hand we have seen that phosphoric acid and all are not going to fall in the next six months also. So why is it that the industry waiting for the next quarter to end and then why not from right now onwards to check any discussion with the government?
- Somnath Patil:** Yes. At the appropriate time that will also happen.
- Paresh Jain:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Manish Mahawar from Prabhudas Lilladhar. Please go ahead.
- Manish Mahawar:** Good afternoon sir. I just wanted to know if we look at ammonium nitrate prices, when you look at the last three quarters, I think Q1 is roughly Rs.19000, Q2 is roughly at Rs.18800 and now it is around Rs.17800 roughly. So



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the price is coming down in last three quarters and now we have taken a price hike of almost I think Rs.2700 suddenly in this right sir?

Somnath Patil: Yes, we have taken that hike.

Manish Mahawar: Is that what has been last three quarters where the prices falling and now in January, you have taken a price hike of Rs.2700 right now actually. Why is the pricing is falling actually? If you just look at the sequential basis in the last three quarters basically?

Somnath Patil: It has not moved significantly, it is just marginal movement.

Manish Mahawar: It used to be at Rs.19000 it is almost Rs.17800, down Rs.1200. Is there any change on fundamentals in the industry basically in this time or some again global market or so actually at this time?

Somnath Patil: There has been no fundamental change in the market, let me tell you that.

Manish Mahawar: Second, things on the methanol side right now our realizations are from Rs.16,000 actually in this quarter. I think there is some global companies have shut down their plant in the methanol front that is why this spike has come actually in this quarter. So basically you are saying till February is your visibility, so do you think suppose this capacity will be operational, that again realization will be in the normal range of Rs.12,000 or Rs.13,000 going forward Sir?

Somnath Patil: At this time the same Rs.16,000 per tonne is prevailing. We are at the end of January now. We have a visibility up to February. So we feel that these prices should be prevailing till at least February.

Manish Mahawar: But after that actually basically whatever the plant shutdown in the global market it will then come down in the normal range Rs.11000 to Rs.12000?

Somnath Patil: It can come down surely. This is a highly volatile product. It is difficult to predict.



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- Manish Mahawar:** Again this IPA front, actually if look at the realization it has gone up in a sequential basis at 10% and gone up 10%, right sir? So is this sustainable margin actually for the IPA?
- Somnath Patil:** They are sustainable. They are in line with increase in RGP prices. This is the sustainable price.
- Manish Mahawar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vishal Gajwani from Reliance PMS. Please go ahead.
- Vishal Gajwani:** Sir in IPA, you said that the prices have gone up by 10%, so our EBITDA in terms of per tonne basis is maintained or has it come down in spite of the increase?
- Somnath Patil:** It is maintained at the same level around 20% because raw materials have also gone up.
- Vishal Gajwani:** But, I believe earlier if I am not wrong, probably three four quarters back the margins were around 30% there? Last year same quarters the margins were around 30%?
- Somnath Patil:** Q4 last year I think the margins were better. That is why.
- Vishal Gajwani:** So the margins have come down in IPA, but absolute per tonne EBITDA is maintained or it has also come down?
- Somnath Patil:** Absolute yes, if you look at these. If we compare with last year then.
- Vishal Gajwani:** Even on a QoQ basis has per tonne EBITDA come down there?
- Somnath Patil:** No, it is actually it is per tonne EBITDA has slightly come down, it has come down a little bit compared to earlier levels, because of slight drop in the margins.



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- Vishal Gajwani:** So roughly how much is this right now sir, Rs. 12,000?
- Somnath Patil:** It is around Rs. 14000.
- Vishal Gajwani:** One more question on IPA, since we have the market leader here with 75% market share and no one else is there in this space, so is it fair to assume that incrementally you will be able to increase and improve the margins here and pass on the input cost increase?
- Somnath Patil:** Yes, that is fair to assume.
- Vishal Gajwani:** So roughly what kind of sustainable margins should we consider for IPA. Is it fair to assume Rs. 18000 per tonne are a sustainable margin for the long-term?
- Somnath Patil:** Rs. 18000 is slightly on the higher side, Rs. 14000- 15000 should be good at today's price. Actually it depends on the prices. At Rs.63000 with a margin of around Rs. 15000, it is more than 20%.
- Vishal Gajwani:** So roughly, these margins, what will continue incrementally and may be Rs. 1000 more can be expected from here on?
- Somnath Patil:** You can assume that, yes.
- Vishal Gajwani:** Thanks a lot.
- Moderator:** Thank you. As there are no further questions, I would like to hand the floor back to Mr. Manoj Bahety for closing comments.
- Manoj Bahety:** Thank you, Mr. Somnath for a great session. Before we end, I have couple of question from my side. Like on the new TAN Plant I think you must have some internal estimates for next year like what will be the best case or what will be the worst case possible in terms of volume offtake from the new TAN plant if you can share that with us?



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Somnath Patil: We are talking about the capacity utilization of about 70% and that is a reasonable estimate given the fact that it is a new plant, it is more than two times of our existing capacity. So, I would like to rather stick to that figure of 70% capacity utilization that we are targeting.

Manoj Bahety: So, I think if we are talking about 70% utilization for the year, I think at a closing run rate we must be targeting to reach close to 90% utilization like we must be starting with a lower capacity utilization and slowly we will ramp up to 90%?

Somnath Patil: Yes, closing would be 75-80%. 80% you could assume, not 90%.

Manoj Bahety: 80% will be your closing and by FY'12 I think we will be close to 60-70% type of number?

Somnath Patil: Because we can start off at the level of 60%.

Manoj Bahety: One last question from my side, after TAN plant, what will be future growth strategy for Deepak Fertilisers like once the TAN plant gets stabilize, whether you will deleverage our balance sheet or whether you will eye some more new growth opportunities?

Somnath Patil: We are very seriously looking at some projects in the chemical space and we have done a lot of work on that. We are just waiting for a couple of things to be firmly tied up and after that we will be in the position to announce new project.

Manoj Bahety: But mainly it will be in India only or you are looking India as well as overseas, organic as well as inorganic growth?

Somnath Patil: This is in India, a new Greenfield plant.

Manoj Bahety: Okay, so it will be a new Greenfield plant mainly in India. Any plans to ramp up in fertiliser, if you are talking about expansion in chemical space, but like any



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plans in urea space or in the fertiliser to ramp up the capacity of the fertiliser space?

Somnath Patil: We are working to increase the capacity of our ANP plant by doing some retrofitting and it should enable us to take the capacity higher by around 70,000-80,000 tonnes, but there is some engineering work required in that, so those studies are going on. As far as urea is concerned, we have no such plans at this point in time.

Manoj Bahety: For ramp up capacity we are sure about raw material linkages like Phosphate has been an issue always for fertiliser plant especially in India?

Somnath Patil: We are fairly confident of that tie up.

Manoj Bahety: Thank you very much for the great session. It was really a wonderful session and now I hand it over back to you for any closing remarks if you have any.

Somnath Patil: In my closing remarks, I would like to state that we would like to now focus on the new TAN complex immediately to make sure that we commercialize that as soon as possible and then produce on a sustained basis and consolidate our business. As I said earlier we are targeting to manufacture and sell about 70% of this capacity in FY'12 and as I also said that we are now trying to look at new opportunities for growth given the fact that our balance sheet is considerably under leveraged and for all other products we have virtually reached our full capacity utilization. So we are necessarily looking out for new avenues for growth, which we are seriously going to pursue going forward. That is about it. Thank you.

Moderator: Thank you. On behalf of Edelweiss Securities Limited that concludes this conference call. Thank you all for joining us. You may now disconnect your lines.