

Q1FY14 Post Result Conference Call Transcript

Representative:

Mr. Somnath Patil - President & Chief Financial Officer

Mr. Debashish Banerjee- Executive Vice President - Finance

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MODERATOR

Ladies and gentlemen, good day and welcome to the Deepak Fertilizers and Petrochemicals Corporation Q1FY14 Earnings Conference Call hosted by Prabhudas Lilladher Private 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 call, please signal an operator by pressing * then 0 on your touch tone telephone. Please know that this conference is being recorded. At this time I would like to hand the conference over to Mr. Balwinder Singh from Prabhudas Lilladher Private Limited. Thank you and over to you sir.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited

Thank you Myron. Good evening everyone. A warm welcome to all those who have logged in to the conference call of the Deepak Fertilizers and Petrochemicals Corporation. We have today with us Mr. Somnath Patil, President & CFO, and Mr. Banerjee who is Executive Vice President Finance. Good evening Sir.

MANAGEMENT

Good evening Balwinder.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited

I would request if you can just brief us about the results and any other industry commentary or outlook that you would like to share. Then we can open the floor for Q&A. Over to you sir.

MR. SOMNATH PATIL – President & CFO

Thank you Balwinder and good evening ladies and gentlemen. Welcome to the Deepak Fertilizers and Petrochemicals Corporation's Q1 FY14 Earnings Call. I have with me my colleague Mr. Debasish Banerjee.

Let me first take you through the results for the quarter. I'm happy to state that this has been a satisfactory quarter considering the challenges in the fertilizer business in India and the continuing challenge in the mining industry. This quarter's results must also be taken against the background of the labour strike at our Taloja plant, which continued until 2nd June, as well as the depreciating rupee impact. For Q1 FY14 the company recorded a 17% growth in total



income to Rs. 742.55 crores from Rs.633.16 crores in the corresponding quarter of the previous financial year, Q1 FY13. Profit before tax stood at Rs.59.68 crores in Q1 FY14 as against Rs.63.16 crores in Q1 FY13 and profit after tax stood at Rs.42.73 crores in Q1 FY14 as against Rs.45.49 crores in Q1 FY13. On the other hand, on a Q on Q basis, the total income grew 13% while profit before tax grew 46%, and profit after tax grew 47% driven by a strong rebounding of the chemicals business.

The above profits were achieved despite the adverse impact of Rs.15.37 crores due to forex fluctuations. Segment revenues for Q1 FY14 for the agri-business, grew 26% to Rs.226.56 crores from Rs.179.50 crores for the corresponding quarter in FY13. Segment profitability for the agri-business grew to Rs.28.46 crores in Q1 FY14 against Rs.13.58 crores in Q1 FY13. This profit growth has been largely driven by rise in manufacturing volumes because of higher availability of phosphoric acid and also due to a significant improvement in margins in the specialty fertilizer business. However on a QoQ basis, both segment revenue and profitability are lower on account of lower volume and realization.

The chemical segment registered a growth of 14% to Rs.536.10 crores in Q1 FY14 from Rs.469.01 crores in Q1 FY13 driven by volume growth of technical ammonium nitrate. Profits for the chemical segment stood at Rs.80.39 crores in Q1 FY14 as against Rs.95.14 crores in Q1 FY13 but showed a growth of 64% on a QoQ basis. Easing of raw material prices like ammonia, better margins in the IPA business, and higher volumes of TAN helped the profitability of the chemicals segment. Ammonia prices worldwide are softening due to better availability and we expect this to stabilize over the next couple of quarters. The enhancement of capacity in fertilizers at the Talaja plant is on target, and expected to be completed in FY2015-16. The strike by the unionized workers at the company's plant at Talaja ended on 2nd June 2013 following the satisfactory settlement of all disciplinary and productivity issues and a long term wage agreement.

The other issue you would be eager to know about is our acquisition of a 24.46% stake in Mangalore Chemicals and Fertilizers Limited, that is MCFL, through our wholly owned subsidiary SCM Soilfert Limited, on 3rd July 2013. MCFL is a company that is well managed, technologically strong with good brands and a sound distribution system in Karnataka and other parts of South India. Its products, distribution system, brands etc., are complementary to the DFPCL portfolio. The markets of the two companies are largely contiguous and not overlapping, which can only enhance the strengths of both the companies. Working together with MCFL, DFPCL can considerably benefit the farmers of the state of Karnataka and indeed all stakeholders.

I have now shared the logic with you. I'm sure that you will appreciate that it is not possible for me to comment on any other issues with regard to MCFL at this juncture. I now leave the floor open to questions pertaining to our main businesses.

MODERATOR

Thank you. Participants if you wish to ask a question, you may press * and 1 at this time. If you wish to 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.

We have a question from Pratik Poddar from ICICI Pru Asset Management. Please go ahead.



MR. PRATIK PODDAR – ICICI Pru Asset Management

Yeah. Good afternoon sir.

MR. SOMNATH PATIL – President & CFO

Good afternoon.

MR. PRATIK PODDAR – ICICI Pru Asset Management

Sir just wanted to understand the implications of this ammonium nitrate rules which are supposed to come from July 24th.

MR. SOMNATH PATIL – President & CFO

Yes. As I mentioned on the last call , we are fully prepared to meet the requirements of the 2012 ammonium nitrate rules. The rules actually focus on having better control over the production , storage and movement of ammonium nitrate, as well as on the aspects of knowing your customer and the dealers and distributors. So on all these fronts, we have already taken action and even before the rules were implemented, we did follow on our own, certain stringent norms of KYC, as well as security measures.

