



“Deepak Fertilisers and Petrochemicals Corporation Limited Q3FY13 Results Conference Call”
January 24, 2013

Moderator Ladies and gentlemen, good day and welcome to the Q3FY13 Results Call of Deepak Fertilisers And Petrochemicals Corporation Limited hosted by Emkay Global Financial Services. We have with us today Mr. Somnath Patil – President and Chief Financial Officer of Deepak Fertilisers And Petrochemicals Corporation Limited. As a reminder, for the duration of this conference, all participants’ lines will be in a listen-only mode, and there will be an opportunity for you to ask questions at the end of today’s presentation. If you should need assistance during this conference, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Rohan Gupta – Senior Research Analyst of Emkay Global. Thank you. Over to you, Mr. Gupta.

Rohan Gupta Thank you. Good evening, ladies and gentlemen for logging in for the conference call of Deepak Fertilisers And Petrochemicals Corp Ltd. From the management we have Mr. Patil and Mr. Kelkar and Mr. Debasish Banerjee. I will first request you to give us a quick comment on the Q3 numbers and also give us a quick comment on the industry environment as of now. We can then follow it up with the Q&A session..

Somnath Patil: Good afternoon, ladies and gentlemen. Welcome to the Deepak Fertilisers And Petrochemicals Corporation Q3FY13 earnings call. I have with me my colleagues, Vivek Kelkar and Debasish Banerjee. This has not been an easy quarter for us, largely because of continuing high Ammonia prices and the decline in the Agri sector performance due to drought in large parts of the country, especially in Maharashtra, Gujarat and Karnataka which are our home markets. As you know, for the quarter ended December 31, 2012 the company recorded total income from operations at Rs. 623.35 crores as against Rs. 601.49 crores in the corresponding quarter last year. Profit before tax stood at Rs. 41.79 crores as against Rs. 62.90 crores and profit after tax was recorded at Rs. 31.65 crores for Q3FY13 vis-à-vis Rs. 49.65 crores in the corresponding period of Q3FY12.

Segment revenues in Q3FY13 for the Agri business stood at Rs. 225.13 crores as against Rs. 276.39 crores in corresponding period of FY12. Segment profitability for Agri business stood at Rs. 18.81 crores in Q3FY13 as against Rs. 28.65 crores for the same quarter in the previous financial year. Given the drought conditions the overall Fertiliser consumption in India registered a decline of 43% in Q3FY13. However, our brand pull remained strong and our marketing efforts bore good fruit. As a result, DFPCL's ANP product registered a decline of only 18%. The Chemicals segment registered a growth of 22% to Rs. 413.93 crores in Q3FY13 vis-à-vis Rs. 340.49 crores in the corresponding period of FY12.

Profits for the Chemicals segment were, however, lower at Rs. 57.52 crores as against Rs. 81.59 crores for the corresponding quarter of the previous year. We continued to be impacted by both high Ammonia cost in the Chemicals business and by the overall grim scenario in Fertilisers. Ammonia prices increased 26% on a YoY basis during the quarter under review compared to the previous corresponding quarter of FY12. This had a consequent impact on margins in the downstream Chemicals business. Ammonia prices have begun to soften gradually in Q4 and the company expects to pass on the higher raw material prices in a gradual manner going forward.

The Methanol plant also had to be shut down during the quarter under review due to high spot gas prices which rendered the product unviable. As you know, one of our plants at Taloja has been facing a strike from 3rd January 2013. This has happened because of a dispute over disciplinary action taken by the management; productivity issues and wage settlement issues. However, in the absence of workers, the management staff is operating the plant which is understandably running at truncated levels. All other facilities of the company including the new TAN plant at Plot K-7, K-8 continue to function normally. Negotiations with the workers are in progress.

I now leave the floor open for questions.

