

August 4, 2014

**Moderator:**

Ladies and gentlemen, good day and welcome to the Q1 FY 2015 results call of Deepak Fertilisers and Petrochemical Corporation Limited hosted by Emkay Global Financial Services. We have with us today Mr. Somnath Patel, President and Chief Financial Officer, Mr. Debasish Banerjee, EVP Finance of Deepak Fertilisers and Petrochemicals Corporation Limited. As a remainder all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohan Gupta, Senior Research Analyst of Emkay Global. Thank you and over to you Mr. Gupta!

**Rohan Gupta:**

Thanks Mallika. Thanks for introducing the management. I welcome Mr. Patel and Mr. Banerjee. Sir very good afternoon! Sir as always I request you to give us a brief about Q1 FY 2015 results and any latest development on the Company as well as in the industry. I will also request if you can share a development on the gas pricing front, which we had been facing during the quarter. I also have gone through the management talking about issues in 10 demand markets, so if you can also just touch upon those things and then we can follow it up with Q&A session so.

**Somnath Patil:**

Thank you Rohan. Good afternoon ladies and gentlemen and welcome to Deepak Fertilisers and Petrochemical Corporation's Q1 FY 2015 earnings call. I have with me my colleagues Debasish Banerjee and Pranav Thakkar.

It was indeed a very challenging quarter for us as certain adverse developments affected our performance. First the gas supply to the Company was stopped abruptly pursuant to a decision taken by Ministry of Petroleum and Natural Gas. We were quite taken aback by the order as it is against the Directory of EGoM, which on three different occasions directed that gas supply to us should continue.

This was also against governments own policy of giving first priority in gas allocation to the fertiliser sector and we therefore feel that the cut is discriminatory. As you would know we have moved the Delhi High Court against the decision and hearing is in progress.

Second development is our extended shutdown of propylene plant of our major RGP supplier. As a consequence, the IPA plant had to be run on partial load.

Thirdly subdued demand for TAN from the mining and infrastructure sectors affected volumes. We have however managed to minimize the loss, through trading activity both in chemicals as well as in the agri sector.

Coming to the results as mentioned earlier due to sudden stoppage of gas supply the Company recorded 12% decline in total income to Rs.945.37 Crores for the quarter ended on June 30, 2014 from Rs.1069.59 Crores in the preceding quarter that is Q4 of the previous financial year FY 2014.

Profit before tax decreased to Rs.56.01 Crores in Q1 FY 2015 as against Rs.122.59 Crores in Q4 FY 2014 and profit as tax stood at Rs.39.85 Crores in Q1 FY 2015 as against Rs.91.44 Crores in Q4 FY 2014; however, on YOY basis revenue increased by 27% on the back of doubling of trading operations while PBT decreased by 6% and PAT by 7%. This was mainly on account of the higher credit volume.

The Chemicals segment registered growth of 26% to Rs.677.03 Crores in Q1 FY 2015 from Rs.536.10 Crores in Q1 FY 2014 riding on the back of 124% growth in trading operations. The extended shut down of propylene plant where supplier as well as subdued demand for technical ammonium nitrate impacted the segment results, the segment profit therefore dropped by 5% during the quarter to Rs.71.53 Crores as against Rs.75.29 Crores during the same period last year.

Growth in the Agri business was also lastly driven by a rise in trading activity, which grew by 72%. Amongst the manufactured fertilisers Bentonite Sulphur recorded a growth of 49% whereas ammonium nitrophosphate production was affected by stoppage of gas supply and recorded a drop in volume by 15% as compared to same period last year; however, the traded volume came back at better margin.

The segment revenue registered an overall growth of 27% to Rs.286.69 Crores as against Rs.226.56 Crores during Q1 FY 2015. The segment profit grew by 9% to Rs.28.13 Crores from Rs.25.77 Crores, recorded during the same period last year mainly due to improved margin on traded fertilisers.

Going forward with expected growth in the economic scenario especially the expected pickup in mining and infrastructure sectors we hope to do better. The government has decided not to go ahead with gas price increase and plans to have a further study on the same.