MR. PRATIK PODDAR – ICICI Pru Asset Management

Ok. My second question is on Ishanya Mall. How have we progressed and if you can just throw some light. Because it's been almost 3 or 4 years since that project has not generated any revenue. So do you have any other plans?

MR. SOMNATH PATIL – President & CFO

Well what you say is quite right. As I said earlier we have been working on modifying the mall through improved product offerings and mall design as well. Earlier the mall was entirely focused only on the home or interiors, but now we have moved beyond home and interiors to food and beverages as well as, some entertainment so as to expand our overall offering. Having said that, we expect the whole exercise to be completed in the next quarter i.e. before Diwali. In the meantime we are already progressing well on new sign ups, and on the cost side we are controlling our expenditure more tightly. With the result you will see that the negatives that we have been suffering for the last couple of years, have in fact been gradually coming down and for the Q1 FY14, our loss came down to Rs. 3.7 crores.

MR. PRATIK PODDAR – ICICI Pru Asset Management

So when would it start materially contributing to your bottom line? If you can put down a time line let's say FY15 or FY16.

MR. SOMNATH PATIL – President & CFO

Yeah actually we expect this mall to contribute to our bottom line in FY15. And during this year we expect to consolidate our position in terms of having new sign ups in place and having substantial part of the mall, up and running.

MR. PRATIK PODDAR – ICICI Pru Asset Management

Fair enough. Sir the third question is obviously the stake which you have bought. I just wanted to understand how do you use these? Was this debt funded or have you used internal approvals to buy the stake?

MR. SOMNATH PATIL – President & CFO

We have used internal accruals to buy the stake.

MR. PRATIK PODDAR – ICICI Pru Asset Management

So you have not used even Re.1 of debt funding?

MR. SOMNATH PATIL – President & CFO

No. Not at all.

MR. PRATIK PODDAR – ICICI Pru Asset Management

Sir the incremental debt which we have raised of around Rs. 200 odd crores in FY13, what would be that for?

MR. SOMNATH PATIL – President & CFO

That was basically for meeting our long term working capital requirements. If you see the money that was stuck in debtors as well as subsidies was gradually increasing by the month. And overall with our increase in the scale of activities it was time for us to increase our long term debt in order to finance our core working capital whose requirements have gone up. In each of our segments we have shown growth. **MR. PRATIK PODDAR – ICICI Pru Asset Management**

Sir lastly what I understand is even after July ammonia prices have you know come down a bit. So what kind of inventory have we been carrying as of 30th June for ammonia?

MR. SOMNATH PATIL – President & CFO

We were carrying an inventory of about 9,000 tonnes as of end June.

MR. PRATIK PODDAR – ICICI Pru Asset Management

9000 tonnes. And sir just to understand the management would surely go for a controlling stake in Mangalore right? MCFL?



MR. SOMNATH PATIL – President & CFO

Well as I said in the opening remark, I would not like to comment on this aspect at this stage.

MR. PRATIK PODDAR – ICICI Pru Asset Management

Fair enough. Ok, I will get back into the queue if I have any other questions.

MODERATOR

Thank you. The next question is from Falguni Dutta from JetAge Securities. Please go ahead.

MS. FALGUNI DUTTA – JetAge Securities

Hello?

MR. SOMNATH PATIL – President & CFO

Hello.

MS. FALGUNI DUTTA – JetAge Securities

Yeah good evening sir.

MR. SOMNATH PATIL – President & CFO

Good evening.

MS. FALGUNI DUTTA – JetAge Securities

Can you give me the sales value for the various products for the quarter? IPA, TAN, PAN Solutions, ANP and others?

MR. SOMNATH PATIL – President & CFO

Ok. You can just take down. For acids it is Rs. 39.75 crores, for IPA it is Rs. 149.38 crores of our own manufactured IPA, and we have Rs. 39.86 crores of traded IPA.

MS. FALGUNI DUTTA – JetAge Securities

Ok.

MR. SOMNATH PATIL – President & CFO



And we have other traded chemicals of about Rs. 54 crores. Technical ammonium nitrate total turnover was Rs. 199 crores.

MS. FALGUNI DUTTA – JetAge Securities

This includes TAN solution also?

MR. SOMNATH PATIL – President & CFO

Yes.

MS. FALGUNI DUTTA – JetAge Securities

Ok. And what was ANP?

MR. SOMNATH PATIL – President & CFO

ANP was Rs. 125 crores. Bensulf was about Rs. 13.41 crores.

MS. FALGUNI DUTTA – JetAge Securities

Ok

MR. SOMNATH PATIL – President & CFO

And we have specialty fertilizers, Rs. 56 crores.

MS. FALGUNI DUTTA – JetAge Securities

Ok

MR. SOMNATH PATIL – President & CFO

And some other traded products of about Rs. 23.58 crores.

MS. FALGUNI DUTTA – JetAge Securities

Ok. And what kind of margins are there in this TAN and ANP and IPA at Ebidta level?

MR. SOMNATH PATIL – President & CFO

On the TAN we have a margin of about 22% at Ebidta level. And IPA, again it is around 23%. And ANP is at about 12%.

MS. FALGUNI DUTTA – JetAge Securities



Ok. Sir TAN at 22 meaning it has gone back to those early times of high margins I would guess. If you could just tell me this 22% margin would be what range over a period of 2 years? Should it be this is a margin on the higher side or a mid level kind of margin?