- Moderator** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Pratik Poddar of ICICI Prudential Asset Management. Please go ahead.
- Pratik Poddar** On your Realty business just wanted to understand what would be the footfalls for this quarter?
- Somnath Patil:** This quarter, as I said on my previous call, the modification work of the mall has been completed and during this period we had given large sections of our mall on a revenue share basis and also on free rent basis. So, the modification work having just been completed we are now starting to see footfalls increase and as we progress further on new sign ups we should see better performance at the mall.
- Pratik Poddar** What would be the occupancy rate in the next quarter if that could be given?
- Somnath Patil:** Currently, the occupancy rate is around 28% and we expect further occupancy to improve only in the first quarter of next year.
- Pratik Poddar** My second question would be regarding the dispute with the workers. When do you expect this to settle, could you just give me a timeline?
- Somnath Patil:** Discussions are going on and the issue is quite frankly one of disciplinary action that we have taken against some workers who resorted to some violence and some kind of inflammatory speeches. We are open because we consider them to be part of our family and we are looking forward to their coming forward to discuss the real issues.
- Pratik Poddar** I can assume that this would be sorted out in the next three months or it is very difficult to...?
- Somnath Patil:** We should be able to resolve the issues very soon.
- Pratik Poddar** And this would have any loss in the production or something like that?

- Somnath Patil:** There will be some loss in the production at the K-1 plant which houses several of our facilities. At present the management staff is running the plants, but obviously, they are being run at sub-optimal levels.
- Pratik Poddar** Could you just quantify the production loss?
- Somnath Patil:** It is too early for us to quantify that and we would like to wait for some time to see how things actually play out.
- Pratik Poddar** The third and final question would be on the Togo Mine that you have just bid for, could you just throw some light on it?
- Somnath Patil:** Actually, we have been looking at opportunities overseas, particularly, with a view to securing raw materials for our plants. So the Togo facility is one that has large reserves of rock phosphate. There is a consortium of overseas companies which actually are interested in having a tie-up with us because we are consumers of phos acid and also because we have good project implementation capabilities. So before bidding they wanted a concurrence from us that we were willing to be partners in the bid process. This required disclosure to their stock exchange and hence we also had to do it to our stock exchange, but in terms of any substantial thing there is hardly anything at this point of time. It is a long way to go from here on..
- Pratik Poddar** So within the next three to six months no substantial improvement on the Togo Mine?
- Somnath Patil:** Not within the next three to six months, certainly not.
- Pratik Poddar** Would you be comfortable in declaring your consortium partners or that would be confidential?
- Somnath Patil:** Actually we have put it in the press release as well. There are two major companies, Balamara Resources and Minemakers.
- Pratik Poddar** So these would be related to the promoters? My question was more towards that.

- Somnath Patil:** No, they are Australian companies, listed on the Australian Stock Exchange.
- Pratik Poddar** So all independent companies?
- Somnath Patil:** That is right.
- Moderator** Thank you. The next question is from Falguni Dutta of Jet Age Securities. Please go ahead.
- Falguni Dutta** Can you just give me the sales value for this IPA, TAN solution, Methanol and ANP for the quarter ?
- Somnath Patil:** For the quarter for IPA has been Rs. 142 crores, for TAN Rs. 134 crores.
- Falguni Dutta** This includes both TAN and TAN Solution?
- Somnath Patil:** Yes, both. Methanol was just about Rs. 2 crores and ANP was Rs. 100 crores.
- Falguni Dutta** What was our average gas cost for the quarter?
- Somnath Patil:** That was around Rs.13.5 per SM3.
- Moderator** Thank you. The next question is from Gauri Anand of Phillip Capital. Please go ahead.
- Gauri Anand** My question is on margins for Fertilisers and Chemicals. If I look at the per ton profitability for Fertilisers, it seems to have gone up and you said in your opening remarks that Ammonia costs have had some pressure overall. So what I want to know are the per ton margins for the Chemicals as also Fertilisers both manufactured and traded. That is my first question.
- Somnath Patil:** The ammonia price increase has impacted the Chemicals sector performance and not Fertiliser sector performance.
- Gauri Anand** So the Ammonia for the Fertiliser division is entirely manufactured, we do not import, is that right?

