

Deepak Fertilisers And Petrochemicals Corporation Ltd.**Q1FY11 Post Result Conference Call Transcript****Representative:**

Mr. Somnath Patil – President and Chief Financial Officer

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Moderator - Melisa

Ladies and gentlemen, good afternoon and welcome to the Post Results Conference Call of Deepak Fertilisers and Petrochemicals Corporation Ltd. Q1 FY11 earnings call hosted by Prabhudas Lilladher Private Limited. As a reminder for the duration of this conference, all the participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. Joining us on the call today from Prabhudas Lilladher are Ms. Amisha Vora and Mr. Dilip Bhat, Joint Managing Directors along with Mr. Manish Mahawar. I would now like to hand the conference over to Mr. Mahawar. Thank you, and over to you, sir.

Mr. Manish Mahawar – Prabhudas Lilladher

Thank you Melisa. On behalf of Prabhudas Lilladher, I welcome all the participants in the call. We have Mr. Somnath Patil, President and Chief Financial Officer of the company. Without taking any further time, I would like to handover the call to Mr. Patil. Over to you sir.

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Thank you, Manish. Good afternoon ladies and gentlemen, welcome to Deepak Fertilisers and Petrochemicals Corporation Ltd. Q1 FY11 Earnings Call. I have with me Mr. Debasish Banerjee – Vice President (Finance & Accounts) and Mr. Vivek Y. Kelkar. I will start by giving you a summary of the quarter gone by, at the end of which I will throw the floor open to you for questions.

First of all let me say that I am happy to state that we have achieved highest level of production and sales of our own manufactured products in Q1 of this year, as also our highest ever profits. This has been possible due to ample availability of natural gas, which in turn, helped us significantly improve our capacity utilisation of our plants. Coming specifically to the Q1 performance, income from operations rose by 45% to Rs. 351 crores as against Rs. 242 crores in Q1 of the previous year. EBITDA margins also rose to a healthy 26% in the current quarter as against 24% in the corresponding period for the previous financial year.

Profit Before Tax grew by 35% to Rs. 73 crores from Rs. 54 crores in the corresponding quarter for the previous financial year. Profit after tax rose by 34% to Rs. 52 crores in the current quarter as against Rs. 39 crores in the previous year's corresponding quarter. In this quarter and during the year FY11 in the quarters to follow, you

Deepak Fertilisers And Petrochemicals Corporation Ltd.

will see that Deepak Fertilisers revenues will be predominantly coming from the chemicals business, while fertilisers also will continue to do well because of better capacity utilisation. Revenues for the chemicals business grew by 32% in this quarter, with sales rising to Rs. 231 crores as against Rs. 175 crores for the corresponding quarter in the previous financial year. For Q1 FY11, volumes in the manufactured chemicals business rose by 16% over Q1 FY10.

Chemicals contribute currently 66% of top-line and we expect this to increase in medium to long term. As you may have seen, the chemicals contribution to bottom-line is 84% before interest and other items. So we are now emerging more of a chemicals play with the current product portfolio and also with the new TAN expansion that is currently under implementation. This plant is expected to go on stream sometime towards the end of September or in early October and this should produce upto 50,000-60,000 tonnes of Ammonium Nitrate in the current year. The total sales volume of all the plants was 141,656 metric tonnes for this quarter as against 103,472 metric tonnes for Q1 FY10. With this, we have registered an increase of about 37% in terms of the sales quantity. Across most of the products, there has been an increase.

This has been on account of available gas as I said at the beginning. This in turn again helped our capacity utilisation. The average gas price for the quarter, for the basket of gas that we consume, will now be at around US\$5.75/mmbtu. For the quarter under review, the average gas price was about US\$4.4/mmbtu since the prices were at US\$2.3/mmbtu for APM gas until May end. For Q1 FY10, the average gas price was US\$4.1/mmbtu. Going forward, gas prices would be in the similar range. Also, the availability of phosphoric acid for the quarter was adequate and prices were around US\$775/MT. We do not see any supply constraints for phosphoric acid, either now or going forward and we expect the prices to be stable.