MR. SOMNATH PATIL – President & CFO

No, I think these are margins which one can expect to continue. They are steady state margins.

MS. FALGUNI DUTTA – JetAge Securities

Ok and how much do we target the TAN output for this year?

MR. SOMNATH PATIL – President & CFO

This year we are targeting around 325,000 tonnes.

MS. FALGUNI DUTTA – JetAge Securities

Ok. That's all from my side. If I have further questions I will just join in the queue.

MR. SOMNATH PATIL – President & CFO

Thank you.

MODERATOR

Thank you. The next question is from Jimit Shah from Ventura. Please go ahead.

MR. JIMIT SHAH – Ventura

Yeah hello sir.

MR. SOMNATH PATIL – President & CFO

Hello.

MR. JIMIT SHAH – Ventura

Yeah sir I wanted to know what will be the impact of gas price hike on Deepak Fertilizers?

MR. SOMNATH PATIL – President & CFO

Well if the Rangarajan Committee recommendations are implemented, then the gas price impact on our nitro phosphate costs will be to the extent of about Rs.3000-3500 per tonne of nitro phosphates.



MR. JIMIT SHAH – Ventura

So what would be the margins on that for nitro phosphates post the gas price hike?

MR. SOMNATH PATIL – President & CFO

This is for nitro phosphates.

MR. JIMIT SHAH – Ventura

Ok. And will it impact the other chemicals also or it won't impact?

MR. SOMNATH PATIL – President & CFO

No because for other chemicals we import ammonia.

MR. JIMIT SHAH – Ventura

Ok. So this impact you won't be able to pass it on right?

MR. SOMNATH PATIL – President & CFO

No, we might be able to pass on. If nothing is passed on then this is the impact. I'm sure we will be able to pass on some of it.

MR. JIMIT SHAH – Ventura

Sir what is the current sales price for nitro phosphate?

MR. SOMNATH PATIL – President & CFO

Yeah the current sale price is around Rs.17,000.

MR. JIMIT SHAH – Ventura

And what are the margins that we are having on this?

MR. SOMNATH PATIL – President & CFO

We are having currently margins of about 12%.

MR. JIMIT SHAH – Ventura

Ok. So will we be producing nitro phosphate if the gas price hike comes? Because I think it will become unviable for us to produce it right?



MR. SOMNATH PATIL – President & CFO

No, it won't be. The margins will decrease. What I have told you is the selling price of Rs. 17,000. Plus we have a subsidy of Rs.9500.

MR. JIMIT SHAH – Ventura

Ok

MR. SOMNATH PATIL – President & CFO

Margins surely will drop, but we think we should be able to pass on some of this increase onto the dealers and distributors.

MR. JIMIT SHAH – Ventura

So what was the total annual sales that we did for nitro phosphates last year?

MR. SOMNATH PATIL – President & CFO

Last year we did about 177,000 tonnes.

MR. JIMIT SHAH – Ventura

177,000 tonnes. Ok sir, thank you.

MODERATOR

Thank you. Participants if you wish to ask a question, please press * and 1 at this time. The next question is from Satish Mishra from HDFC Securities. Please go ahead.

MR. SATISH MISHRA – HDFC Securities

Yeah good evening sir.

MR. SOMNATH PATIL – President & CFO

Good evening.

MR. SATISH MISHRA – HDFC Securities

Sir first question is related to the Ishanya mall. If I see your segmental results, like for last three years since FY12, your capital employed is at Rs. 260 crores. So is it that we haven't capitalized any of the capex what we have incurred in the last one and half years.

MR. SOMNATH PATIL – President & CFO

No, we have capitalized all that we have incurred. So there is nothing that is left to be capitalized and capital employed includes even WIP.

MR. SATISH MISHRA – HDFC Securities

Ok.

MR. SOMNATH PATIL – President & CFO

This is net of depreciation.

MR. SATISH MISHRA – HDFC Securities

Right. So basically my question is that there is nothing in CWIP as of now for the business?

MR. SOMNATH PATIL – President & CFO

There is nothing.

MR. SATISH MISHRA – HDFC Securities

Right sir. And my second question is related to the margins. You just talked about TAN and IPA margin in the range of 22-23%. I believe for chemical segment these two products contributes to around 60-70%. Whereas if you see our PBIT margin it's like 14-15%. So it's slightly mismatch. I believe methanol is one contributor where the volumes are zero. But I slightly suspect this 22-23% kind of margin at Ebidta level.

MR. SOMNATH PATIL – President & CFO

The segment result is before interest.

MR. SATISH MISHRA – HDFC Securities

Right.

MR. SOMNATH PATIL – President & CFO

So therefore Ebidta will be higher compared to that.



MR. SATISH MISHRA – HDFC Securities

Right. So this 22% is with the current ammonia price or are you talking about last FY13 performance?

MR. SOMNATH PATIL – President & CFO

No, we are talking about Q1 FY14.

MR. SATISH MISHRA – HDFC Securities

Ok, ok.

MR. SOMNATH PATIL – President & CFO

And chemicals also as you rightly said, one is we don't have anything on the methanol front. So we carried that maintenance cost. And on the acids our margins have taken a hit. So as a result the overall chemicals margin has come down to 15%. But TAN is alright at 18%. **MR. SATISH MISHRA – HDFC Securities**

Right. And sir the last question on the prices of ammonia and phos acid for Q2.