- Somnath Patil:** That is right.
- Gauri Anand** So what has helped the profitability of Fertilisers this quarter given that it has been a weak demand environment. Have the trade margins gone up?
- Somnath Patil:** Basically, we have the Speciality Fertilisers products where we have been able to maintain the margins. But otherwise overall if you see our margins have actually come down from 10% last year.
- Gauri Anand** But let us say if we trade in DAP, would we make a gross of about Rs. 2000 a ton or Rs. 2500 a tonnes, how does it, is the number stack up or?
- Somnath Patil:** Actually on DAP bulk we would have a margin of not more than Rs. 500-600.
- Gauri Anand** The second is there is already an impending decision where the gas prices are likely to double. How are we prepared to deal with this? Are the retail prices likely to go up further or subsidies will go up? If you can give us some sense on this?
- Somnath Patil:** It will be slightly premature for us to react to this kind of news story. We would like to wait and watch for things to actually play out.
- Moderator:** Thank you very much. Our next question is from Manoj Baheti from Edelweiss. Please go ahead.
- Manoj Baheti:** My first question is would you like to give some guidance on TAN production for next year. What kind of capacity utilization you are looking at and what will be the mix of off take between domestic and export market for that?
- Somnath Patil:** Well next year we are targeting a capacity utilization of about 75% of the total of 430,000 tonnes and we would target an export between 50 and 75,000 tonnes.
- Manoj Baheti:** Okay, 50 to 70K will be export, so you are confident that around 350 to 380 can be consumed in the domestic market, right?

Somnath Patil: At 75% we are looking at about 320,000 tonnes. If you remove 70,000 tonnes for export, about 250 to 270,000 tonnes will be consumed in the domestic market.

Manoj Baheti: I believe, the old TAN plant, has its own captive ammonia manufacturing, right. It is not dependent totally on imported ammonia, right?

Somnath Patil: No, all the TAN plants are dependent on bought-out ammonia.

Manoj Baheti: Okay, the new plant as well? Right.

Somnath Patil: The new plant as well.

Manoj Baheti: So at current ammonia prices what kind of margins will be there on TAN?

Somnath Patil: At current ammonia prices we are having a margin of about 18% at EBITDA level.

Manoj Baheti: And what is your view on ammonia prices. Are you seeing that ammonia prices are going to come down and what has caused ammonia prices to almost nearly double? They used to be at \$ 350 to \$ 400 level?

Somnath Patil: True. On a YoY basis they have gone up by 26%. But now we're seeing for the first time after about nine months or so, some decline in the ammonia prices. We think that the prices should now start softening going forward, and this is what we had said in our last call as well. I think, Q4 onwards, we should see some softening of prices, particularly because of new capacities that would be coming in place. So that is going to result in some supply coming to the market, perhaps 3 to 4 lakh tonnes per annum.

Manoj Baheti: What has caused this jump in ammonia prices? Was there some impact in any of the capacities world wide or it was just because of higher demand?

Somnath Patil: See actually, earlier there were quite a few plants that were expected to be commissioned in January 2012 itself. That did not happen. As we speak now we are seeing some light at the end of the tunnel as they say, and some

plants are going to get commissioned very soon. Similarly, there were plants in Trinidad and Tobago which had shut down for technical reasons, and they are also expected to come on line very soon. There is one other Algerian facility which is ready to manufacture ammonia, but the timing of when it will come online is difficult to say because it depends on when they get the clearance for gas from the Government of Algeria. So if that happens, then you will see a supply jump of about 3 to 4 lakh tonnes of ammonia coming into the global market.

Manoj Baheti: Right, and on IPA side, like have we seen some impact on IPA margins also this year, vis-à-vis last year?

Somnath Patil: This quarter we have seen an impact on IPA margins because the RGP prices shot up significantly. If you see for the corresponding quarter last year, the RGP cost was Rs 50,000 per tonne and that has gone up to Rs 69,000 per tonne for this quarter. Not all of it could be passed on and there is normally a lag effect. Normally the prices get corrected after some time, with a lag of about 2 to 3 months. This is what we saw in the second quarter of the current year where in spite of lower volumes our overall profits and the margins were much higher on IPA.

Manoj Baheti: So what is the outlook going forward on IPA margins?

Somnath Patil: I think from here on it should improve. Q4 should be better. Typically there will be a quarter in a year where you will find a squeeze on the margins because of a sudden increase in RGP prices, which is not complemented by increase in IPA prices. But otherwise for the rest of the year typically we have a good margin of 18-20 % at EBITA levels.

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

Satish Mishra: My first question is on volumes. Like this nitric acid volume, if I see the last few quarters, it is stagnant at 30K level plus or minus, so how is the industry

for nitric acid behaving. Are we losing market share or the industry per se is not increasing?