Propylene availability was adequate for the quarter. This is the main raw material for our product IPA and we do not see any constraint on this front as well, going forward. Average prices for propylene were around Rs. 40,000/MT as against Rs. 28,000/MT in the corresponding quarter of the previous year.

As you can see, we are now close to maximising our capacity utilisation across all our plants and we expect that this trend will continue, going forward.

On the ISHANYA front, the current occupancy level is around 40%. Income from ISHANYA for the next few quarters will remain under pressure largely because of the ongoing modification that we have spoken about in the earlier calls. We expect to spend around Rs. 55 crores for this modification and we are going to convert the existing ISHANYA which is a home and interiors solutions kind of a speciality mall to a High Street kind of mall where we would widen our offering to cover lifestyle accessories, entertainment, food and other items. ISHANYA has been under pressure in the last few quarters as well. We strongly feel that with this kind of modification in the concept, we should be able to do better in the years to come. As far as new tenant acquisitions are concerned, we will get back to you in due course but there is an encouraging response to the new concept that we have come out with.

Deepak Fertilisers And Petrochemicals Corporation Ltd.

During the quarter, we have just raised an NCD of Rs. 50 crores for general corporate purpose and this was available at an attractive rate of 9.31% per annum. We have taken this money for a period of 5 years. Our current debt is about Rs. 719 crores and if you take into account cash and cash equivalent of Rs. 214 crores, we have a net debt position of Rs. 509 crores. I will now throw the floor open to any questions you may have.

Moderator - Melisa

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press “*” and “1” on their touchtone telephone. If you remove yourself from the question queue, you may press “*” and “2”. Participants are requested to use handsets while asking a question. Anyone who has a question may press “*” and “1” at this time.

The first is from the line of Ms. Falguni Thakkar from Jet Age Securities. Please go ahead.

Ms. Falguni Thakkar - Jet Age Securities

Good morning sir. If you could just give the sales value for IPA, Methanol and ANP for this quarter and corresponding quarter?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

IPA was Rs. 86 crores for this quarter as against Rs. 55 crores in the previous year same quarter. Then you want for TAN you said?

Ms. Falguni Thakkar - Jet Age Securities

TAN and TAN solution combined or TAN separate, whichever is available.

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Combined, it is Rs. 58 crores in this quarter as against Rs60 crores in the same quarter last year. There has been a small dip.

Ms. Falguni Thakkar - Jet Age Securities

Sir, next would be Methanol.

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Methanol was about Rs. 17 crores as against Rs. 13 crores last year.

Ms. Falguni Thakkar - Jet Age Securities

And ANP?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

ANP was Rs. 62 crores as against Rs. 16 crores.

Ms. Falguni Thakkar - Jet Age Securities

And sir, why has there not been any increase in TAN and TAN solution volumes combined?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Actually if you see the TAN solution has been little lower because of divergence of the Ammonium Nitrate melt in production of fertilisers. Last year we had a problem on gas availability we couldn't actually produce as much on the fertiliser front.

Ms. Falguni Thakkar - Jet Age Securities

And sir, why has TAN separately not grown as much? Is there some slackness in demand? I mean to say the demand is not picking up, is it steady state or should one assume the demand to be steady state with this number?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

With this number, we are actually at almost maximum capacity.

Ms. Falguni Thakkar - Jet Age Securities

We have 1,32,000 tonnes.

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

That's right.

Ms. Falguni Thakkar - Jet Age Securities

Sir, the other question is on other income. This other income part has been broken up into dividends from subsidiary and others. So this dividend from subsidiaries has been low this time. So has the subsidiary not performed as well as it did in same time last year. Because this would be last year's FY10 dividend that is coming in Q1FY11, if I am not wrong. So why is the subsidiary's performance in FY10 lower than what it did in FY09?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Actually, the dividend in the last year of Rs. 10 crores was the distribution of the cumulative profits in last year. And this year what you see, Rs. 3 crores is only the dividend of the current year, that is the last year basically. But in FY09 it included the earlier year's dividend earnings also.