MR. SOMNATH PATIL – President & CFO

For Q2 I think the ammonia prices should continue to be around \$460 per tonne because of the softening that you have seen. And as far as phos acid is concerned, the prices are expected to be below \$715 per tonne, and going forward we expect further softening of phos acid prices due to falling DAP prices. **MR. SATISH MISHRA – HDFC Securities**

Sir so this ammonia at \$460 I believe last year was the time when ammonia prices peaked to \$600 plus levels. So even considering rupee depreciation of around 10% year on year, we are like sitting with 15-20% benefit in terms of ammonia prices. So can we safely assume that in Q2 this declining trend in chemicals margin will be reversed? Or is the ammonia inventory of 9000 tonnes which you mentioned will have a room to play there?

MR. SOMNATH PATIL – President & CFO

No, it won't have. In fact we should see these margins improve as we go forward, if the ammonia prices you know are at this level. In Q1 we were carrying some opening inventory which was at a higher cost. So the effect of that won't be there in Q2. So we can look for better margins in TAN in Q2.

MR. SATISH MISHRA – HDFC Securities

Ok thank you sir.

MODERATOR



Thank you. Participants if you wish to ask a question please press * and 1 at this time. The next question is from Rohan Gupta from Emkay Global. Please go ahead.

MR. ROHAN GUPTA – Emkay Global

Hi sir good evening.

MR. SOMNATH PATIL – President & CFO

Good evening.

MR. ROHAN GUPTA – Emkay Global

Congrats on good set of numbers sir. First thing on this trading opportunity in chemical segment, we are seeing that the trading from the chemical segment is continuously rising. So sir these are the chemicals which we are not manufacturing, which you are trading. Because you already mentioned that at IPA you did trading. What are the other chemicals in which we are trading and how frequent will we be doing trading or how sustainable are they?

MR. SOMNATH PATIL – President & CFO

See the other chemicals in which we are doing trading are acetone and toluene.

MR. ROHAN GUPTA – Emkay Global

Ok.

MR. SOMNATH PATIL – President & CFO

We have registered significant growth. If you see in the previous quarter our turnover from traded chemicals was just 18 crores and then in this quarter it is Rs. 54 crores.

MR. ROHAN GUPTA – Emkay Global

Yeah.

MR. SOMNATH PATIL – President & CFO

This is fairly sustainable because we have a very good network of dealers, distributors and a very strong presence thanks to our IPA reach across the country. And as you know we are the only manufacturers of IPA in the country, and in order to bridge the gap between domestic supply and demand, we have resorted to trading in IPA ourselves. And on the back of that we have found a good avenue to trade in other chemicals which are aligned with similar type of



applications in similar type of industries. That is how we resorted to trading in acetone and toluene . And it is fairly sustainable I would say.

MR. ROHAN GUPTA – Emkay Global

What sort of margins would you be having in chemical trading?

MR. SOMNATH PATIL – President & CFO

It will be just about 2-2.5%.

MR. ROHAN GUPTA – Emkay Global

Just 2-2.5%.

MR. SOMNATH PATIL – President & CFO

It is on a fully hedged basis.

MR. ROHAN GUPTA – Emkay Global

Ok so we don't carry currency related risk in there?

MR. SOMNATH PATIL – President & CFO

That's right.

MR. ROHAN GUPTA – Emkay Global

2% you are talking about PBT margin? It would be net margin after tax or before tax?

MR. SOMNATH PATIL – President & CFO

No, PBT that's right.

MR. ROHAN GUPTA – Emkay Global

PBT margin. Ok. Sir second we can see a significant ramp up in TAN production as well as sales volume what we have got the sheet. Sir this significant ramp up is primarily in this quarter for one off event or this is the sustainable volume which you are seeing going forward?

MR. SOMNATH PATIL – President & CFO



In fact as I said we are targeting a turnover of about 325,000 tonnes this year. So this is pretty much sustainable. In fact we have a capacity of 430,000 tonnes. Going forward we will keep ramping up more and more and this year 325,000 will be a significant jump compared to what we achieved last year.

MR. ROHAN GUPTA – Emkay Global

So with the current quarter showing attractive volumes, we will maintain that 325 numbers which you have mentioned earlier or would you like to....or you can see that there will be a significant ramp up in that or it can be....

MR. SOMNATH PATIL – President & CFO

See the problem is typically Q2 tends to be a little difficult for the mining industry. And therefore to sustain the same figure in Q2 could be a challenge. But thereafter again we will bounce back, and that is how I am talking of a number of 325,000 tonnes.

MR. ROHAN GUPTA – Emkay Global

Sir another question on TAN only. This year we are seeing a prolonged monsoon affecting industrial activities or construction activities. You see that second quarter or third quarter may be more challenging than what we have seen last year?

MR. SOMNATH PATIL – President & CFO

As I said second quarter could be a little bit challenging because of the monsoons. But we don't see any difficulties in the third and fourth quarters. Also we are slowly improving our exports. In the first quarter we exported about 10,000 tonnes, and we have been targeting around 50,000-60,000 tonnes which I think we should be able to do going forward.

MR. ROHAN GUPTA – Emkay Global

So first quarter exports was 10,000 tonnes?

MR. SOMNATH PATIL – President & CFO

That's right.

MR. ROHAN GUPTA – Emkay Global

And for Q4 how much was the exports? If you have number off hand or we can take it later also.

MR. SOMNATH PATIL – President & CFO

Debasish Banerjee will mail it to you.

