



“Deepak Fertilisers & Petrochemicals Corporation
Q1 FY'13
Earnings Conference Call”

July 27, 2012



MODERATORS: MR. VARUN GUNTUPALLI
MR. SOMNATH PATIL



Deepak Fertilisers & Petrochemicals Corporation
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Moderator: Ladies and gentlemen good day and welcome to the Deepak Fertilisers and Petrochemical Corporation Limited Q1 FY'13 earnings conference call hosted by Edelweiss Securities Limited. As a reminder for the duration of this conference all participants' 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 assistance during the conference please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is been recorded. At this time I would like to hand the conference over to Mr. Varun Guntupalli. Thank you and over to you Sir.

Varun Guntupalli: Thank you. Good afternoon everybody on behalf of Edelweiss I welcome you all to the conference call of Deepak Fertilisers and Petrochemicals Corporation Q1 FY'13 earnings. With us from the management we have Mr. Somnath Patel, President and CFO. We will first have openings remarks from the management after which we will move on to the question and answer session. Now I would like to hand over the conference to Mr. Somanth Patil thank you and over to you Sir.

Somanth Patil: Thank you Varun. Good evening ladies and gentlemen. A warm welcome to the Deepak Fertilisers and Petrochemicals Corporation Q1 FY'13 earnings call. Mr. Vivek Kelkar and Mr. Debasish Banerjee are with me on the call. First let me take you through a summary for the quarter. For the quarter ended June 2012 the company recorded total income from operations at Rs.634.13 Crores as against to Rs.473.87 Crores in the corresponding quarter last year, a growth of 34%. Profit before tax stood at Rs.63.16 Crores as against Rs.87.90 Crores and Profit after tax was recorded at Rs.45.50 Crores vis-à-vis Rs.63.93 Crores in the corresponding period of FY'12.

Segment performance for agri business grew by 22% to Rs.179.51 Crores as against Rs.147.44 Crores in the corresponding period in Q1 FY'12. Segment profitability for the agri business stood at Rs.13.58 Crores as against Rs.22.63 Crores for the same quarter in the previous financial year. The chemical segment showed a substantial growth of 41% at Rs.469.97 Crores vis-à-vis



Rs.332.71 Crores. Profits for this segment were recorded at Rs.96.10 Crores as against Rs.94.49 Crores in the previous year. Though our margins have been down as you would have seen we need to look at in context. First one must emphasize that the fundamentals of this sectors vis-à-vis the service are intact as can be seen from our topline growth.

Second one must take into account the prevailing economic scenario both in India and globally. Primarily the margins impact that you see is because of rising raw material prices globally. The ammonia projects continued to remain high during Q1 due to a supply crunch. We were able to substantially pass on the increase in ammonia prices to customers in the Technical Ammonium Nitrate segment.

As far as other chemicals are concerned there has been a decline in margins due to a steep increase in raw material prices. We should be able to pass on these increases gradually. There is a lag effect in passing on these prices. We expect to see this stress on our margins easing during Q3 of the current year. The fertiliser margins too were adversely impacted due to the reduction in subsidy by Rs.3300 per metric tonne and also because of the price fluctuations in phosphate prices. The fertiliser margins too were adversely impacted due to the reduction in subsidy by Rs. 3300 per MT and an increase in phos acid costs which could not be fully passed on to customers.

In terms of the Realty segment we have almost completed the modifications of the Ishanya Mall and new sign ups are in progress. You will see the impact of the new format on the performance of the mall from Q4 onwards. Borrowing costs were also higher during Q1 FY'13 compared to Q1 FY'12 because of an increase in working capital with higher receivables in the fertiliser segment and delayed receipt of subsidy from the government. The full capitalization of the new TAN plant which was effected in Q2 of FY'12 also added to interest costs.

There was forex loss of Rs.5 Crores during the quarter. With the delayed monsoon the entire agri fertiliser industry has slowed down a bit but our products continue to find good acceptance across our farmer segments. We



are steadily ramping up capacity utilization at our new TAN plant and efforts to push exports continue. I now leave the floor open to questions.

Moderator: Thank you. We have the first question is from Satish Mishra from HDFC Securities. Please go ahead.