Somnath Patil: Actually the industry is flat.

Satish Mishra: What are the key drivers, just to get a sense?

Somnath Patil: The key driver for nitric acid is the nitro aromatics industry. Many of the downstream products from Nitric Acid tend to be exported to Europe. Because of the situation that is prevailing globally it is becoming difficult to pass on the steep ammonia price increases to the customer.

Satish Mishra: Okay, how are you seeing the situation, will it continue for a couple of quarters or will there be any likely improvement?

Somnath Patil: At least for the next two quarters we think this will be the situation.

Satish Mishra: Okay, the second question is, you talked about softening in ammonia prices, can you give us a sense, how much it has corrected, Q-on-Q just to get a perspective.

Somnath Patil: It has corrected by about \$70 per tonne.

Satish Mishra: So like last time you set a number of \$720, I believe if I am correct.

Somnath Patil: That is correct, so now it is more like \$640 to \$650.

Satish Mishra: For Q4 our cost will be closer to the \$640 to \$650 ammonia prices?

Somnath Patil: Yes, if it continues like this. If it goes down further, then the average could come down.

Satish Mishra: Okay, do we have any contract, like quarterly contract or something or is it on spot basis.

Somnath Patil: Yes, we have only quantity contracts, but pricing is always on spot basis.

- Satish Mishra:** Second question Sir, can you give a sense on the complex fertilizers market, like the situation we all know, and the volumes are down. So first question is, what is the total inventory level for the sector, just to get an idea.
- Somnath Patil:** The total inventory that is in the pipeline for complex fertilizers is close to 3 million tonnes.
- Satish Mishra:** 3 million tonnes. Okay, so how do you see the situation? Q4 again is a lean season, so the whole pain, will it get over by Q4 or will it go further to kharif next year also?
- Somnath Patil:** Actually, it will really depend on the kharif season, and the rains during that season.
- Satish Mishra:** Are you seeing any possibility of price reduction at farmgate level, because if you see internationally, all the fertilizer prices are correcting sharply, and our prices are still at previous levels, so any changes of price reduction.
- Somnath Patil:** Yes, there is a good chance of prices coming down in the next quarter.
- Satish Mishra:** So, kharif onwards you are saying.
- Somnath Patil:** Yes, kharif onwards, yes.
- Satish Mishra:** Last question Sir, related to Capex, just a guidance, what is your Capex for FY14 and FY15?
- Somnath Patil:** We have undertaken a project to expand our nitro phosphate capacity to 600,000 tonnes with a capital expenditure of Rs. 360 crores, and we have also undertaken capacity expansion for Bentonite sulfur where the Capex is about Rs. 56 crores.
- Satish Mishra:** So, how much of it will come into FY14.
- Somnath Patil:** So out of this we expect to spend around 30% in FY14 and the bulk of the expenditure will happen in FY15.

- Moderator:** Thank you. Our next question is from Tarun Surana from Sunidhi Securities. Please go ahead.
- Tarun Surana:** I would like to know why your Bentonite sulfur volumes were very low this time. Even in Q2 it was very low. What is the current capacity utilization that we are running. What should it be in FY13 on an average and how much expansion would be coming by spending Rs. 56 crores in Bentonite sulfur?
- Somnath Patil:** See, as you know the entire fertilizer segment has had a very negative impact because of the drought situation and that has obviously impacted even our Bentonite sulfur sales. In this quarter we sold just about 1400 tonnes. For the nine months period we have sold just 10,000 tonnes. We have a current capacity of 25,000 tonnes per annum. This year it should be a little over 50% capacity utilization.
- Tarun Surana:** How much will be added by undertaking the Capex?
- Somnath Patil:** We should be adding another 25,000 tonnes capacity.
- Tarun Surana:** You said that you will be taking a 6-lakh tonne NPK expansion. Will your capacity will be 6 lakh tonnes total?
- Somnath Patil:** The total capacity after expansion will be 6 lakh tonnes.
- Tarun Surana:** Can we know the progress on phosphoric acid arrangements or negotiations to have the availability regarding our expansion.
- Somnath Patil:** See, once we undertake this expansion, we will be able to diversify our sources of procuring phosphoric acid. We are dependent on just a couple of sources today and therefore we had to suffer in the past whenever the suppliers plant had a problem. But during the year, because of our perseverance and close working with the suppliers, we have been able to manage our shipments very well. Therefore phosphoric acid has not been a major constraint for us this year. As far as the new expansion is concerned, as I said, it is on a different process and therefore that process gives us the

flexibility to used phosphoric acid from different sources. We will not be constrained for want of phosphoric acid once we expand our capacity.