MR. ROHAN GUPTA – Emkay Global

Ok sir no problem. Just third thing and observation in your opening remark where you mentioned that there have been improvement in the specialty fertilizer margins. Sir why there has been improvement and whether that has been just one off activities in the currency benefit, or you see that improvement in specialty fertilizer margins is going to remain there?

MR. SOMNATH PATIL – President & CFO

It will remain there because our margins have gone up to around 16% and in some cases to around 17%. It is a basket of various products. So therefore margins on some products tend to go up, some products tend to remain at the same level. But by and large we are able to get a margin of at least 15% in the specialty fertilizer on a sustained basis.

MR. ROHAN GUPTA – Emkay Global

So this is not like this because we have seen very good monsoon this year in first quarter so we could have an impact of that. It's not like that?

MR. SOMNATH PATIL – President & CFO

That might be partly true on a couple of products. But not all the products.

MR. ROHAN GUPTA – Emkay Global

Sir 15% margin you see that it can remain there?

MR. SOMNATH PATIL – President & CFO

Yes.

MR. ROHAN GUPTA – Emkay Global

And sir out of this fertilizer, I mean trading this quarter, Rs. 88 crores which you did, how much was specialty fertilizer and how much was on commodity fertilizer?

MR. SOMNATH PATIL – President & CFO

Specialty was Rs. 56 crores.

MR. ROHAN GUPTA – Emkay Global

Specialty?

MR. SOMNATH PATIL – President & CFO



Yeah specialty was Rs. 56 crores. And the balance was commodity.

MR. ROHAN GUPTA – Emkay Global

And you have comparable last year? Same number?

MR. SOMNATH PATIL – President & CFO

Last year the number of specialty was Rs. 53.65 crores in the first quarter.

MR. ROHAN GUPTA – Emkay Global

Yeah. Sir they have not been very significant growth despite this being a very encouraging quarter in terms of monsoon in the specialty fertilizer business. So do we see that this business is stagnating now? Or we are going to add some more products in this kitty?

MR. SOMNATH PATIL – President & CFO

This won't stagnate. We'll add some more products. And we see that there will be some growth in this sector going forward.

MR. ROHAN GUPTA – Emkay Global

Ok, ok sir thanks. Thank you very much.

MODERATOR

Thank you. Participants if you wish to ask a question, please press * and 1 at this time. The next question is from Falguni Dutta from JetAge Securities. Please go ahead.

MS. FALGUNI DUTTA – JetAge Securities

Hello?

MR. SOMNATH PATIL – President & CFO

Yeah hello.

MS. FALGUNI DUTTA – JetAge Securities

Sir this Ishanya Mall, have we internally thought out about some time frame by which we would like to see the operations and if it doesn't break even then we will decide on some other course of action I mean to change it altogether or do away with it or something like that?

MR. SOMNATH PATIL – President & CFO



Well we are examining all possible options to turnaround the mall. **MS. FALGUNI DUTTA – JetAge Securities**

But sir have we put in some time frame in mind that by so and so year if it doesn't turn around then we stop?

MR. SOMNATH PATIL – President & CFO

There is some internal thought process going on, on that point, but I won't be able to comment on the precise time frame.

MS. FALGUNI DUTTA – JetAge Securities

Ok.

MR. SOMNATH PATIL – President & CFO

But definitely we are very seriously looking at all options.

MS. FALGUNI DUTTA – JetAge Securities

Ok. And sir lastly what would be the current IPA and propylene prices?

MR. SOMNATH PATIL – President & CFO

The propylene prices for the current quarter are Rs.60,559 per tonne. And last year it was Rs.68,000 per tonne.

MS. FALGUNI DUTTA – JetAge Securities

Ok.

MR. SOMNATH PATIL – President & CFO

And selling price for the current quarter was Rs. 80,376, as against Rs. 78,920 last year same quarter.

MS. FALGUNI DUTTA – JetAge Securities

Ok. That's all from my side. Thank you sir.

MODERATOR

Thank you. Anyone who has a question may press * and 1 at this time. The next question is from Pratik Poddar from ICICI Pru Asset Management. Please go ahead.

MR. PRATIK PODDAR – ICICI Pru Asset Management

Sir just a follow up, sir this 6 lakhs metric tonnes NPK plant at Taloja, are we still going ahead?

MR. SOMNATH PATIL – President & CFO

Yes we are going ahead with that.

MR. PRATIK PODDAR – ICICI Pru Asset Management

Sir despite the overhang, the gas prices may be hiked, your profitability may get impacted, what gives us the confidence? I mean why are we doing this?

MR. SOMNATH PATIL – President & CFO

We have actually carried out sensitivity on this even on the basis of bought out ammonia. And we see that it will make a lot of sense for us to go for this expansion. One major reason being that our capital cost will be very low. It will be an expansion costing only Rs. 360 crores.

MR. PRATIK PODDAR – ICICI Pru Asset Management

Ok. And how are we funding this? How much is the debt equity?

MR. SOMNATH PATIL – President & CFO

As of now we have not raised any debt for this. But going forward we will see how our cash flows looks and we might raise some debt just so that we are able to benefit from leveraging the balance sheet.

MR. PRATIK PODDAR – ICICI Pru Asset Management

When is this plant expected to come up?

MR. SOMNATH PATIL – President & CFO

In FY16.

MR. PRATIK PODDAR – ICICI Pru Asset Management

Oh FY16 is it? Ok. Ok. That's it. Thank you.

MODERATOR

Thank you. Anyone who has a question, please press * and 1 at this time. The next question is from Himanshu Nair from Quant Broking. Please go ahead.