With our efforts to be expect gas supply issue to be resolved soon to the satisfaction of all concerned. Both our NP expansions as well as Bentonite Sulphur Panipat projects are on track and we expect to have commercial production from both the projects in Q4 of FY 2016.

At the same time, we are exploring growth opportunities in the chemicals and TAN sectors and we will come back to you in due course of time.

Regarding Mangalore Chemicals we have received approval from SEBI for the open offer and are awaiting clearance from the Competition Commission of India. We are aware of the counterbid for acquisition of it shares and are evaluating our options in consultation with merchant bankers.

We will revert to you on this soon. I now leave the floor open to your questions.

**Moderator:**

Thank you very much Sir. Ladies and gentlemen you will now begin the question and answer session. The first question is from the line of Rahul from Common Wealth Bank Of Australia, please go ahead.

### **Question and Answer Session**

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**Rahul Badethalav:**

This is Rahul from the Common Wealth Bank in Sydney. Thank you very much for the opportunity to ask a question. Just with respect to reform around fertiliser subsidies, do you have any comment around what you expect to say from the government and when that might happen?

**Somnath Patil:**

Actually it is little early to say anything on that for us, but what we are trying to see is that the government has made statements to the effect that they would like to ensure a more balanced fertilization and to that end they will try to encourage better subsidy regime whereby the nitrophosphate are also made affordable to the farmers and so far there has been a huge focus on subsidizing urea and while talking of the new subsidy for the nitrophosphate, the government has also talked of working on new subsidy policy for the urea segment and once these are holistically looked at then we can expect better subsidy regime for the whole of the fertiliser industry that urea and non-urea producers and that would in turn help improve consumption of nitrophosphates, which in turn will also improve better balance fertilization. The other angle subsidy is the seriousness which the government is trying to pursue the direct cash transfer of subsidy to the farmer instead of routing it through the company, which is presently the case, so as of now because of this policy, we today have about Rs.200 Crores stuck with Government of India and which should be released in installments soon that is our expectation.

**Rahul Badethalav:**

Have they been quite constrictive in the conversations with you?

**Somnath Patil:**

There have been some discussions overall actually industry as a whole has been talking to the government and they have been taking views from individual companies as well, so we are also favorably inclined to accept this kind of study by the Government of India, which will be in the overall interest of the industry as well as the economy and the government as well.

**Rahul Badethalav:**

Excellent and just one last question, just with respect to the monsoon rainfall, which has improved over the last couple of weeks. Have you seen any response to that by the market in terms of fertiliser demand and crop planting?

**Somnath Patil:**

Yes actually the year started off on a sad note. There was very little rainfall till about two weeks back and then the farmers who had purchased seeds for sowing purposes, they have to hold back on that. In fact many of them had to now go for further purchase of seeds and as a result of which their cost of production is going up, basically the cost of cultivation because they have had to buy the seeds again from the market, but now the activity has picked up and as far as our fertilisers are concerned we have been able to sell whatever we could produce in the first quarter and it is only now that our production has stopped because of gas supply, but otherwise I think with this monsoon arriving now truly and well I think it should augur well for the rest of the season and also should do well for the Rabi season going forward.

**Rahul Badethalav:**

Thank you very much.

**Moderator:**

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

**Satish Mishra:**

Good afternoon Sir. Sir first question is related to the TAN market, you mentioned that there is some tightness in the market, so can you elaborate it? Is there any pressure from import side or in general we are seeing lower demand for the product?

**Somnath Patil:**

Actually what we have seen is in this first quarter though overall the core sector has registered a growth of about 4%, much of it has come and particularly in the coal mining sector, much of it has come in the month of June and secondly with the introduction of the new ammonium nitrate rules while in the last quarter, we saw positive response and good development from our dealers and distributors, but still they are facing a lot of problems in implementing those rules and they need to actually modify some of their operations and that is taking some time for them to adjust and all these factors are actually impacting the offtake of our product. Simultaneously what we are doing in order to address the whole situation better and from a long-term perspective, we are in the process of recasting our entire market by entering into some kind of strategic alliances with our major customers and we are also looking for opportunities to acquire some of these facilities, so that we have a better control over the enduser segment as well. So there has been some kind of setback for us on the TAN offtake in Q1 so that is the fact.