Ms. Falguni Thakkar - Jet Age Securities

Ok, you mean to say this FY what we see of Rs. 3 crores is dividend of FY10 but what we see Rs. 10 crores is dividend for FY09 and some more years?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Q1 FY09 is reflective of actually the earnings of the earlier years on a cumulative basis. They have all been distributed in Q1 of last year, therefore, the two are not comparable.

Ms. Falguni Thakkar - Jet Age Securities

And what about this others element, what would it comprise of in FY10 and FY11 both?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

In FY10, we have forex gain of Rs10 crores, which is not the case this year.

Ms. Falguni Thakkar - Jet Age Securities

I mean about Rs. 6 crores would comprise of what this year?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

This is normal. There is some sale of scrap and we have some miscellaneous receipts which also includes the profit on sale of investments of Rs. 1.5 crores. You have some refunds from the Electricity Boards and all that. So it is a list of small items.

Ms. Falguni Thakkar - Jet Age Securities

And the other thing I just missed on what you mentioned on TAN, about 50000-60,000 tonnes, what was that relating to?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

That is relating to the production for FY 11 that we expect from the new plant that will get commissioned in the end of September or early October.

Ms. Falguni Thakkar - Jet Age Securities

And this would be for what period you mentioned this 50,000-60,000 tonnes?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

During the second half of this year.

Ms. Falguni Thakkar - Jet Age Securities

Fine sir. That's all from my side. Thank you. If I have few questions, I will just come back later.

Moderator - Melisa

Thank you. The next question is from the line of Ms. Gauri Anand from MF Global. Please go ahead.

Ms. Gauri Anand - MF Global

Just couple of questions, one I missed out on the gas availability. Can you just repeat again, what is the availability in mmscmd in this quarter compared to quarter of last year?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

This quarter we had gas availability consumption of 0.64 as against 0.50.

Ms. Gauri Anand - MF Global

And we require about 0.71?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes.

Ms. Gauri Anand - MF Global

Fine. Sir you also mentioned about Rs. 55 crores towards restructuring cost for ISHANYA. Sir, last year you had indicated that expense about Rs. 15 crores or so. Sir, this Rs. 55 crores is inclusive of Rs. 15 crores that we have already spent or is it an additional Rs. 55 crores sir?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Rs. 15 crores includes Rs. 10 crores which was actually a write-off in the books on account of demolition of some portion of the structure but not actual expenditure that we incurred. It was only a book entry write-off.

Ms. Gauri Anand - MF Global

So, Rs. 55 crores includes Rs5 crores which you have already expensed last year. Is that right?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Last year the figure was Rs. 10 crores only, not Rs. 15 crores.

Ms. Gauri Anand - MF Global

Sir, this quarter ISHANYA has reported a loss of Rs. 2 crores. Has anything been expensed on account of restructuring at all?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Nothing

Ms. Gauri Anand - MF Global

Sir, could you summarise the fertiliser trading this quarter particularly because if I understand you have not traded anything in chemicals this quarter but the traded revenue of a fertiliser division is above Rs. 55 crores whereas the overall purchase of traded goods in the P&L is about Rs. 110 crores. So how does one understand this number?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Rs. 110 crores includes a consignment of MOP valued at about Rs. 68 crores which was lying in stock in the June quarter which is being sold in this quarter.

Ms. Gauri Anand - MF Global

Sir, is it fair to assume that you would have made money in trading this quarter in fertilisers?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes.

Ms. Gauri Anand - MF Global

Ok. And fertiliser division margins were at about 11%, how much of this sustainable from your point of view?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

This is certainly sustainable because under the new NBS, the increase in the gas cost has already been factored in the Nutrient Based Subsidy that has been announced by the Government of India.

Ms. Gauri Anand - MF Global

But sir there would have been a benefit of 2 months because NBS was notified as on 1st of April where as gas price is revised from 1st of June?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

There has been slight benefit for the first 2 months.

