

## Deepak Fertilisers And Petrochemicals Corporation

### Q4FY11 Post Result Conference Call Transcript

**Representative:**

Mr. Somnath Patil – President & Chief Financial Officer

**PL Rep.:**

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**Operator**

Ladies and gentlemen, good day and welcome to the Deepak Fertilisers and Petrochemicals Corporation Q4 FY11 Result's Conference Call hosted by Prabhudas Lilladher. As a reminder, all participant 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 any assistance during this conference, please signal an Operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. Joining us on the call today from Prabhudas Lilladher are Ms. Amisha Vora and Mr. Dilip Bhat, Joint Managing Directors along with Mr. Manish Mahawar from Prabhudas Lilladher. I would now like to hand the conference over to Mr. Manish Mahawar. Thank you and over to you Sir.

**Mr. Manish Mahawar – Prabhudas Lilladher**

Good afternoon everyone. On behalf of Prabhudas Lilladher, I welcome all the participants on the call. We have Mr. Somnath Patil, President and CFO of the company. Without taking any further time, I would like to hand the call over to Mr. Patil. Over to you sir.

**Mr. Somnath Patil – President and Chief Financial Officer**

Thank you Manish. Good afternoon ladies and gentlemen. Welcome to the Deepak Fertilisers and Petrochemicals Corporation's Q4FY11 Result's Conference Call. I have with me Mr. D. Banerjee, Vice-President, Finance and Accounts and Mr. Vivek Y. Kelkar. As you may have seen we have had quite a good year in FY11 and profitability grew largely on account of our own manufactured products volumes which were higher than the previous year. For the quarter-ended March 31, 2011, we recorded income from operations at Rs. 428.48 crores or 32% rise over the corresponding period of last year. For the same period, the Company's Profit Before Tax rose 24% to Rs. 73.55 crores and Profit after Tax rose 19% to Rs. 52.71 crores.

For the year ended March 31, 2011 we posted income from operations at Rs. 1564.82 crores against Rs. 1287.98 crores for FY 2009-10 recording an increase of 21%. Also for the same period, we recorded profit before tax at Rs. 261.74 crores as against Rs. 237.78 crores in the previous financial year.

PBT for the year under review is not comparable with the previous financial year given the exceptional gain of Rs. 25.71 crores net arising from sale of surplus land in FY10 as against an exceptional loss of Rs. 3.38 crores arising from the reconstruction during the current year. After adjusting for the exceptional items you will note that the PBT grew by 24% over last year. Profit after Tax was recorded at Rs. 186.61 crores this year against Rs. 172.05 crores in the previous years. Chemicals continue to be the primary driver for business that contributed 68.76% in the current year.

The Chemicals business grew 26% to Rs. 1075.94 crores and profitability for the Chemicals segment grew 21% to Rs.319.46 crores in 2010-11. Sales for the fertiliser segment grew 20% to Rs. 531.18 crores in 2010-11 and profitability grew 95% to Rs. 31.65 crores in the current year. Earnings per share went up to Rs. 21.16 compared to Rs. 19.51 in the previous year. Looking at the healthy results, the company announced an increase dividend of 50% for the year under review.

On the Gas front, we consumed about 0.65 mmscmd of gas in FY11. Our average gas price for the basket of gas remained around Rs. 8.5/mmscmd in Q4 and our price expectation of gas for the basket that we consumed remains around the same level as currently. Our gas consumption levels for FY12 would be around 0.7 mmscmd.

Coming to the products, on the TAN front in FY12 we expect the existing plant to work at about 95% capacity utilization. Volumes from this plant were slightly lower during the last year due to a technical problem experienced at one of existing Nitric Acid plants which has since been sorted out. Our new TAN complex at Taloja has produced more than 29,000 tons in FY11. The product is of high quality and meets global standards. We plan to gradually scale up the capacity of utilization at this plant and it should peak by 2012-13. We are expecting to make our 35,000 tons of TAN from this new plant in Q1FY12 and will be targeting about 70% capacity utilization levels of the balance nine months of FY12.

On the domestic front, we are certain that selling the additional volumes in the Indian market should not be a problem as we have already sold 29,000 tons in Q4 of FY11. Given the positive reaction from the user industries, marketing of additional production should not be a problem. Our new Nitric Acid plant that supports the TAN complex is under stabilization and hence the lower production expected in the first quarter of FY12. We expect the new Nitric Acid plant to get stabilized in this quarter.

On the fertiliser front, we introduced a new grade of 24:24:0 Nitro phosphate fertilisers during the year which will give us somewhat better realization and margins, going forward. The MRP increases that we took during the FY11 were well received by the farmers. Our current MRP for our product 24:24:0 is Rs. 9000/tonne. We are targeting a production of about 180,000 tons of Nitro phosphate fertiliser in FY12. Our trading in fertilisers in sales value terms declined during the year FY11 because MOP prices were significantly lower than those

that prevailed in the previous year. In terms of volume we sold almost the same quantity as sold in the previous year.