**Satish Mishra:**

Sir, these ammonium nitrate rules you are talking about, are the same which came last year or is there any recent development in last one to two months?

**Somnath Patil:**

No these came into effect in the month of January of 2014, so in the last call also we said that people are actually taking sometime to adjust, but we saw a very good offtake in the Q4 of last year and generally things were going on well, but then as these rules are being implemented and tightened across in some pockets the customer are facing problems with respect to transportation and with respect to also having the right kind of qualified drivers and having this systems on their own trucks (ph) to be in place, so this adjustment is taking a little bit of time, so that has taken it's own toll to some extent. I am not attributing the whole of it to that, but the offtake also from the infrastructure sector has been quite slow and the growth is now picking up and considering the policy statements of the Government of India and looking as the CRO that is unfolding now going forward both in the mining and the infrastructure sectors, we are quite confident that going forward things should look up much better and having said that on our own front we are trying to recast our own business model by trying to get into alliances with major customer and trying to go for acquiring certain facilities, so that we have good handle on the old market.

**Satish Mishra:**

So basically I assume that our market share has not fallen per se?

**Somnath Patil:**

Yes market share per se has not fallen as such.

**Satish Mishra:**

Second question is related to ammonia and gas cut impacts, so has there been any varying related to gas supply cuts so far?

**Somnath Patil:**

There has been a hearing, but it has not concluded, so therefore, the next hearing is happening in this month, in the second week of August and so we should be able to get an idea as to what is happening there in the second week of this month.

**Satish Mishra:**

Just to get the full impact because last quarter, I believe we were getting gas up to mid of May and there will be some inventory also manufactured ammonia inventory so like what kind of pressure we are going to see in this quarter additional over Q1, basically some sense of global ammonia price?

**Somnath Patil:**

One is, if the gas cut continues, which hopefully that should not happen, in that case our ammonium nitrate, our nitrophosphate production will suffer and what we will have to do, see we have infrastructure problems in handling this additional tonnage of ammonia for manufacture of nitrophosphate, today we are imputing fair amount of ammonia for our technical ammonium nitrate, we have got facilities at the port and at the plant, but if we were to handle additional ammonia for our fertiliser unit as well and then that could pose some infrastructure challenges for us and our technical team is actually evaluating options to see how these challenges can be overcome. Meanwhile, what we have to do in this Q2 is to try and optimize the ammonia usage between fertiliser and TAN production in case there is a bottleneck in infrastructure. So both the volumes could get impacted, nitrophosphate as well as ammonium nitrate if we have to optimize between the two, because this is the season for fertilisers and we would like to try and supply as much as we can to our farmer community.

**Satish Mishra:**

Ammonia international price Sir, just any sense, how has it?

**Somnath Patil:**

Their brands are flat at around Rs.32300 per tonne, which you saw in the previous quarters.

**Satish Mishra:**

Thank you so much sir and all the best.

**Moderator:**

Thank you. The next question is from the line of Balwinder Singh from Prabhudas Lilladher. Please go ahead.

**Balwinder Singh:**

Thanks for the opportunity. On the fertiliser side, I mean obviously our gas supply has been stopped and also what is our plan, how do we plan to make up the shortfall, will we go for say higher trading or we have some other arrangement in place for the next couple of quarters since this problem is not solved?

**Somnath Patil:**

We will try to attack this problem on both the fronts. One is try to get as much ammonia as we can from outside, though we have infrastructure challenges to be overcome at the plants and at the port side in terms of availability of trucks in terms of the turnaround time and in terms of loading and unloading of ammonia. So therefore we will have those challenges to be dealt with and as we speak our technical team is working hard at it and trying to see how we could minimize the negative fallout of this challenge. In this quarter actually being a season for the Kharif crops obviously we would be keen to make sure that we are able to continue supply our fertilisers to at least our core command areas of Maharashtra, Gujarat and Karnataka and in the event of shortfall of ammonia we will try to optimize between nitrophosphates and the ammonium nitrate that we make, so that is our game plan as far as the dealing with the fertiliser production is concerned. On the other hand, we are also supplementing this effort by augmenting our trading, which as you see has substantially increased. In fact we have, our trading has gone up by, I think about 125% in fact on the fertiliser side from about Rs.88 Crores to Rs.151 Crores over the last year. Already we have started dealing with that issue by making sure that we supply imported or locally procured fertilisers to the

farmers. On the volume front we do not see such a big problem as much as we see on the margin front because trading will happen at a much lower margin compared to margins on our own produced fertilisers.