Tarun Surana: Last question, did we do any trading in MOP during the quarter and is there any plan to have MOP trading in Q4?

Somnath Patil: Yes, we did about Rs. 11 crores of MOP.

Moderator: Thank you. Our next question is from Himanshu Nayyar of Quant Broking. Please go ahead.

Himanshu Nayyar: Sir, could you just break up your manufactured fertilizer revenue product wise if possible for the quarter?

Somnath Patil: It is basically nitro phosphates and a small quantity of Bentonite sulfur.

Rohan Gupta: Sir, on this TAN plant, what is the capacity utilization at which we are running on right now Sir.

Somnath Patil: We now look at the entire complex as one. So if you take that we will be doing about 220,000 tonnes for this year, it will come to a little over 50% capacity utilization.

Rohan Gupta: As of now also, we are running at 50% utilization?

Somnath Patil: That is right, even as of now, we are running at about 55% utilization.

Rohan Gupta: Okay, as per your target, you are planning 320,000 tonnes for next year, right.

Somnath Patil: Yes.

Rohan Gupta: You still maintain those numbers, 320.

Somnath Patil: Yes absolutely, we maintain those numbers, because we feel that ammonia prices will start softening. Quite frankly we did have a challenge of passing on the steep increase in ammonia cost to the customers, particularly

because we were facing competition from imported cheap fertilizer-grade ammonium nitrate. Also the other factor was the very low growth in the mining sector overall, and if these things start looking up, and if the ammonia prices continue to decline gradually, then I think we see much better prospects for us in the next year.

Rohan Gupta: Okay, because as you just mentioned in your conf call, TAN current margins will be close to 18% and I am surprised if we will be making any sort of very minimal PAT margins if we are running our TAN plant at 18% margins, right, because of interest and depreciation on that. Is the PAT contribution from TAN business right now significant or is it a loss?

Somnath Patil: No, it is positive. It will be more like say 13% or so, after you take out depreciation and interest.

Rohan Gupta: 12 to 13% PAT margins?

Somnath Patil: PBT. PAT will be at a company level. I mean, we will talk of PBT level.

Rohan Gupta: Okay, PBT margin will be 13%, okay.

Somnath Patil: Yes, for TAN it will be about that much. It will improve as ammonia prices start falling and as we improve our capacity utilization.

Rohan Gupta: Our total investment in the TAN business if I am not wrong will be somewhere Rs. 750 to Rs. 800 crores right.

Somnath Patil: No, it is Rs. 600 crores.

Rohan Gupta: Rs. 600 crores is only for new plant.

Somnath Patil: Yes, for the new plant. Okay, you're asking for the total. The old plant is a depreciated plant.

Rohan Gupta: So that plant is fully depreciated.

Somnath Patil: It is a fully depreciated plant.

- Rohan Gupta:** Okay, so it is only the new plant where we are doing the costing, so it is a Rs 600 crores investment where we will be roughly running some Rs. 30 to Rs. 35 crores depreciation every year.
- Somnath Patil:** Yes, that is right.
- Rohan Gupta:** How is the working capital cycle in TAN business, I mean, are we getting any sort of credit from our suppliers on ammonia, or we don't.
- Somnath Patil:** We do get a credit of about 60 days from imported sources and as far as local sources are concerned, we have to make cash payment. There is no credit.
- Rohan Gupta:** And most of our ammonia is imported only.
- Somnath Patil:** Normally Yes. This quarter actually we have been buying more locally, but going forward, we will have to import more and more.
- Rohan Gupta:** Okay, so you are right now sourcing domestically, where you have to make payment on cash.
- Somnath Patil:** That is right.
- Rohan Gupta:** Are we getting domestic ammonia at a cheaper rate than import?
- Somnath Patil:** Yes, slightly cheaper than imports.
- Rohan Gupta:** Who are the suppliers, Sir.
- Somnath Patil:** RCF and KRIBHCO are the two major suppliers.
- Rohan Gupta:** And what sort of discounts are we getting over the imported ammonia prices?
- Somnath Patil:** About 10% or so.
- Rohan Gupta:** When we supply TAN to our buyers, do we need to give them credit?