On the Ishanya front, we expect to complete most of the construction activity pertaining to the modification of the mall in Q1FY12. We are already drawing a positive response from potential tenants and at least another 200,000 square feet of space has been committed for. We expect the new Ishanya offering to be available to customers by the end of the first half of this year. Despite rising levels of competition among malls in Pune, Ishanya, as an established brand with its iconic food and beverage, entertainment and shopping anchors can be expected to establish itself firmly as the destination of choice in the future. We expect to have around 65% occupancy in FY12 and we are confident that we should be able to breakeven in the year FY13. I now request you to ask any questions that you may have.

### **Operator**

Thank you. Ladies and gentleman, we will now begin with the question and answer session. At this time if you would like to ask a question, please press “\*” and then “1” on your touchtone telephone. If you wish to withdraw your question from the question queue please press “\*” and then “2”. Participants are request to use only handsets while asking a question. Anyone who has a question may press a “\*” and “1” at this time. We have our first question from the line of Vishal Gajwani from Reliance Portfolio Management. Please go ahead.

### **Mr. Vishal Gajwani - Reliance Portfolio Management**

Sir, can you please elaborate upon the margin of various products for the quarter?

### **Mr. Somnath Patil – President and Chief Financial Officer**

On the existing TAN plants, we earned a margin of about 30% and from the new plant, we have earned a margin of about 25% and this is at EBITDA level. IPA margins have been around 18% to 20% and the Nitro Phosphate fertiliser that we produce has had margins around 11% to 12%. Our margins on the Nitric Acid that is sold outside have been around 30%, in fact a little over 30%. Methanol margins were around 20%.

### **Mr. Vishal Gajwani - Reliance Portfolio Management**

And any kind of directional pricing movement or margin movement that you are seeing for any of your products on a Q-on-Q basis that needs to be highlighted according to you?

### **Mr. Somnath Patil – President and Chief Financial Officer**

As far as Nitro Phosphate fertilizer is concerned, you should note that the NBS that has been announced from 1st April factors in the increase in the phosphoric acid prices. And therefore we are sure that we will be able to maintain a margin of 11% to 12%. On the IPA front, the raw material costs have been going up but we have been able to successfully pass them on by an increase in our selling prices, so there we expect our margins to be maintained. On the Ammonium Nitrate side if you have been seeing, Ammonia prices have been going up consistently over the last few months but fortunately, we have been able to actually pass onto price increase to a substantial extent and therefore, we have been able to maintain our margins. But as I said from our new plants the margins should be slightly lower compared to our old plants. On methanol, it will be very difficult to predict anything because the volatility is so high. I would not like to speak about margins. Actually the production itself happens depending on the price movement, you know it's like swing capacity that we have. Only when it makes economic sense for us to produce then we produce and sell methanol.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

Sir, so what kind of methanol margins was there in Q3?

**Mr. Somnath Patil – President and Chief Financial Officer**

Q3, it was around the same level.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

What is the price of methanol, right now? Even in April, you must have sold good quantity of methanol so what is the pricing here?

**Mr. Somnath Patil – President and Chief Financial Officer**

See the price for Q4 was around Rs. 17,000/tonne and even today it is around the same level.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

So you are continuing to produce around the full quantity level that is possible?

**Mr. Somnath Patil – President and Chief Financial Officer**

Yes.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

And also I wanted to know the new TAN plant margins are lower on account of imported Ammonia.

**Mr. Somnath Patil – President and Chief Financial Officer**

Actually because of outsourced Ammonia. I would call it outsourced more than imported. For our existing plant, we supply Ammonia from our own plant to make Nitric Acid so that cost is a little less compared to the Ammonia that we outsource for the new TAN plant.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

Essentially in outsourced Ammonia comes from outside India right?

**Mr. Somnath Patil – President and Chief Financial Officer**

No, it comes from even domestic sources.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

So we are not importing at the moment any Ammonia?

**Mr. Somnath Patil – President and Chief Financial Officer**

At this moment, we have just started importing actually. In Q4, we didn't import any Ammonia but in this year as we speak now we have started importing Ammonia because the domestic sources won't be adequate to meet our requirement of Ammonia for the new TAN plant.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

So I believe that the JNPT Ammonia tank that we have created is to store the imported Ammonia right?

**Mr. Somnath Patil – President and Chief Financial Officer**

That's right.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

And since, we have seen gas prices also going up globally and you know in India gas supply from Reliance has been curtailed so what kind of impact are we seeing for in terms of pricing of gas and its availability?

**Mr. Somnath Patil – President and Chief Financial Officer**

See, you must have read in the news yesterday and the day before that, the Government of India has directed Reliance to make sure that adequate gas is offered to the core sectors. So therefore the divergence that was happening to non-core sectors will have to be stopped and the committed quantities of gas will have to be offered to the customers. So, therefore we think that the situation should improve. Having said that Reliance gas constituted a small percentage in our total gas basket and therefore this the cut of around 10% constitutes a very minor cut to our basket. But to that extent we have to buy gas from other sources.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

So what is the blended average gas cost for the quarter?

**Mr. Somnath Patil – President and Chief Financial Officer**

It is around Rs. 8.5.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

How much can be expected for the next quarter in terms of cost?