**Balwinder Singh:**

Regarding this fertiliser business only, is it unviable if we use spot LNG?

**Somnath Patil:**

Spot out LNG it is more expensive than making fertiliser from bought out ammonia.

**Balwinder Singh:**

The other thing is on the higher fertiliser margins despite the fact that we have significant amount of trading this quarter, still our margins at around 10%, so I guess we have done quite high speciality fertiliser trading, which carries significantly higher margin, so if you could throw some color on that?

**Somnath Patil:**

You are right, speciality fertilisers we have done to higher, but even on the bulk fertiliser, this quarter we have been able to earn margins of upwards of 6%, which is typically around 2%, so that has come out very well for us and we have also gone into new kind of products, which we were not doing till now in the fertiliser space and those two have given us better margins.

**Balwinder Singh:**

How do you look at it say from the next couple of quarters, how do we look at these margins. I mean, because in the manufacturing side we are having a problem not getting adequate gas while we continue to do trading on speciality fertiliser, so I mean, how do we look at margins?

**Somnath Patil:**

As far as speciality fertilisers are concerned, our growth continues and as we have been saying in the past also, so we will keep growing at least at the rate of 20% to 25% per annum. On the bulk fertilisers also I can talk about Q2 where our volumes will be significantly good because we are already contracted for DAP and MOP and all that and we see good trading volumes as well as decent margins for Q2 and depending on how the scenario unfolds going forward we will decide for Q3 and Q4.

**Balwinder Singh:**

On the manufactured fertiliser side we will continue to optimize between our ANP and TAN production in this quarter?

**Somnath Patil:**

That is in Q2 particularly assuming that our gas issue is not resolved.

**Balwinder Singh:**

Is there any other solutions there apart from trading?

**Somnath Patil:**

One is of course as I said we will have to also go for bought out ammonia and to see how much more we can do and how fast we can setup the infrastructure for that and second is of course augmenting by higher trading volumes.

**Balwinder Singh:**

Finally on this, can you give the margins in chemicals say for methanol, for nitric acid and all?

**Somnath Patil:**

For nitric acid our margin in this quarter has been around 10%, similar to last quarter and for IPA our margins this quarter have dropped to about 15%.

**Balwinder Singh:**

From 20% last quarter?

**Somnath Patil:**

Last quarter they were around 18%, they have dropped to 15% because we have had this shutdown for about 40 days; therefore, the overhead absorption has not been complete and on the TAN our margins are around 17% to 18%, they are by and large around the same, so that is there we are.

**Balwinder Singh:**

So our sustainable margins if this gas problem continues will be I think in this range only, 10%, 11% kind of number because methanol we will also not...

**Somnath Patil:**

Sustainable margins will I think come down if this gas problem continues because bought out ammonia is significantly costlier than gas, so sustainable margins will come down on our own production, for the traded firms, they will remain where they are now, but the manufactured fertiliser our margins will come down.

**Balwinder Singh:**

How confident you are of getting this gas supply back because I think your other peers...?

**Somnath Patil:**

It is clearly arbitrary because we are in the fertiliser sector whereas we see gas being supplied even to non-core sectors at petrochemicals, steel, etc. So it is clearly difficult to understand how Government of India could cut gas that is meant for fertiliser production and then continue supply to the non-core sectors of the economy. Therefore, to that extent, I think they will see that justice is done to us.

**Balwinder Singh:**

As far as my knowledge goes, I think GSFC and RCF will also be into this, but their gas supply continues, only Deepak has been stopped I guess?