MR. HIMANSHU NAIR – Quant Broking



Good afternoon sir. Thanks for taking the question. Most of my questions have been answered. Just two clarifications. Firstly you mentioned a forex loss of Rs. 15.37 cores. So you've accounted that in the other expenses this time or where can we see that in the P&L?

MR. SOMNATH PATIL – President & CFO

It is partly in borrowing cost that is finance cost and partly in other expenses.

MR. HIMANSHU NAIR – Quant Broking

Ok, ok. And sir secondly this higher other income that we have seen of Rs. 19 crores, so just wanted to know I mean obviously it's been in line with the last quarter. But given that we have used a lot of our cash to purchase the Mangalore Chemical stake, so this other income surely should come down going forward right? And it is one off in this also.

MR. SOMNATH PATIL – President & CFO

We earned CDM benefits of Rs. 8 crores.

MR. HIMANSHU NAIR – Quant Broking

Ok.

MR. SOMNATH PATIL – President & CFO

And will continue but at a lower level. As I said the stake acquisition was funded from internal accruals but the money that was locked up in our working capital has got released now and that will be available for investment.

MR. HIMANSHU NAIR – Quant Broking

Right, right. And sir finally if you could just give us your gross debt and cash numbers?

MR. SOMNATH PATIL – President & CFO

Our gross debt was Rs.1131 crores.

MR. HIMANSHU NAIR – Quant Broking

Ok.

MR. SOMNATH PATIL – President & CFO

Long term and short term put together. And our cash was Rs. 244 crores.

MR. HIMANSHU NAIR – Quant Broking



Ok, ok. Alright sir. That's all from my side. Thanks and all the best.

MODERATOR

Thank you. Participants if you wish to ask a question, please press * and 1 at this time. The next question is from Manish Mahawar from Edelweiss. Please go ahead.

MR. MANISH MAHAWAR – Edelweiss

Yeah good evening Mr. Patil and Mr. Banerjee.

MANAGEMENT

Good evening to you Manish.

MR. MANISH MAHAWAR – Edelweiss

Yeah just wanted to know what is the number of our subsidy outstanding as on June?

MR. SOMNATH PATIL – President & CFO

As on June end it was Rs. 254 crores. Rs. 160 crores as of now.

MR. MANISH MAHAWAR – Edelweiss

Sorry could you repeat sir?

MR. SOMNATH PATIL – President & CFO

It was Rs. 254 cores which has come down to Rs. 160 crores as of now.

MR. MANISH MAHAWAR – Edelweiss

In July you are talking about?

MR. SOMNATH PATIL – President & CFO

So we have received Rs. 94 crores.

MR. MANISH MAHAWAR – Edelweiss

Ok and what was the figure in March sir?

MR. SOMNATH PATIL – President & CFO

March was also around the same number.

MR. MANISH MAHAWAR – Edelweiss

Ok sure. And what you said in your forex loss is partly in other expenses and partly in finance cost. Could you break up the number sir?

MR. SOMNATH PATIL – President & CFO

Yeah about Rs. 8 crores is finance cost, about Rs. 7 crores is in foreign exchange in the other expenses. **MR. MANISH MAHAWAR – Edelweiss**

Ok. And sir in Ishanya you said that you are working on some modification on the Ishanya Mall. Sir what would the cost going forward be in Q2 or Q3? You are saying it will be done before Diwali actually. What would be the expenditure for the same?

MR. SOMNATH PATIL – President & CFO

The expenditure will be around Rs. 70 crores and bulk of it has been spent.

MR. MANISH MAHAWAR – Edelweiss

Ok it has already been spent. Sure. And just this one question, this is the last question. Ammonia, what is the landed cost of ammonia during the quarter?

MR. SOMNATH PATIL – President & CFO

During the quarter the landed cost of ammonia was Rs. 34,254.

MR. MANISH MAHAWAR – Edelweiss

What was it last year Q1 sir?

MR. SOMNATH PATIL – President & CFO

Last year Q1 was Rs. 29,200.

MR. MANISH MAHAWAR – Edelweiss

Ok sure sir. Thanks sir.

MODERATOR

Thank you. The next question is from Rohan Gupta from Emkay Global. Please go ahead.

MR. ROHAN GUPTA – Emkay Global

Sir thanks again for the opportunity. Sir a little bit more information on this forex loss. Sir can you elaborate a little bit more that the nature of this forex loss and whether it can emerge again in the subsequent quarters?

MR. SOMNATH PATIL – President & CFO

See basically the forex loss happens due to a time lag between the time we actually place our orders and the time we retire our LCs. While we definitely take forward cover as a policy, sometimes we do take certain positions. As a policy we take 50% forward cover on day one which we do. And the balance is covered over a period of time till the retirement of the LC. So whatever is getting booked into the books of accounts, is the rate that prevails as of the date of transaction and whereas the actual exchange rate depends on when the LC gets retired and the rate at which the same has been booked. So typically this difference will come as a forex loss.

MR. ROHAN GUPTA – Emkay Global

And these are mainly on ammonia as well as on phos acid?

MR. SOMNATH PATIL – President & CFO

No. it is ammonia, phos acid, then we have some of the bulk fertilizers which we import and also on the chemicals trading that we do. But as I said earlier, these traded products are fully hedged the day they come in and our entire costing is done on fully hedged cost of the material. So when we fix our selling price or when we look at our selling price, we are able to anticipate our margin on a fully hedged basis.