Ms. Gauri Anand - MF Global

And sir, could we have the breakup of CWIP either as of the balance sheet data that is the annual report breakup or for the latest quarter sir?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

It is mainly on account of the Ammonium Nitrate plant under implementation.

Ms. Gauri Anand - MF Global

So, all of that is Ammonium Nitrate?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Out of that, close to Rs. 450 crores is on account of the new Ammonium Nitrate plant.

Ms. Gauri Anand - MF Global

Sir, have we entered into any firm offtake agreement for the new TAN?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

No, we haven't entered into any firm off-take agreement and we will be distributing these products through our channels that we currently have and we are strengthening those.

Ms. Gauri Anand - MF Global

So, the initial 50,000 will all be sold locally itself, right?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes, most of it will be sold locally.

Ms. Gauri Anand - MF Global

Alright. Thank you so much sir. If there are any follow-up questions, I will come back. Thank you.

Moderator - Mellisa

Thank you. The next question is from the line of Mr. Varun Guntupalli from Edelweiss. Please go ahead.

Mr. Varun Guntupalli – Edelweiss

In this quarter, we have seen very strong operating margins at 26%, how sustainable are they going forward for the next few quarters?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

The bulk of this profitability improvement that you see has come from the chemical segment. In this quarter, we really saw quite good prices particularly on the IPA and to some extent on the acids, i.e. Nitric Acid, as well as on TAN. Some of these products, particularly IPA, are on import parity based pricing. As we speak, these prices have softened a bit and therefore, there could be slight reduction in our margins as compared to what we have seen in Q1.

Mr. Varun Guntupalli – Edelweiss

By slight reduction, to what extent you are expecting it to reduce from the current 26% level?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

It could be around 2% you can say.

Mr. Varun Guntupalli – Edelweiss

And what has been the softening in terms of the prices, you were saying, in last 2-3 months the prices are softened a bit. To what extent it has softened?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

IPA prices have softened by as much as 7-8%.

Mr. Varun Guntupalli – Edelweiss

Ok and about TAN prices currently what's the TAN price per metric tonne that you have realised in the first quarter?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

TAN price is more or less at the same level, there is no difference.

Mr. Varun Guntupalli – Edelweiss

That is around Rs. 18,000?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Rs. 18,000, that's right.

Mr. Varun Guntupalli – Edelweiss

And my next question is in terms of new TAN plant that is expected to be commissioned in September end. What are the remaining phases that need to be completed? Now, you were saying that the mechanical completion is almost done so what are the next phases that are supposed to be completed and when are you expecting to start the trial production if you are expecting something on that lines?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Mechanical completion will be completed very soon in the next about fortnight's time and thereafter pre-commissioning activities will start. There will be a phased commissioning of all these plants with the Nitric Acid plant to be commissioned first. Thereafter, you need to commission the solutions plant and prilling tower. So, it will be slightly sequential. After that the trial production should begin sometime towards the end of September and there could be some stabilisation period after that. I think it will be fair to assume that we will commission this on the commercial scale sometime in October.

Mr. Varun Guntupalli – Edelweiss

But, you are expecting to produce on a commercial basis.

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes.

Mr. Varun Guntupalli – Edelweiss

And in terms of what you were just mentioning in the phased manner you could be commissioning the nitric acid plant first. If I am not wrong the Nitric acid plant is already in place, right. You have been using the facility to produce Nitric acid already?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

This is a new nitric acid plant. This is a new large plant that we are building for 300,000 tonnes of ammonium nitrate. It will have its own separate nitric acid plant.

Mr. Varun Guntupalli – Edelweiss

It was already added to the capacity last year itself, right?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

That was the different nitric acid plant. This will be the fifth plant. Last year, what we added was the fourth one and we call it DNA-4 and this will be the fifth nitric acid plant.

Mr. Varun Guntupalli – Edelweiss

And sir what is the capacity?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

The Ammonium Nitrate plant?

Mr. Varun Guntupalli – Edelweiss

What's the capacity for this fifth plant?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

750 tonnes per day.