**Somnath Patil:**

Exactly so that is also a cause for concern for us and we feel an element of discrimination there.

**Balwinder Singh:**

Is it because they are Government companies, government holding is there in those companies?

**Somnath Patil:**

Hard to say, quite frankly I cannot say anything on that.

**Balwinder Singh:**

Thanks I am done.

**Moderator:**

Thank you. The next question is from the line of Dixit Mittal from Subhkam. Please go ahead.

**Dixit Mittal:**

Good afternoon Sir. Sir just wanted to get an idea about the margins like if we use domestic gas vis-à-vis we are using imported ammonia, what is the difference in margins on the fertiliser sales?

**Somnath Patil:**

We will take a margin hit of at least Rs.6000 per tonne.

**Dixit Mittal:**

But I think that used to be our EBITDA margin that like prior to when we were using the domestic gas so that means our margins will be wiped out in that?

**Somnath Patil:**

It would not be wiped off, even with this we will make some money and secondly we will try to pass on some of it to the market considering that we enjoy a very strong brand loyalty and good presence in this part of the country and secondly going forward if the gas prices are also increased then the level playing field will be there further, so the difference between, in fact the MRPs will have to be increased by everybody, so that extent that we should not be too (indiscernible) 27.30.

**Dixit Mittal:**

This 6000 is assuming you get gas at 4.2?

**Somnath Patil:**

Yes.

**Dixit Mittal:**

Okay and Sir like fertiliser, current selling price of your fertiliser?

**Somnath Patil:**

It is about as of now it is around Rs.18700.

**Dixit Mittal:**

So that means you may need to take at least Rs.2 or Rs.3 per kg kind of price hike?

**Somnath Patil:**

Sorry.

**Dixit Mittal:**

What kind of price hike we will have to take to maintain your profitability?

**Somnath Patil:**

We can get into those details going forward because we will have to wait and see what is happening and then also study what other options we have to produce the fertilisers?

**Dixit Mittal:**

Thank you Sir.

**Moderator:**

Thank you. The next question is from the line of Ravi Shenoy from Motilal Oswal. Please go ahead.

**Ravi Shenoy:**

Good afternoon. Sir, on the chemical side, I just wanted to get some understanding as to what is the traded component? What products do we trade on the chemical side?

**Somnath Patil:**

We trading the IPA, which we also manufacture and then we are trade in acetone and toluene, these are the main three products, which we are trading, IPA, acetone and toluene.

**Ravi Shenoy:**

Margins, how different would margins from a manufactured products here?

**Somnath Patil:**

Quite different this will be just about 2% margin.

**Ravi Shenoy:**

Is this an opportunistic trading or is that opportunity available at most times?

**Somnath Patil:**

I will tell you as far as IPA is concerned the demand in the country is for about 120000 tonne per annum, we may closed to 80000 tonne and so there is a gap about 30000 to 40000 tonnes, of which we are still try to makeup for about 20000 tonnes and that is what we did last year, so therefore that is one part and as far acetone and toluene are concerned, they go to the same set of consumers as IPA by and large so therefore we have a channel ready and in place and we are trying to make the most of the channel that is available to us.

**Ravi Shenoy:**

The traded component this time has been higher because the IPA production has been lower?

**Somnath Patil:**

Yes that is right and otherwise also market is growing at about 5% to 6% per annum.

**Ravi Shenoy:**

On the chemical side the issue on the polypropylene, raw material supply is that behind us Sir currently?

**Somnath Patil:**

Yes that is behind us absolutely and today our plant is running at full capacity again.

**Ravi Shenoy:**

Methanol what could be expectation now Sir in terms of production?

**Somnath Patil:**

We are not making any methanol and considering today's LNG prices and also methanol prices, which have dropped, it does not make sense for us to make methanol.

**Ravi Shenoy:**

So for the current quarter then methanol should be closed to zero for us?

**Somnath Patil:**

Yes that is right. We did make 9000 tonnes in Q1.

**Ravi Shenoy:**

Thank you.



**Moderator:**

Thank you. The next question is from the line of Manish Mahawar from Edelweiss Securities. Please go ahead.