Satish Mishra: Good afternoon Sir. The question is first related ammonia I believe the maximum pressures we had is because of ammonia so can you give some sense how much ammonia do we manufacture and how much we import?

Somnath Patil: We manufactured about 8000 tonnes per month. This quarter totaling around 25000 tons. Our annual capacity is around 128,000 tonnes and as far as procurement is concerned we procured about 21,000 tonnes in this quarter.

Satish Mishra: And sir out of this manufacturing part of 25,000 tonnes which chemicals are we are using it for? How does imported and manufactured ammonia get bifurcated during consumption?

Somnath Patil: For fertilisers and the utilities that we need for fertiliser production we use our own ammonia. Imported ammonia is mainly for manufacture of Technical Ammonium Nitrate both in our existing plant and for the new plant which we have recently commissioned.

Satish Mishra: Okay so all the manufactured parts get consumed in fertiliser only. Basically this question comes from the fall in volume for methanol so has this anything to do gas supply for methanol and some problem what we always used to hear?

Somnath Patil: You are right. Methanol normally is produced out of purchased gas, which is usually the spot gas, and as you see currently the prices of spot gas are very high and therefore it did not make sense to manufacture methanol to the extent that we would have liked to. Because of the margin pressure, there has been decline in the production of methanol in this quarter.



Satish Mishra: How much was our gas consumption just to get a sense how much is the LNG and how much is domestic?

Somnath Patil: Our total gas consumption was 54.70 Million SMQ in this quarter.

Satish Mishra: So how much of that is domestic gas and imported?

Somnath Patil: Normally we do not share the breakup of the total basket but this is the total quantity that we consumed in this quarter.

Satish Mishra: Will it be possible to share the weighted cost?

Somnath Patil: Yes that was around Rs.12.5 per SM3.

Satish Mishra: Sir the total margin pressure was because of ammonia only or were there some other raw materials that contributed to the same?

Somnath Patil: There are few things that happened on the chemicals front. One is of course ammonia contributed to the pressure on margins. Having said that, we could actually pass on bulk of the increase in ammonia prices on to the TAN customers but as the prices go up the margins in percentage terms keep coming down. As far as Isopropyl Alcohol is concerned there was steep increase in the cost of propylene which we couldn't pass on fully to the customers. So these things impacted the chemicals segment. As far as the fertiliser segment goes there was a decline in volume by about 10% of our own produced nitro phosphates. This was mainly on account of non-availability of phos acid, which was actually held up for sometime in this quarter on account of price finalization issues with the suppliers by industry. Once we were through with that issue we continued production. So volumes did impact absorption of fixed overheads, the second point being there was a reduction of subsidy by Rs.3300 per tonne and there was increase in phos acid prices and we couldn't fully pass on the impact of these two to the customers.

Satish Mishra: So now you also have taken the price hike as the industry has taken in the month of June right?



- Somnath Patil:** Yes.
- Satish Mishra:** Thanks sir.
- Moderator:** The next question is from the line of Falguni Dutta from Jet Age securities. Please go ahead.
- Falguni Dutta:** Good afternoon Sir. Can you just give me the sales value of IPA, TAN, TAN solution, methanol and AMP for this quarter and Y-o-Y?
- Somnath Patil:** For the current quarter the methanol sales value Rs. 33 Crores, last year it was Rs. 34 Crores and then all acids put together was Rs. 53 Crores, last year it was Rs. 44 Crores.
- Falguni Dutta:** TAN and TAN Solution?
- Somnath Patil:** TAN and TAN Solution total was Rs. 161 Crores as against Rs. 117 Crores.
- Falguni Dutta:** And sir ANP finally?
- Somnath Patil:** ANP was Rs. 77 Crores as against Rs. 74 Crores.
- Falguni Dutta:** Sir on the gas consumption would it be possible to give a broad percentage breakup of the various sources?
- Somnath Patil:** No actually as I said earlier we do not share the breakup of the basket of the entire gas consumption.
- Falguni Dutta:** Sir is our supply is getting impacted from this, whatever we buy from KG D-6?
- Somnath Patil:** Yes in fact there has been a reduction of over 10% for us from the KG-Basin.
- Falguni Dutta:** Sir what was the average gas cost in SM3 that you mentioned for the quarter?
- Somnath Patil:** That was Rs.12.50.
- Falguni Dutta:** Fine sir thank you. That is all from my side.