Mr. Varun Guntupalli – Edelweiss

And this is exclusively used for the new TAN capacity of 3,00,000 metric tonnes per annum, right?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

That's right, yes.

Mr. Varun Guntupalli – Edelweiss

And is any nitric acid used from the previous four plants as well for this new TAN plant?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

No. But we will have that flexibility built into the plant because it is at the same location.

Mr. Varun Guntupalli – Edelweiss

Ok and in terms of exporting of TAN, how much we are expecting to export in this year sir?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

This year it won't be a big figure, actually going forward from next year onwards, after January, we will look at exporting around at-least anywhere between 50,000-70,000 tonnes per annum from the new plant.

Mr. Varun Guntupalli – Edelweiss

And in terms of these exports, what's the kind of margins you are expecting to get in the Indian context? You make around 30-35% kind of margins on TAN, right? So, on the exports, what's the margins you would be making?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

On the exports, the margins could be more around 24-25%.

Mr. Varun Guntupalli – Edelweiss

And in terms of new Ammonia based TAN that would be commissioned, on that you expect to make how much margins sir? It is merchant Ammonia based. So, in the context, what's the kind of margins you are expecting to make?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Roughly want to make at-least 20% margins.

Mr. Varun Guntupalli – Edelweiss

And in terms of interest cost this quarter, interest cost has been lower what's the reason been because despite the loan book being higher, loan outstanding, the interest cost has been lower in this quarter?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

That's right, that is because the current loan includes over Rs. 300 crores which has been borrowed for the new projects and interest on that has been capitalised. The loan on which interest has been charged to the P&L is around Rs. 400 crores.

Mr. Varun Guntupalli – Edelweiss

Ok sir and this is capitalised or how long you are capitalising this interest?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

This will be upto the commissioning of the new ammonium nitrate plant.

Mr. Varun Guntupalli – Edelweiss

And in terms of ISHANYA now at EBDIT level why is it making a loss? Means in terms of the operations what are the costs that are being incurred in ISHANYA?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Typical cost will be the taxes, marketing cost, depreciation and manpower cost.

Mr. Varun Guntupalli – Edelweiss

That's all I have now. If I have more questions I will get back. Thank you.

Moderator - Mellisa

Thank you. The next question is from the line of Mr. Tarun Surana from Sunidhi Securities. Please go ahead.

Mr. Tarun Surana - Sunidhi Securities

Sir, can you tell me the MOP landed price for this quarter?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

I think, we will get that for you.

Mr. Tarun Surana - Sunidhi Securities

And TAN volume guidance that you are saying of 60,000 tonnes that is from the period from October to March or you are saying quarterly?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

No, that is for the period October to March.

Mr. Tarun Surana - Sunidhi Securities

And next year's capacity utilisation guidance on the new plant?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

We can say around 80%.

Mr. Tarun Surana - Sunidhi Securities

And how volatile are the prices for TAN?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

They are fairly stable.

Mr. Tarun Surana - Sunidhi Securities

And the demand is up by 8-10% in India or lower than that?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes, the mining segment is going at that rate.

Mr. Tarun Surana - Sunidhi Securities

So 1:1 ratio you can take?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes, you can take that. You wanted the MOP landed cost?

Mr. Tarun Surana - Sunidhi Securities

Yes.

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

That is around Rs. 18,000.

Mr. Tarun Surana - Sunidhi Securities

On the nitro phosphate side, how much Ammonia will be imported and how much of manufacturing?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

The entire use is our own manufacture for the nitro phosphate.

Mr. Tarun Surana - Sunidhi Securities

And it will continue to be so or you can change it?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

No, it will continue to be so, that is, based on the gas that we get.

Mr. Tarun Surana - Sunidhi Securities

Because currently the prices of ammonia are fairly stable at lower levels in the world market. So will it be making more sense to import Ammonia rather than making it?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Our requirement of ammonia is quite substantial and what is made through natural gas meets only part of our requirements. So, in any case we have been buying ammonia. The new ammonium nitrate project will be based on imported Ammonia.