- Somnath Patil:** Yes, we give them 30 to 45 days credit. That is the way the industry is structured.
- Rohan Gupta:** Okay, I just wanted to understand this. Because right now we are working at a very lower capacity utilization of just 50 to 55%, because if the moment we reach up to 320 that will be roughly 75% utilization level, then probably we may see significant contribution coming at the bottom line, so I just wanted to work on those dynamics.
- Somnath Patil:** That is right, yes.
- Rohan Gupta:** Apart from the TAN, which is roughly 18% EBITDA margins, you said right now. Totally, what kind of peak margins we have seen in TAN business earlier, Sir?
- Somnath Patil:** We have seen as high as 27%.
- Rohan Gupta:** Peak margins have been 27%. That will be when ammonia prices will be somewhere at \$450.
- Somnath Patil:** Yes, absolutely.
- Rohan Gupta:** Absolutely. But we are not expecting, ammonia prices to come down to that level in the near term.
- Somnath Patil:** It is difficult to expect that kind of price going forward.
- Rohan Gupta:** Okay, other product where we are still facing problem is methanol. Am I right Sir?
- Somnath Patil:** Yes.
- Rohan Gupta:** So the high gas cost is still not workable.
- Somnath Patil:** We did not produce anything in the last quarter.

- Rohan Gupta:** I believe last quarter in between, gas prices came down to some \$11 for some time, so even at \$10 to \$11 is not workable.
- Somnath Patil:** Our breakeven gas cost is more like \$8.50.
- Rohan Gupta:** \$8.5, okay, right now Sir, global methanol prices are at what level?
- Somnath Patil:** They are around \$315.
- Rohan Gupta:** So, unless those global methanol prices go up, I think we will not be able to start our production of methanol.
- Somnath Patil:** That is right.
- Rohan Gupta:** Because gas coming below \$11 to \$12 I think quite abnormal in current scenario.
- Somnath Patil:** Okay.
- Rohan Gupta:** There was one participant who also asked the same question about Government trying to increase the APM prices of gas.
- Somnath Patil:** Actually it is bit premature for us to react to that news item and we would rather wait to see what actually happens. We would not like to give our views on that.
- Rohan Gupta:** Okay, but we are producing ammonia and all goes into complex fertilizer, where we are not getting compensated in terms of sort of increase in subsidy. So, this is free price market now as far as the complex fertilizer is concerned. So, any sort of increase in the ammonia production cost, only the companies will get affected. We were discussing about methanol. So, especially in the current scenario, we are not even producing methanol and so I just wanted to know, do we have any future near term plans to convert these methanol plants for any downstream products or would we like to continue to hold this plant?

- Somnath Patil:** We don't have any plans to convert into downstream product. But some studies were carried out for exploring if this could be converted into an ammonia plant. But The initial studies did not give any encouraging results. At this point in time we are not really looking at any alternatives to the methanol plant.
- Rohan Gupta:** Is that plant also fully depreciated.
- Somnath Patil:** Yes. It is more than a 20-year-old plant.
- Rohan Gupta:** Sir, I was just talking about the increase in the gas cost. You said that you did not want to make any comment. My worry is that, we are producing ammonia and if the gas cost doubles from \$4 to \$8 is it not going to have a big impact on our profitability?
- Somnath Patil:** It will, but it will also depend on how the subsidy will then be structured by the Government of India.
- Rohan Gupta:** But in complex fertilizer it is completely decontrolled now, so there is no question of Government increasing subsidies further.
- Somnath Patil:** Yes I know. They have this NBS scheme which is going on.
- Rohan Gupta:** Because there are few plants in India like you and only GSFC who are having captive ammonia, otherwise everybody is importing ammonia. The only companies who will get impacted are the ones who are producing their own ammonia, so in that way you should be affected the most as far as our opinion is concerned.
- Somnath Patil:** Yes, any price increase in gas will affect us adversely, definitely.
- Moderator:** There is a question from Pratik Poddar of ICICI Prudential Asset Management. Please go ahead.