Moderator: Thank you. The next question is from the line of Balwinder Singh from Emkay Global. Please go ahead.

Balwinder Singh: What was the new TAN plant utilization rate during the quarter?

Somnath Patil: We look at the entire TAN capacity utilization together as the plants are run to have complete flexibility in our operations. Overall capacity utilization was close to 60% of our total capacity in this quarter.

Balwinder Singh: Sir, what is the current TAN price?

Somnath Patil: It is around Rs. 24,000 per tonne.

Balwinder Singh: Sir, regarding these phosphoric acid negotiations, at what prices have you done the negotiations of phosphoric acid?

Somnath Patil: That was finalized at \$885 per tonne.

Balwinder Singh: Lastly, what is the current MRP on this ANP fertilizer?

Somnath Patil: It is around Rs. 15,000 per tonne.

Balwinder Singh: By how much have you increased it, I mean at the end of March, how much was it?

Somnath Patil: It was Rs. 12,600 per tonne.

Balwinder Singh: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Tarun Surana from Sunid Securities. Please go ahead.

Tarun Surana: Good afternoon, Sir. Your realty segment reporting income has fallen drastically Q-o-Q and Y-o-Y. Has vacancy gone up there or are revenues which are falling?



Somnath Patil: Yes actually it is the model of billing that has changed, in fact we have moved from minimum guarantee to a revenue share model for most of the tenants that we have. This is because of the construction activity that was going on which also affected the footfalls at the tenants. Therefore based on discussion with the major tenants, with effect from first April we have moved largely to a revenue share model as a result of which you see this fall in the topline.

Tarun Surana: Sir can you also give a sense of how fertilisers volumes are going ahead in the month of July? With higher prices and deficiency of monsoon how will Q2 pan out for you?

Somnath Patil: We will have to actually wait and watch the situation going forward. As of now as we see the rains have not been good enough and there is a slowdown in uptake that we are seeing. The major products that are affected are basically MOP and the DAP. However, this has not affected our own product that is the 24: 24: 0. and we have been able to sell our quantity fully.

Tarun Surana: Sir can you also share the TAN realizations as of now?

Somnath Patil: TAN realization was about Rs.24,000 per tonne.

Tarun Surana: During this quarter would we see uptake in our margins again as we would be able to pass on some of the prices to the customers as the lag impact would come in this quarter. Would we see a margin uptake in our chemical segment this quarter.

Somnath Patil: I think we should be able to see the lag effect picking up for IPA in this quarter but as far as technical ammonium nitrate is concerned as I said earlier we have been able to pass on bulk of the price increase to customers and we will have to really wait and see if ammonia prices soften going forward. Our expectation is that by the end of this calendar year we should be able to see softer ammonia prices that should help us in not only improving our margins but also in pushing our products much more into the market.

Tarun Surana: Thanks sir that's it from my side.



Moderator: The next question is from the line of Shishir Arya from Wealth Creator. Please go ahead.

Shishir Arya: I have three questions. First is what was the price of ammonia at the start of Q1 and the end of Q1? Similarly the price of polypropylene and the price of phosphoric acid start and the end of quarter?

Somnath Patil: At the end of the last quarter the ammonia price was around Rs.28,000 per tonne and as of now it is around Rs.30,000 per tonne for us. RGP prices at the end of last quarter were around Rs.60,000 per tonne and currently they are at about Rs.68,000 per tonne. For Phos acid the current cost at \$885 and at the end of the last quarter it was at about \$960 per tonne.

Shishir Arya: So what is your current consumption for phos acid if you actually operate at the full capacity to produce the fertiliser because you said that you have actually cut down last quarter because of margin pressure, so what is the current requirement of Phos acid on a quarterly basis?

Somnath Patil: At say about 200,000 tonnes, which is what we are targeting phos acid solution will be around 60-70,000 tonnes.