Mr. Tarun Surana - Sunidhi Securities

But, at-least on the nitro phosphate side, currently margins would be better if you import it or it would be better if Ammonia is produced and used for Nitro Phosphate?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

It will be better if we use our own ammonia for nitro phosphate.

Mr. Tarun Surana - Sunidhi Securities

And the cost differential would be in the range of 5-10% or more?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

I think the cost differential would be around Rs. 4000-5000 per tonne.

Mr. Tarun Surana - Sunidhi Securities

Ok. Thank you.

Moderator - Melisa

Thank you. The next question is from the line of Mr. Rohan Gupta from Emkay Global. Please go ahead.

Mr. Rohan Gupta - Emkay Global

Ok. Sir, I want to understand on this fertiliser segment margins with this quarter below 12.5% you said that it is fairly stable now. Considering that in this current quarter, your trading revenue was almost 40% and your manufacturing revenue was almost 60%. This you had keeping in mind that the mix will remain same or you will do going forward more of the trading and then you are saying that margins remain stable?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

I think it will actually increase.

Mr. Rohan Gupta - Emkay Global

Ok, with increase rate you expect that the margins will remain stable. Can I ask you question that what kind of margins we have in manufacturing and in trading?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Manufacturing we have a margin of about 12-13%.

Mr. Rohan Gupta - Emkay Global

And in trading?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Trading will be around 2%.

Mr. Rohan Gupta - Emkay Global

Trading margins will be 2%, right?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

For the speciality agro products, we have good margins. They are more like 9-10%.

Mr. Rohan Gupta - Emkay Global

But out of the total traded revenues of Rs55 crores for the quarter, how much is from non-fertiliser?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

How much is from bulk you mean?

Mr. Rohan Gupta - Emkay Global

Yeah, agrochemicals and where you are seeing 10% margins.

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Around Rs. 35 crores, out of this Rs. 55 crores.

Mr. Rohan Gupta - Emkay Global

So when I say that Rs. 35 crores product gives me a margin of 10%, right? Rs. 20 crores fertiliser you get 2% margins. Your own manufacturing you get margins of 12%. So Rs. 35 crores that non-fertiliser business, it is all about agro chemicals and....?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

It is not non-fertiliser, it is fertiliser business.

Mr. Rohan Gupta - Emkay Global

But speciality fertiliser?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes.

Mr. Rohan Gupta - Emkay Global

So this 12% kind of margins which you are expecting that even after increase in share of trading also, you expect that this kind of margins are fairly stable?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes with an increase in trading, the margins will come down a bit. Particularly because on MOP margins will be just around 1-1.5%. But we need to offer this product so that we are able to offer the entire range.

Mr. Rohan Gupta - Emkay Global

Largest share of revenues in your trading business is coming from a speciality fertiliser which is still...?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

That has happened in quarter. But going forward by the end of the year you will see that MOP will constitute significant portion. Speciality will be much lower and as I mentioned earlier we have already imported a partial quantity worth about Rs. 68 crores of MOP. This was lying in stock at the end of the quarter. That will be sold in this July-September quarter.

Mr. Rohan Gupta - Emkay Global

And, this Rs. 68 crores MOP in terms of volumes how much is it? You didn't give the MOP prices so I just wanted to know.

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

MOP volume 36,000 tonnes.

Mr. Rohan Gupta - Emkay Global

That much inventory was setting, right?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

That's right.

Mr. Rohan Gupta - Emkay Global

Can you share what kind of trading volumes you are keeping in mind right now that you are planning to do for this quarter, I mean Q2?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

In Q2 it will be more like Rs. 100 crores because they are targeting around Rs. 300 crores for the whole year in fertilisers.

Mr. Rohan Gupta - Emkay Global

So Rs. 100 crores total traded revenues you are saying from the quarter in Q2 or only from fertiliser?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yeah that's right.

Mr. Rohan Gupta - Emkay Global

Well sir that answered my question. Thank you.