**Manish Mahawar:**

Good afternoon Mr. Patil. Could you give me the number of your sales value in TAN, IPA and the chemicals, ANP and Bentonite Sulphur Sir?

**Somnath Patil:**

TAN is around Rs.185 Crores and then acids, all kinds of acids put together Rs.62 Crores, IPA own manufacture was about Rs.149 Crores and traded you have all three products put together, you have the number.

**Manish Mahawar:**

Methanol.

**Somnath Patil:**

Methanol was around 23 Crores.

**Manish Mahawar:**

About ANP and the Bentonite Sulphur?

**Somnath Patil:**

ANP was Rs.120 Crores and then anything else you want to know, Bentonite Sulphur was about Rs.19 Crores.

**Manish Mahawar:**

That is it from my part.

**Moderator:**

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

**Rohan Gupta:**

Sir just I wanted to understand that you mentioned propylene plant shutdown of our suppliers so has it been sorted out or still some issues going on?

**Somnath Patil:**

We have completely sorted out and it is just one off kind of thing that happens typically once in a while, so absolutely no issues on that front and as of now as we speak our plant is running at full capacity.

**Rohan Gupta:**

Second, during the call you also mentioned that in some of the bulk fertiliser you also could make margin for 6%, generally these are kind of margins are not sustainable in bulk fertiliser, so I hope you could have brought raw material or product at a lower price that could have been the only reason right?

**Somnath Patil:**

That is right. We have very efficient buying actually you are absolutely right and we have some opportunities which we encashed on and I am also not wanting to say that these are sustainable margin levels.

**Rohan Gupta:**

Sir even in trading also whatever trading you will be doing, it will be more of the DAP or something because ANP if I understand rightly cannot be traded because there is no global manufacturer for that?

**Somnath Patil:**

Yes that is right, largely it is DAP, MOP, but also ammonium sulfate complexes.

**Rohan Gupta:**

Is there any sort of scarcity of ANP in the market or who has taken market share of ANP, which you could not supply in the market?

**Somnath Patil:**

Actually our shortfall compared to last year same quarter about 6000 tonnes or so and actually that also coincided with the kind of season that we saw this quarter.

**Rohan Gupta:**

What was the production this quarter Sir of ANP?

**Somnath Patil:**

That was around 42000 tonne.

**Rohan Gupta:**

We ran our plant for one and a half month?

**Somnath Patil:**

Correct we ran the plant for that, last year we had done 50000, so around 7000 to 8000 tonnes compared to last year.

**Rohan Gupta:**

So bigger impact will be on the current quarter where we will not be having any sort of inventory and season had just started?

**Somnath Patil:**

That is true.

**Rohan Gupta:**

So any idea Sir, who is the other player in ANP?

**Somnath Patil:**

There are players like we have got RCF and we have got some supplies coming even from Coromandel and IFFCO, so these are the players currently who are there, also as we said we are even NP can be traded a bit, we are getting bulk nitrophosphates imported ones, so we have done that one as well.

**Rohan Gupta:**

Is there any threat in terms of loss in market share because once these trade take market share, it is tough for us to regain that?

**Somnath Patil:**

True, so we will make sure that we do not reach that situation.

**Rohan Gupta:**

So that means you do not reach that situation that can be achieved on cost of margins, right?

**Somnath Patil:**

Absolutely.

**Rohan Gupta:**

Sir even on trading bit we have seen a significant trading not only in fertiliser, but in chemicals, also there has been continuous increase, so this trading volume is mainly for which product, is it for IPA?

**Somnath Patil:**

All the three actually, acetone, IPA and toluene. Actually the channel is the same, the consumers are by and large similar type, they were all go for the pharma industry largely and IPA we are ourselves manufacturers and there is a big demand supply gap, we are trying to fill part of that gap by trading in it ourselves.

**Rohan Gupta:**

So there you continue to see a huge trading volume and opportunity?

**Somnath Patil:**

Yes, we see that we will be able to grow this business steadily, margins as I said just about 2% or so?