MR. ROHAN GUPTA – Emkay Global

Correct. So it will be primarily on ammonia phos acid. Because on bulk fertilizer and traded chemicals we take full cover right?

MR. SOMNATH PATIL – President & CFO

Yeah that's right. But still there will be a time differential and if there is a spike then you will see that this loss will occur.

MR. ROHAN GUPTA – Emkay Global

So this Rs.15 crores, it's an actual loss which we have already booked. It's not Mark to Market.

MR. SOMNATH PATIL – President & CFO

Rs. 4 crores is actual loss, Rs. 11 crores is M to M.

MR. ROHAN GUPTA – Emkay Global



Rs. 4 crores is only actually loss?

MR. SOMNATH PATIL – President & CFO

Yes, yes. And let me also tell you that while this appears to be a loss, the bulk of it we try to realize through our selling price adjustments in our technical ammonium nitrate.

MR. ROHAN GUPTA – Emkay Global

Ok. Ok. Sir just one small thing on ammonia prices. Though just in the last question you gave in rupee, sir before that you have mentioned that in Q2 you are looking at \$460 for ammonia prices. What was the average in dollars for Q1?

MR. SOMNATH PATIL – President & CFO

One moment. It was \$566 per tonne.

MR. ROHAN GUPTA – Emkay Global

\$566 per tonne. This was average for Q1?

MR. SOMNATH PATIL – President & CFO

Yes.

MR. ROHAN GUPTA – Emkay Global

And as of now it is \$460?

MR. SOMNATH PATIL – President & CFO

Yes.

MR. ROHAN GUPTA – Emkay Global

Ok. And sir have we reduced our TAN prices to pass on the benefit of lower ammonia prices?

MR. SOMNATH PATIL – President & CFO

We have not reduced our TAN prices.

MR. ROHAN GUPTA – Emkay Global

So TAN realization remains at the same level what it was in the previous quarter?



MR. SOMNATH PATIL – President & CFO

Yes.

MR. ROHAN GUPTA – Emkay Global

Ok. But sir despite that we are competing on IPP basis, isn't there any pressure on TAN realization or it is being off-set by currency depreciation?

MR. SOMNATH PATIL – President & CFO

This is one thing. It is being off -set by currency depreciation and secondly some of our products are superior to the imported products which are typically fertilizer grade ammonium nitrate. And so we tend to get a premium over the landed cost of the imported product.

MR. ROHAN GUPTA – Emkay Global

Yes that we understand sir because you have always been having almost 10% realization gap of premium over the imported product. But will the sharp fall in global TAN prices there may be some further increase of the gap between the domestic or imported product realisation is too much. Then I think that people may switch to imported TAN. I mean that's what our understanding is.

MR. SOMNATH PATIL – President & CFO

They are already buying imported fertilizer grade ammonium nitrate because we are not able to meet the full market requirements. The mining sector has been sluggish again this year also. So as a result of which the people who are dependent upon or who are used to using imported ammonium nitrate, they continue to do so. And some of them are getting switched over to our product as a result of which we are able to maintain our prices.

MR. ROHAN GUPTA – Emkay Global

Ok, ok. Sir last question. Sir on this gas impact on nitro phosphate or ANP you mentioned it can be as high as Rs.3000 to Rs.3500. While our current margin itself will be slightly less than Rs.3000 or in that range. Given a chance if the gas prices are increased and if we are not able to increase the prices or not to pass on fully, then also you think the company will stick to produce or will do the similar sort of volume what we are doing in ANP right now? Or you will slowly reduce it?

MR. SOMNATH PATIL – President & CFO

Our margins will definitely come under pressure. But volumes will continue to be there.

MR. ROHAN GUPTA – Emkay Global

Because sir my concern is that right now if it is at our margins are close to Ebidta level at close to Rs.2500 to Rs.3000 that's what you said at 12% margin. If we see a gas price impact of Rs. 3000, those margins are still before interest and other working capital related cost. The way the government is paying right now and they way there is a huge inventory in the system does it make sense that we are doing this ANP business at a lower margin of as low as maybe Rs.1000 or something?

MR. SOMNATH PATIL – President & CFO

It will make sense for us because the plant is fully depreciated. And secondly I am quite confident that we will be able to increase our prices to some extent.

MR. ROHAN GUPTA – Emkay Global

Ok sir. Thank you very much.

MODERATOR

Thank you. Participants if you wish to ask a question, please press * and 1 at this time.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Hello? Yeah I have some questions.

MODERATOR

Sure.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Sir Balwinder this side. On the fertilizer side have we increased the prices?

MR. SOMNATH PATIL – President & CFO

No actually we reduced the prices from Rs.17,000 to Rs.16,250 in this quarter. And now in July we have again increased and gone back to Rs.17,000 per tonne because of the steep depreciation of the rupee, and the consequent increase in input cost.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Ok. So sir have we asked the government for this? Because I believe the government had set a reference price earlier. So is there any government intervention involved in this?

MR. SOMNATH PATIL – President & CFO

That was considering the exchange rate of Rs. 55 per dollar. Now that the dollar has risen up to Rs. 61 there was no choice but to increase the selling price.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Ok. And sir how is the inventory situation in the marketplace for fertilizers. Because when we started fiscal 14, the industry was stuffed with a lot of inventory. So what is the outlook on that?