Shishir Arya: And as far as the real estate venture is concerned how much is the revenue you are expecting if you expect contribution by let us say the next quarter or Q3 or Q4 can you just give us guidance on that?

Somnath Patil: Quite frankly I am not expecting this sector to contribute to the bottomline in this year. We feel that we should be able to complete this modification project very soon as most of it is completed and new sign ups are in the process of happening. By the time the fit out happens and they start trading it will be the end of Q3 or early Q4 so, the real impact will be seen only in next year.

Shishir Arya: Okay thank you very much.

Moderator: Thank you. The next question is from the line of Saurav Agarwal from Marwadi Shares and Finance. Please go ahead.



- Saurav Agarwal:** Sir could you give me the outlook for ammonia prices going forward?
- Somnath Patil:** Well as I said earlier we expect that the prices will continue to remain strong for most part of the current quarter that is the July – September and also right up to November and thereafter we can expect some softening in prices. This is because some of the plants abroad are shut and one of them comes on stream around November. There should be greater supply of ammonia in the market at that time and that should help soften prices of ammonia.
- Saurav Agarwal:** Sir is we importing from Iran too?
- Somnath Patil:** No we are not importing anything from Iran.
- Saurav Agarwal:** Okay and thank you sir that is all.
- Moderator:** Thank you. The next question is from the line of Gauri Anand from MF Global. Please go ahead.
- Gauri Anand:** I have a couple of questions on IPA if you could share the revenues for this quarter and quarter of last year and how does it compare sequentially?
- Somnath Patil:** Okay for this quarter we clocked a revenue of Rs. 156 Crores as against Rs. 106 Crores last quarter.
- Gauri Anand:** This is last quarter of last year right?
- Somnath Patil:** Same quarter.
- Gauri Anand:** Sequentially sir?
- Somnath Patil:** Sequentially it was Rs. 139 Crores.
- Gauri Anand:** Sir if I rightly understand propylene prices are still higher so the margins then buck up in Q2 or do we see margins falling from current levels?



- Somnath Patil:** I do not think margins will be falling further going by what we have seen in the last few years. Typically there is a tendency for product prices to recover with a lag effect.
- Gauri Anand:** So about 18% margins are sustainable here. Then how much have they come down from Q1. If you could just give some sense on the margins for IPA?
- Somnath Patil:** Actually our margins have dropped quite a bit to around 12%, from 20% last year same quarter.
- Gauri Anand:** For the full year it could be?
- Somnath Patil:** Should be at around 15%.
- Gauri Anand:** Alright so then should the normal margins could be about 15% to 17% which was our earlier guidance. Also so do you see us getting back there by Q2 – Q3?
- Somnath Patil:** I think so. we should be able to get those levels in Q3.
- Gauri Anand:** Sir, given that ammonia prices are so high are we still not better off despite that there being some softening in the LNG and Rupee. I just want to understand does it still make economic sense to producing ammonia versus importing ammonia given that ammonia prices have gone through the roof?
- Somnath Patil:** There is sense to produce as much ammonia as we can. The weighted average cost of our own manufactured ammonia is less compared to the price of bought out ammonia.
- Gauri Anand:** Okay because I think in the past we have been able to operate at about 130% also so what I am asking is that our ammonia utilization rate I mean are we stretching ourselves there or we are under utilizing the ammonia capacity?
- Somnath Patil:** No we are utilizing fully and I do not think we ever touched 130% and we have been just around 90% to 100%.