Moderator - Mellisa

Thank you. The next question is from the line of Mr. Vinit Bolinjkar from Ventura Securities. Please go ahead.

Mr. Vinit Bolinjkar - Ventura Securities

What we have noticed is that we are going to be exporting and now I was given to understand earlier about last year that import of TAN was difficult because TAN gets solid with the moisture it absorbs. And you would be requiring steel cylinders to transport that TAN. So can you just tell me how you are going to modify on this in your export orders?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

We will be exporting coated TAN in order to break it from absorbing moisture so that is one thing and these are all standard options that are available, Tankers are made of special metals. Also at the plant it will be packed with special packing because it is hygroscopic.

Mr. Vinit Bolinjkar - Ventura Securities

And one more question, globally whatever facilities are coming up, direct places where adequate natural gas supplies are available. So with our cost of about US\$5.7/mmbtu and global cost varying from US\$2\$mmbtu to US\$5/mmbtu, what is the threat of an import of TAN happening in our country?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Actually it is already happening now but it is not exactly the product that we manufacture. What is imported is the fertiliser grade ammonium nitrate.

Mr. Vinit Bolinjkar - Ventura Securities

So what stops anyone from importing the explosive grade TAN? And what would be the landed price of an explosive grade TAN in the country?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

The landed price of that will be around Rs. 12,000-13,000 per tonne, that is the fertiliser grade. The explosive grade has not been imported into the country. It is not made by anybody in India and all, this fertiliser grade comes from Russia. As yet they don't make the explosives grade.

Mr. Vinit Bolinjkar - Ventura Securities

Sir but if we are the fifth largest manufacturer of TAN in the world for explosive grade. So who are our competitors or who would be the global players?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

We will have mainly competition from China and the Russian countries.

Mr. Vinit Bolinjkar - Ventura Securities

So you do not foresee any kind of threat of exports happening or imports happening into the country from these countries?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

No, we do not see any threat of this quality.

Mr. Vinit Bolinjkar - Ventura Securities

What would be the Chinese prices of TAN, any idea?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Chinese prices will be cheaper than our prices are but we have to compete with them in the international market. The international players, they want stability of supply, which is the biggest concern that they have and they are not comfortable with the Chinese on this front.

Mr. Vinit Bolinjkar - Ventura Securities

So, what about Chinese imports coming to India?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

So far none have come in.

Mr. Vinit Bolinjkar - Ventura Securities

Thank you. That's all.

Moderator - Mellisa

Thank you. The next question is a follow-up from the line of Ms. Falguni Thakkar from Jet Age Securities. Please go ahead.

Ms. Falguni Thakkar - Jet Age Securities

Could you just repeat the gas availability for the quarter?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

It is 0.64 as against 0.50 for the previous year's same quarter.

Ms. Falguni Thakkar - Jet Age Securities

Thanks. That's all.

Moderator - Mellisa

Thank you. The next question is a follow-up from the line of Mr. Tarun Surana from Sunidhi Securities. Please go ahead.

Mr. Tarun Surana - Sunidhi Securities

Sir, on fertiliser capacity utilisation on Nitro was Phosphate side was 65%, the capacity utilisation was 65% for the quarter, do we hope to get to levels of 90-100% in next quarter or so or is it constrained by gas availability?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

No, it is not constrained by gas availability. We hope to increase this capacity utilisation further in the coming quarters.

Mr. Tarun Surana - Sunidhi Securities

But will it reach 85-90% in Q2, do you expect that?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

We expect to reach 85-90%, yes.

Mr. Tarun Surana - Sunidhi Securities

Ok. Thank you sir.

Moderator - Mellisa

Thank you. The next question is a follow-up from the line of Mr. Jay Shah from Reliance Mutual Fund. Please go ahead.

Mr. Jay Shah - Reliance Mutual Fund

In the Q4 analyst meet, you talked about entering the Punjab and Haryana fertiliser market for expanding your fertiliser sales. So what is the growth in that and what are you experiencing in these markets?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Our experience is good and we have been able to sell well. But if you want to know the exact quantum then I will have to get back to you separately.