**Rohan Gupta:**

Sir, have you seen any sort of weakness in your non-fertiliser business in agri in terms of, because of poor monsoon?

**Somnath Patil:**

No we have not. If you see the results, we have actually done quite well the situation that the country faced.

**Rohan Gupta:**

So that is contrary, that is what has been surprising to us?

**Somnath Patil:**

We have done a good job on the trading front and as you rightly said if we could source material at very competitive prices.

**Rohan Gupta:**

So out of this Rs.150 Crores trading of fertiliser how much was the speciality fertiliser, I mean non-bulk.

**Somnath Patil:**

That was about Rs.60 Crores.

**Rohan Gupta:**

Probably last year the same number was Sir, if you have off hand, otherwise we can take it later.

**Somnath Patil:**

Last year it was Rs.56 Crores.

**Rohan Gupta:**

There has been not much change in this number?

**Somnath Patil:**

Not much change. This year it is 61 Crores.

**Rohan Gupta:**

Sir you also mentioned the pressure on TAN market. Sir we believe that there has been significant pickup in infrastructure and mining activity, so any particular reason that you have seen and in fact this time it has been delayed monsoon so we have

seen overall numbers of industrial growth even in cement consumption has been very good, so why there has been pressure on TAN demand?

**Somnath Patil:**

As I said earlier, the pickup has happened only in the month of June significantly though and we should see the effect of that on our own offtake, but having said that the other aspects that affected offtake was also the difficulty in complying with the new rules by some of our customers particularly in respect of transportation and then hiring the right type of trucks, the right type of systems that are required to be installed on the trucks.

**Rohan Gupta:**

So these you are talking from the dealer's perspective because I think you have already everything in place and have created that kind of infrastructure to meet those increased norms?

**Somnath Patil:**

I am talking from the dealer perspective that is right.

**Rohan Gupta:**

So still the issue continues?

**Somnath Patil:**

Issue continues a bit, but what we also doing parallelly is that we are ourself trying to recast our market by entering into some strategic alliances with our major customers and we are also looking at opportunities to acquire some of the facilities, so that we have a fairly good grip on the end use segment also.

**Rohan Gupta:**

Acquired some of the facilities new Sir?

**Somnath Patil:**

Things like these explosives facilities, explosive manufacturing facilities, we are looking at this not as some kind of solution or a knee-jerk reaction, what we are currently facing, but we are looking at it from a long-term perspective, we deal with this market on a sustained basis and on a long-term basis.

**Rohan Gupta:**

Sir, are you hinting here for about a forward integration into manufacturing of explosive by yourself?

**Somnath Patil:**

We are looking at some more view, we preferred to have some kind of tie up actually rather than ourselves getting into that if we could have some alliances where we have firm tie ups for offtake of our ammonium nitrates with important customers then that is a win-win for both of us and that would be a better way going forward as a strategy.

**Rohan Gupta:**

Sir any, any capital allocation have been benchmarked for this kind of forward integration or the opportunities in this business.

**Somnath Patil:**

No we have not done any such thing. Actually these are not very capital intensive projects also, even if we have to invest something it would not be a big amount that we will need to invest.

**Rohan Gupta:**

Sir management on time to time have been keep hinting that you are looking for some capex in chemicals per se, so have anything been finalized so far now that which dream company wants to get into?

**Somnath Patil:**

Yes, we are looking at growth opportunities in the TAN sector and also in the other chemicals, in the type of chemical that we already make and but these things are under evaluation.

**Rohan Gupta:**

So whatever the growth plans so far now had been chalked down by the company or have been evaluated, they are in the similar products in which you are already manufacturing?

**Somnath Patil:**

That is right.

**Rohan Gupta:**

So there have been no other chemicals you have started looking or something?

**Somnath Patil:**

No we are not started looking at any other chemicals.

**Rohan Gupta:**

So you see still more opportunities in IPA and TAN?

**Somnath Patil:**

Yes.

**Rohan Gupta:**

Though I have more questions, but let us give some chance to other investors also, Mallika do you have any follow up question then we can take it?

**Moderator:**

The next question is from the line of Amit Arora who is an Individual Investor. Please go ahead.