MR. SOMNATH PATIL – President & CFO

Thankfully with the good monsoons, the inventory situation has eased considerably. And as we speak the inventory in the pipeline is around a little over a million tonnes, 1.3-1.4 million tonnes, as against significantly larger volumes last year same time.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Ok. So I mean we have seen consumption increase significantly during the last 2-3 months and also because of the fact that companies have rationalized production so we have seen inventory getting liquidated. Is my reading correct?

MR. SOMNATH PATIL – President & CFO

Yeah rationalizing production and also rationalizing the buying of bulk fertilizers.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

So I mean don't you think that now this inventory problem will be solved, you will see importers again coming aggressively and flooding the market?

MR. SOMNATH PATIL – President & CFO

Importers means all the fertilizer players, they are the ones who trade in bulk fertilizers. And depending on the scenario, positions are taken by different companies.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Yeah that is what....I mean are there chances of importers coming again and again in the market? Somebody who has been aggressively trading in the last year. So now that this inventory problem will get solved we will see again importers coming in.

MR. SOMNATH PATIL – President & CFO

See last year's experience was not very good for the industry. They indulged in over-trading. So if one were to learn some lessons from that, one would be cautious this year and be more pragmatic rather than just rushing into this too aggressively. This is my reading of the situation.



MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Ok. And sir regarding this, what is the weighted average gas cost currently?

MR. SOMNATH PATIL – President & CFO

It is around Rs.11.33 per sm³ .

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

And how much will that be in MMBTU?

I'll just tell you.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Why are we not producing methanol?

MR. SOMNATH PATIL – President & CFO

No this gas is not meant for methanol. This is for fertilizers. This is the APM gas that we get. For methanol production the gas cost has to be less than \$8 per MMBTU. And against that the spot LNG prices are over \$18 per MMBTU. So there is just no way one can produce methanol economically.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Ok. That weighted gas cost was for the basket of fertilizers?

MR. SOMNATH PATIL – President & CFO

Yeah basket of gases and there was no spot gas in that.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Ok. Sir current LNG prices are at over \$18 per MMBTU.

MR. SOMNATH PATIL – President & CFO

Yes.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

And sir what is our capex for FY14 and 15?



MR. SOMNATH PATIL – President & CFO

For FY 14 and 15 we have announced a capex of around Rs. 430 crores for the expansion of nitro phosphates as well as for setting up one more Bentonite Sulphur plant in Panipat. Apart from this we will have normal capex of around Rs. 50 crores each year. So you can say Rs. 100 crores over 2 years. These are the capexes which are approved by the board.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Ok. Sir what are the current TAN prices?

MR. SOMNATH PATIL – President & CFO

Current TAN prices are around Rs.25,000 per tonne.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

And how does this compare with last year?

MR. SOMNATH PATIL – President & CFO

Last year it was Rs. 23,700 for the same period. Now it is Rs. 25,000.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Ok, currently it is Rs. 25,000.

MR. SOMNATH PATIL – President & CFO

Yes.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Ok. Sir lastly we have guided for around 3,25,000 of TAN volumes and this quarter we have done around 78-79000. So in subsequent quarters even when Q2 is weaker we are maintaining our annual run rate of 3, 25,000. I mean what gives you the confidence that we'll be able to sell so much?

MR. SOMNATH PATIL – President & CFO

I think we should do much better in Q3 and Q4, and the main reason for us to get this confidence is the softening of the ammonia prices. We have been able to now run our plants much more efficiently. Last year as you know we had a strike in the last quarter. And which went on right up to the second month of the quarter. So now that all those things are behind us, we are quite confident of making good progress on ramp up of our TAN capacity utilization. **MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.**



Ok. Fine sir. Thanks a lot. Are there any questions MODERATOR?

MODERATOR

Currently there are not questions sir.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

I think as far as sir already answered most of the questions I think we can close the call. Sir would you like to make any closing comments?

MR. SOMNATH PATIL – President & CFO

Well at the close I would first of all thank all of you for participating in our call. And before we conclude the call I would like to emphasize the fact that we are firmly on a growth mode and are focused on growing our market share in the TAN and fertilizer businesses. We continue to explore other opportunities for growth both organic and inorganic. We are identifying new business opportunities based on feedstock other than ammonia as well, like propylene, and are confident that we will be able to enhance shareholder value considerably with this strategy.

We continue to enjoy strong market shares and the demand fundamentals for our products will always have an upward trend. Mining infrastructure and agriculture remain key factors in India's growth story. Thank you.

MR. BALWINDER SINGH – Prabhudas Lilladher Private Limited.

Thank you everyone for logging in to the conference call of Deepak Fertilizers. Thanks a lot.

MR. SOMNATH PATIL – President & CFO

Thank you Balwinder. Bye.

MODERATOR

Thank you. On behalf of Prabhudas Lilladher Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

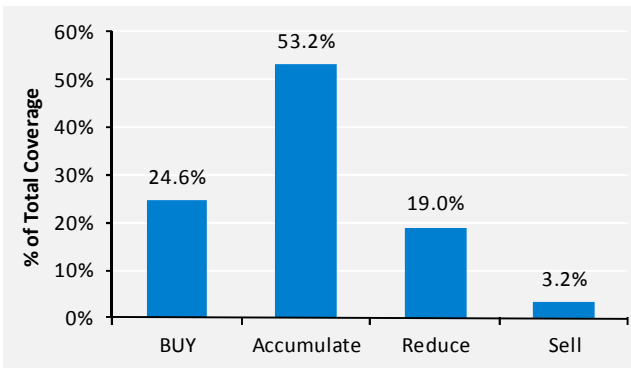


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