- Gauri Anand:** Okay alright then you are saying that we are working at optimum utilization as far as ammonia goes?
- Somnath Patil:** Definitely.
- Gauri Anand:** At these levels I also wanted to understand something. We had this tankage and we were to benefit out of effective procurement and storing so is that strategy not helping us now?
- Somnath Patil:** It is helping us because we have a limited capacity of own produced ammonia. Our requirement at full capacity of the TAN plants for bought out ammonia is going to be in excess of 200,000 tons. Our own ammonia is about 130,000 tons capacity which we anyway will need. **Gauri Anand:** Sir if you could just give us some guidance and outlook in terms of how let us say the next three quarters from today will look like and what would be the earnings drivers let us say from Q3 if not in Q2?
- Somnath Patil:** As far as TAN is concerned as I said earlier we will produce close to 300,000 tonnes this year. It will be one of the important drivers for us. We also see that margins will improve in some part of Q3 and definitely in Q4. As far as IPA is concerned what we are getting now will continue for some more time but again going forward we expect margins to improve with the lag effect coming in.
- Gauri Anand:** Are we seeing any improvement in the utilization rate for IPA?
- Somnath Patil:** It is almost at 100% capacity utilization now. Also NP should contribute much better with larger volumes in the coming months provided of course monsoon is alright **Gauri Anand:** Sir in TAN, are we exporting anything?
- Somnath Patil:** Yes we are exporting some quantities to countries like Australia, Indonesia and Africa. It is well received there.
- Gauri Anand:** Alright I will come back for more questions sir. Thank you.



Moderator: Thank you. The next question is the follow up from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: Sir if you could give the current prices of Methanol and IPA also the ruling price?

Somnath Patil: Methanol's current prices are \$335 per tonne and IPA is around \$1250 per tonne.

Falguni Dutta: Sir the phos acid prices for Q2 also would be \$885 a ton?

Somnath Patil: That is right.

Falguni Dutta: Fine and thank you.

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

Deepen: This is Deepen. I am a colleague of Satish. Just one comment to make not really a question and I will be happy if you are able to do justice to this in future. In your Annual Report you have stopped disclosing quantities of finished goods sold, traded goods sold or even raw materials consumed so you were just publishing values even in your quarterly disclosures the official disclosure does not have it. I think at a corporate level it might help if you step up the level of disclosure so that people can understand your numbers and interpret them more advantageously and more transparently.

Somnath Patil: Okay fine I have noted your point.

Moderator: The next question is from the line of Himanshu Nayyar from Quant Capital. Please go ahead.

Himanshu Nayyar: Could you just give us some update on the CapEx that you had announced and what is the guidance of this year and the next?



- Somnath Patil:** We have started implementation of the capacity expansion project of our nitrophosphate product from 200,000 to about 600,000 tonnes per annum. We are currently in discussion with technology suppliers for selection of the appropriate technology. We are also taking other steps such as applying to electricity board and for pollution control. These activities are parallely going on so I think as we have said earlier this project should come on stream in the 3rd or 4th quarter of FY'15.
- Himanshu Nayyar:** So what is the amount that we will be looking to spend this year in all including this project?
- Himanshu Nayyar:** So what are the Capex plans for FY'13 if you can give us some number?
- Somnath Patil:** The CapEx that is estimated on this project is around Rs. 360 Crores. We have one more small project which we have undertaken for manufacture of Bentonite Sulfur and there the CapEx is about Rs. 55 Crores.
- Himanshu Nayyar:** Sir other than that what would be your normal maintenance CapEx on an annual basis?
- Somnath Patil:** That will be around Rs.35 to 45 Crores.
- Himanshu Nayyar:** Sir on the Australia project, have we stopped pursuing that now completely?
- Somnath Patil:** **We have** not stopped pursuing that. We are actually looking at alternative sites for the project and the market study is going on.
- Himanshu Nayyar:** Sir I joined the call bit late I do not know if you given the volume numbers product wise for the quarter if you can provide that?
- Somnath Patil:** We shall email this to you.
- Himanshu Nayyar:** The volume number for this quarter and comparable quarter last time?
- Somnath Patil:** Yes okay.



Himanshu Nayyar: Alright sir thanks.

Moderator: Thank you. The next question is from the line of Manoj Baheti from Edelweiss. Please go ahead.

Manoj Baheti: Good afternoon Mr. Patil. Mr. Patil my question is on TAN margins. Since 50% of our TAN must be coming from our own manufactured ammonia and we are saying that for TAN we were able to pass the entire increase in ammonia to consumers, it means that on our self manufactured ammonia which we convert into TAN on that I think you must be getting very high margins. So does it mean that our overall TAN bucket margins from the new plant as well as the old plant have gone up significantly this quarter? In fact the exchange rate might also have helped us because ammonia exchange rate also must be passed on to the end consumer?