Mr. Jay Shah - Reliance Mutual Fund

That's ok. I wanted to ask how it is.

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

It is quite encouraging, the response is very good and we have been able to sell our fertilisers.

Mr. Jay Shah - Reliance Mutual Fund

And sir in the northern market do you see scope of branded? Is there more of branded stuff?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

They are branded.

Mr. Jay Shah - Reliance Mutual Fund

Ok so majority will be branded?

Mr. Jay Shah - Reliance Mutual Fund

Ok. Thank you very much.

Moderator - Mellisa

Thank you. The next question is from the line of Mr. Rohan Gupta from Emkay Global. Please go ahead.

Mr. Rohan Gupta - Emkay Global

Sir just one follow-up question. You mentioned current debt Rs. 720 crores, am I right?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes.

Mr. Rohan Gupta - Emkay Global

And we have already taken all the debt for our TAN expansion or some debt has to be incorporated into that?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Some debt is yet to be taken for that.

Mr. Rohan Gupta - Emkay Global

Can you just quantify that how much sir?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

That will be around Rs. 130 crores.

Mr. Rohan Gupta - Emkay Global

Rs. 130 crores more.

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes.

Mr. Rohan Gupta - Emkay Global

So, our peak debt may go up-to just around Rs. 850 crores?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes, that is the maximum. About Rs. 825 crores or so.

Mr. Rohan Gupta - Emkay Global

But this Rs. 130 crores, you are not taking still any working capital impact on that?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

No, we are not.

Mr. Rohan Gupta - Emkay Global

So including some working capital also needs another Rs. 10-15 crores, that is the peak which you are talking of?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

We have repayments also during this period. So our debt at the end of the year is expected to increase by around Rs. 40 crores over the debt level in FY 10.

Mr. Rohan Gupta - Emkay Global

Net?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Yes, compared to our opening balance.

Mr. Rohan Gupta - Emkay Global

Compared to your opening balance, not from Rs. 714 crores?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Not from Rs. 714 crores.

Mr. Rohan Gupta - Emkay Global

How much number you mentioned sir, net debt?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Net debt, we need to raise for this project further of Rs. 130 crores.

Mr. Rohan Gupta - Emkay Global

That is fine, the year-end balance sheet that you are expecting for the year?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

We are expecting around Rs. 770 crores.

Mr. Rohan Gupta - Emkay Global

Ok. Thank you sir.

Moderator - Mellisa

Thank you. The next question is a follow-up question from the line of Mr. Tarun Surana from Sunidhi Securities. Please go ahead.

Mr. Tarun Surana - Sunidhi Securities

Sir there were major reports regarding speciality fertiliser investment by Deepak. Any plans in terms of setting up additional capacity for speciality fertilisers?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

As of now we are actually just evaluating various options but there is no firm plan in place.

Mr. Tarun Surana - Sunidhi Securities

But even if you decide upon something and the investment would be in the region of Rs. 60-70 crores or so or will it be higher?

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

No, it will be around Rs. 80-90 crores.

Moderator - Mellisa

Thank you Mr. Surana. Ladies and gentlemen this was the last question. I would now like to hand this floor back to Mr. Manish Mahawar for closing comments. Please go ahead sir.

Mr. Manish Mahawar – Prabhudas Lilladher

Thank you Mellisa. I thank all the participants for this call and now, I wanted to handover the call to Mr. Patil for the closing remarks.

Mr. Somnath Patil – President & CFO, Deepak Fertilisers & Petrochemicals Corporation Limited

Let me thank all of you for taking your time out and coming on this call. We have seen the performance highlights for the first quarter. You will see that the chemical segments will actually dominate our entire performance particularly with the new ammonium nitrate plant that we get commissioned in the second half of this year. That's about it and thank you for being here and have a good day.

Moderator - Mellisa

Thank you, gentlemen of the management and thank you Mr. Mahawar. Ladies and gentlemen, on behalf of Prabhudas Lilladher that concludes this conference call. Thank you for joining us and you may now disconnect your lines.