**Amit Arora:**

Thanks a lot for taking my question. My question is on Mangalore Chemicals basically the deal has been seen as a positive from the investor side. This is my understanding, but since the open offer has been announced we have not seen any word from management side, so we are kind of confused like what is happening, so we want to have your view, what is your view on the business and like anything which you can comment on this?

**Somnath Patil:**

As we are shared on our earlier calls as well, we had made this investment in Mangalore Chemicals for strategic reasons and we see a lot of synergies between our operations. They are in market, which is contiguous to ours. They have their own strong brand of fertilisers plus they are into urea, we are not into urea and so we thought it could be a good strategic fit for Deepak Fertilizer business and therefore we had made that acquisition and once we cross the 25% we have to make open offer as per the SEBI regulations in this regard, but subsequently, there was counteroffer by the Zuari group and both the groups have filed the Letter of Offer drafts with SEBI and SEBI has approved the draft Letter of Offer, but as per regulations we need to wait till we get approval from the Competition Commission of India, so we have applied to the Competition Commission of India for approval and once we get their approval then we will be able to take next steps in terms of the open offer.

**Amit Arora:**

From your words, I can see there is lot of synergy and you are also willing to acquire this, so now my question is since your price is lower than the other party, so do you see the valuation explanative that is why you are not revising the price or how should we see the situation?

**Somnath Patil:**

Basically we are still evaluating our options in consultation with our merchant bankers. As per regulations once could revise the price up to three days before the actual tendering happens, so there is time and we are evaluating all kinds of options.

**Amit Arora:**

Thanks a lot that is it from my side.

**Moderator:**

Thank you. The next question is from the line of Jignesh Surti from CRISIL. Please go ahead.

**Jignesh Surti:**

Thanks for giving this opportunity. Sir I have only one question on the capex plans. Sir I wanted to understand on the fertiliser front we have lined up some capacity expansion plan on doubling of NPK fertilisers and others, so does it still makes sense when we have our margin erosion in the segment, any colour on that?

**Somnath Patil:**

We had actually evaluated this project, even on completely bought out ammonia basis, so we have seen that it would still give us good returns once implemented because we will have economies of scale as well and we have to ride on the existing channel of our distribution network, we have existing brand and therefore we see good opportunity for our fertiliser particularly because the market is growing, we are not able to supply the whole, fulfill the full requirement for core-command area and so that is available to us readymade to be tapped and while the margins would not be the same as what one would have got had it been on gas supplied by the government, but still we will be able to earn decent money.

**Jignesh Surti:**

Sir on what stage we are as of now? Are we on still planning stage or we have locked in some funds in the same?

**Somnath Patil:**

They have started investing. The engineering studies are completed. We have started placing orders. So we hope to complete this project by the fourth quarter of next year, FY 2016.

**Jignesh Surti:**

Thank you sir.

**Moderator:**

As there are no further questions, I now hand the conference over to Mr. Rohan Gupta for his closing comments.

**Rohan Gupta:**

Thank you Mallika. Thank you very much. We all hope that these things which are facing right now, issues will be sorted out very soon and will be back on a growth track, so any final comments you would like to make before we could wind up the call.

**Somnath Patil:**

Well actually your comment is the same as mine as a final comment and we also hope, there is a good resolution to this gas supply issue and the concern that we had on the IPA front is behind us now and the plant is operating at full capacity and going forward with the expected improvement in the economic scenario we hope TAN also will do better than what we have seen in Q1 and on the growth front we did speak already on the call, so we are looking at opportunities to grow in the chemical sector and fertiliser project these on track as mentioned earlier, so that is about it.

**Rohan Gupta:**

Thanks Sir. Thank you very much. On behalf of Emkay Global, I thank all the participants who have logged in for the conference call and thanks to the management for giving us your valuable time.

**Somnath Patil:**

Thank you Rohan. Thank you very much.

**Rohan Gupta:**

Thank you so much.

**Moderator:**

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

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- Note:**
- 1.This document has been edited to improve readability.
  2. Blanks in this transcript represent inaudible or incomprehensible words.

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