Somnath Patil: Let me first clarify our own ammonia is not used for manufacturer of TAN so we have to depend on bought out ammonia. Having said that as we have been able to pass on the price increases to the customers we have managed to retain the margins in absolute terms. But in percentage terms they dropped a bit.

Manoj Baheti: But we have always taken the stand that we will be doing the import for the new TAN plant ammonia. For our existing TAN plant we were always saying that the margins will be higher because we have our own captive ammonia manufacturing vis-à-vis the new TAN plant where we have to import ammonia right?

Somnath Patil: The point that we were making earlier is that the existing plant is depreciated plant and the Norms of consumption are marginally superior to the new one, particularly power consumption and other utilities. We have common utilities due to which our utilities cost in the existing TAN plant are lower compared to the utilities cost for the new TAN plant. That is why there will be a slight difference in margins.



- Manoj Baheti:** Okay but both the TAN plants 100% TAN is out of imported ammonia or out of purchased ammonia right?
- Somnath Patil:** Yeah that's right.
- Manoj Baheti:** My second question is on Desai Fruits and Vegetables. Is there any further update on that as we infused further more capital there and how the integration is going on there?
- Somnath Patil:** I must state that the integration process has been completed and both companies are successfully integrated. As far as further infusion of funds is concerned we have infused about Rs. 2.5 Crores now beyond the original Rs. 23 Crores that we put. This is as per the arrangement, and is the call money that was paid. On Performance, we have now been able to at least achieve a positive gross margin and we are quite confident that by the end of the year we will achieve cash break even situation.
- Manoj Baheti:** Thanks for answering my question and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Tarun Surana from Sunidi securities. Please go ahead.
- Tarun Surana:** Can you share the volume for traded fertiliser in FMS? This time it is not showing. MOP sales of some 800 tonnes is being reported in SMS this time?
- Somnath Patil:** That is okay but other than that there is no MOP sale that has happened in this quarter.
- Tarun Surana:** But any other important fertiliser there?
- Somnath Patil:** We got a parcel of 30,000 tons of MOP towards the end of the quarter. It will be liquidated in this quarter.
- Tarun Surana:** But in your results there is some traded fertilisers of some Rs. 86 Crores which is reported?



- Somnath Patil:** Yes there is a lot of specialty fertiliser in that. In this quarter we do not have much bulk fertilizer. Almost all of it is specialty fertiliser except for some tiny quantity of MOP that you just mentioned.
- Tarun Surana:** But specialty fertiliser trading would be to the tune of about Rs. 50 to Rs. 60 Crores? Will it be water solubles, will it be SSP? What are the types of trading that you are doing typically?
- Somnath Patil:** Yes that is around Rs. 54 Crores which includes the MicroNutrient, the SSP, water solubles, bio fertilizer. A
- Tarun Surana:** Can you share the ballpark margin percentage in this fertiliser trading?
- Somnath Patil:** Yes in specialty fertiliser we enjoy a healthy margin of about 14% to 15%.
- Tarun Surana:** There would be some working capital also to the dealers and an interest portion would there?
- Somnath Patil:** This is before interest.
- Tarun Surana:** Okay thanks sir that's it.
- Moderator:** Thank you. The next question is from the line of Manoj Baheti from Edelweiss. Please go ahead.
- Manoj Baheti:** Will it be possible to share the margins for TAN overall new plant and old plant put together? What type of margins you were making earlier and what type of margins we are making right now either in percentage or Rupees per metric ton?
- Somnath Patil:** In terms of percentage we were making a margin of about 25% last year and now it has dropped down to around 21%.
- Manoj Baheti:** Thank you Sir.