- Pratik Poddar:** On the gas price, just wanted to understand whether you have manufactured any NPKs this quarter. I believe, no NPK was manufactured by you.
- Somnath Patil:** No, we manufacture NPK regularly.
- Pratik Poddar:** Even in this quarter you have manufactured NPK?
- Somnath Patil:** Yes.
- Pratik Poddar:** Most of your gas would be used for making TAN if I am not wrong.
- Somnath Patil:** No, most of the gas is used for making ammonia, which is used for making NP, nitro phosphates, and for the utilities.
- Moderator:** That was the last question. I would now like to hand the floor back to Mr. Rohan Gupta for closing comments. Over to you Sir.
- Rohan Gupta:** Thank you . Well, most of our questions have been answered. Just a couple of things I will touch on. How do you think that margins in IPA business are right now, and do we see any improvement in that segment?
- Somnath Patil:** The margins in IPA segment for this quarter were depressed because of steep increase in RGP prices. Generally IPA price corrections happen after a lag. What we expect is that Q4 should be better than Q3 as far as IPA is concerned.
- Rohan Gupta:** What sort of EBITDA margins are we having right now in IPA?
- Somnath Patil:** For Q3 we had 9% profit margin.
- Rohan Gupta:** 9%.
- Somnath Patil:** Yes.
- Rohan Gupta:** Profit margin means you mean net profit.

- Somnath Patil:** This is before interest, but after depreciation.
- Rohan Gupta:** EBIT margin. Okay.
- Somnath Patil:** At EBIT level 9%.
- Rohan Gupta:** Okay.
- Somnath Patil:** But it could quickly improve to 15-16%.
- Rohan Gupta:** Have we started seeing a RGP price correction or IPA price movement. What is happening?
- Somnath Patil:** At this point in time, it is at the same level, because IPA's domestic price is linked to the import parity price of IPA. There is no direct correlation with RGP cost.
- Rohan Gupta:** Okay. So have the international prices started firming up?
- Somnath Patil:** They are today at the same level as those that we saw at the end of the quarter. They should start firming up in a few weeks.
- Rohan Gupta:** Okay, just the last question on the strike, any update on that. You said that you are running a plant at sub-optimal levels. So Sir, can you give some number, what actually you mean? At what utilization level this plant is running, or are we not able to run the plant.
- Somnath Patil:** No, we are running the plant, but obviously it is not at 100% capacity levels. So, I think we would be able to talk more on this after some more time and maybe next time when we talk we will be able to throw some more light on what kind of loss of production we've had to suffer because of this.
- Rohan Gupta:** The production loss which we are facing right now are we planning to meet through trading or imports, or there will be loss of market share also.
- Somnath Patil:** We do not foresee any such thing, because as far as TAN is concerned, our new plant has remained unaffected by the strike. That is a 300,000 tonne

per annum plant which is run by management right from day one. There is no union over there and therefore that market is served properly by us. Our own people are able to run the IPA plant as also the nitro phosphate plant, but at slightly lower capacities. Therefore, we are actually not going to lose much market share because of this.

Rohan Gupta: Okay, that is all from my side. Before we close the call, if you would like to make any final comments, Sir?

Somnath Patil: Well, first of all let me thank everybody for participating in our call. I would like to emphasize that the fundamentals of our business continue to be strong. We have a strong management team of industry experts in place, and our marketing strengths and product quality will remain key drivers for us going forward. As I said earlier on the call, we do expect softer ammonia prices in Q4 and Q1 of FY14. In the next 18 to 24 months ammonia prices should drop globally in line with new capacities coming on line in markets like the US and some in the Middle East. This should improve our margins from the current levels as also help us improve our capacity utilization particularly of TAN. Overall, industry fundamentals across sectors like mining in the last 9 months have been subdued, but this should change in the next few quarters as the Indian economy returns to higher growth levels. We continue to enjoy strong market shares and the demand fundamentals for our products will remain on an upward trend. Again mining, infrastructure and agriculture remain key factors in India's growth story. Though some margin pressure especially in the chemical sector may remain for another quarter or two, we are confident that our marketing strengths and our product quality will enable us gradually to improve margins as we pass on raw material price increases. That is it from me.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.