- Moderator:** Thank you. The next question is from the line of Balwinder Singh from Emkay Global. Please go ahead.
- Balwinder Singh:** Sir what is the current demand scenario in TAN?
- Somnath Patil:** About 650,000 tons.
- Balwinder Singh:** I am asking about the current demand scenario in the market for TAN?
- Somnath Patil:** **It is growing** at the rate of about 7% to 8% annum.
- Moderator:** Thank you. We will move on to the next question. We have a follow up question from the line of Satish Mishra from HDFC Securities. Please go ahead.
- Satish Mishra:** I have a question related to the balance sheet. , Out of receivables how much will be government subsidy?
- Somnath Patil:** The government subsidy is around Rs. 74 Crores outstanding.
- Satish Mishra:** So this is for this quarter or it contains a portion of last quarter as well for the Q4 of last year?
- Somnath Patil:** It contains a good portion of last year's Q4.
- Satish Mishra:** Up to what month have we received the subsidy completely?
- Somnath Patil:** Some part of April and some part of last year are pending.
- Satish Mishra:** Sir in your balance sheet your current investment has increased very substantially. At the same time short-term borrowing has increased so just to get a sense how these two together... and what are the current investment?
- Somnath Patil:** Current investments are the investments that we have made in liquid funds debt funds mainly and as far as borrowings are concerned they are in the nature of buyers credit. The short term borrowing of Rs. 310 Crores is buyers credit for the traded fertilisers. Typically, the trading business being at a very low margin, when we take buyers credit we go for complete hedge of our



exposure. Surplus funds that we have are deployed in short term liquid funds where we enjoy an arbitrage of about 1%.

Satish Mishra: And sir last question again on the TAN market you just answered the total size is 650,000 tons so like earlier we used to talk that there is low quality fertiliser TAN ammonium nitrate which is being used and the idea was that it will get substituted with the technical ammonium nitrate so what is the bifurcation of this 650,000 ton how much is the technical grade and how much is the fertiliser grade if I can get some sense on that?

Somnath Patil: To the extent of the short fall that is there in meeting the requirement from the local production there will be consumption of fertiliser grade ammonium nitrate because that is what gets imported into the country. So against our capacity of over 400,000 tons, this year we are targeting about 300,000 tons. Plus we have RCF and GNFC putting in about 150,000 tons into the market so still there is an unmet demand that is largely met out of the fertiliser grade ammonium nitrate.

Satish Mishra: So if in the case we have so much of demand unmet then why we are not targeting 400,000 ton as our target for this year. Why it is restricted to 300,000 tons? Any operational reasons or ammonia was the issue?

Somnath Patil: We need to replace the FGAN that is getting imported into the country which is actually happening at a cheaper price compared to our own product. So to the extent possible customers would try to use FGAN to honour commitments with the overseas suppliers. Last year if you see, the mining industry did not grow at all, as a result of which capturing extra domestic market share was becoming that much more difficult. Whenever there is a good growth in the sector it becomes that much more easy to capture additional market share but the demand pattern was flat last year and this year we are seeing an improved demand and even coal production is expected to be higher by about 30-35 Million tons. To that extent it should help us to push more of our own technical ammonium nitrate into the market. Also we are augmenting our own logistics arrangements in terms of having depots



near consumption centers. Therefore these things do take time particularly when one talks of increase in volumes by as much as three times.

Satish Mishra: Thank you sir.

Moderator: As there are no further questions I would now like to hand the floor over to Mr. Varun Guntupalli for closing comments.

Varun Guntupalli: Thanks everyone for participating in the call and thanks to Deepak Fertilisers Management for taking out time for doing this conference call. I will hand it over to Mr. Somnath Patil if he wants to make any closing remarks to the call.

Somnath Patil: Well I would like to emphasize on two distinct points that actually give us considerable resilience and advantages. One our product mix is such that we cater to critical GDP linked sectors like Agriculture, Mining and Infrastructure. Besides that, our products like IPA are key raw materials for sectors like Pharmaceuticals. The demand fundamentals for us remain intact. Secondly we continue to drive considerable advantages from our market shares, our customer linkages and distribution strengths. These are never easy to build and we have built them well over a period of time. They remain formidable entry barriers for competition. So I think we should continue to do well going forward. The margins pressure that we saw in Q1 is typical of any business and we hope that we will be soon able to improve our margins as we go forward in the coming quarters. Thank you.

Moderator: Thank you very much sir. On behalf of Edelweiss Securities Limited, that concludes this conference thank you for joining us. You may now disconnect your lines.