**Mr. Somnath Patil – President and Chief Financial Officer**

It will be around the same level. We don't see any difference in gas cost.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

But the LNG gas prices would have moved up.

**Mr. Somnath Patil – President and Chief Financial Officer**

LNG, they are at around Rs. 20 but as I said the quantity of LNG gas that we consume is negligible so it doesn't impact our overall gas cost.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

You don't see any threat of lower quantity of gas available from Reliance or from ONGC or GAIL for you that will be available for you?

**Mr. Somnath Patil – President and Chief Financial Officer**

Yes, we don't see any threat.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

But TAN also comes in private sector. Of course fertiliser is there but technical ammonium nitrate would be classified as a core sector?

**Mr. Somnath Patil – President and Chief Financial Officer**

By itself no, though it supplies to the core sector industry.

**Mr. Vishal Gajwani - Reliance Portfolio Management**

So you will be eligible for getting gas to produce Ammonia which is used to in TAN?

**Mr. Somnath Patil – President and Chief Financial Officer**

No. Strictly no but then it is the utilities that we have and the fertilisers component for which we need gas. And those the utilities comes under the core sector.

**Operator**

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

**Mr. Varun Guntupalli – Edelweiss Securities.**

With regard to the breakup of revenues between the various products, if you can give the numbers Sir?

**Mr. Somnath Patil – President and Chief Financial Officer**

In Industrial Chemicals, we have methanol turnover that we achieved for the year was Rs118 crores. Various kinds of Nitric Acids Rs171 crores. Then the other major product was IPA about Rs412 crores. Propane around Rs35 crores. And the rest is all miscellaneous in the Industrial Chemical. Then as far as TAN is concerned this was Rs256 crores and total fertilisers Rs528 crores of which ANP was Rs233 crores.

**Mr. Varun Guntupalli – Edelweiss Securities**

The balance is mostly traded fertiliser, right?

**Mr. Somnath Patil – President and Chief Financial Officer**

Yes, Bentonite Sulfur was around Rs27 crores which we manufacture.

**Mr. Somnath Patil – President and Chief Financial Officer**

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Bentonite Sulphur which we manufacture and MOP the largest traded product was Rs116 crores.

**Mr. Varun Guntupalli – Edelweiss Securities**

And in this what has TAN revenues been in this quarter?

**Mr. Somnath Patil – President and Chief Financial Officer**

That is about Rs. 91 crores.

**Mr. Varun Guntupalli – Edelweiss Securities.**

In terms of the pricing of TAN that we have sold this quarter, what has the average price of TAN been per ton?

**Mr. Somnath Patil – President and Chief Financial Officer**

The TAN average price, for the quarter you want or for the year?

**Mr. Varun Guntupalli – Edelweiss Securities.**

For the quarter sir?

**Mr. Somnath Patil – President and Chief Financial Officer**

It was around Rs. 16,000/Tonne

**Mr. Varun Guntupalli – Edelweiss Securities.**

We are not selling it close to Rs19,000/tonne, I thought it was Rs18,000 to 19,000/tonne.

**Mr. Somnath Patil – President and Chief Financial Officer**

No this Rs. 16,000 is the weighted average, actually of the LDAN and HDAN. We have been selling LDAN at upwards of even Rs20,000/tonne.

**Mr. Varun Guntupalli – Edelweiss Securities**

Even slightly more than Rs 20,000/tonne.

**Mr. Somnath Patil – President and Chief Financial Officer**

HDAN brings down the average since we sell it at a lower price.



**Mr. Varun Guntupalli – Edelweiss Securities**

So the weighted average was around Rs. 16,000 per ton of the TAN put together and any kind of price hike that we had taken on Q-on-Q basis, TAN?

**Mr. Somnath Patil – President and Chief Financial Officer**

Last quarter we took a price hike of about close to Rs. 3000/tonne on LDAN.

**Mr. Varun Guntupalli – Edelweiss Securities**

That's closer to January that we have taken it.

**Mr. Somnath Patil – President and Chief Financial Officer**

That's right. Thereafter, we have not taken any price hike.

**Mr. Varun Guntupalli – Edelweiss Securities**

And we do not intend to take any price hike in the next one quarter, it's like we would be able to maintain the margins at current prices?

**Mr. Somnath Patil – President and Chief Financial Officer**

At the current cost we should be able to maintain margins but if the Ammonia cost keeps going up, and then we will take a relook at our prices.

**Mr. Varun Guntupalli – Edelweiss Securities**

And the new TAN plant you expect the margin to be in the range of 24% to 25% going through into FY12 as well?

**Mr. Somnath Patil – President and Chief Financial Officer**

That's right.

**Mr. Varun Guntupalli – Edelweiss Securities**

And in terms of fertilizers, we had some issues in terms of the availability of raw materials and capacity utilization has been lower in the previous quarter. Now all the issues have been sorted out and it has been running at the intended capacity, am I right in that?

**Mr. Somnath Patil – President and Chief Financial Officer**

That's right. Issues of phosphoric acid have been sorted out and we are comfortable right now.

**Mr. Varun Guntupalli – Edelweiss Securities**

We are getting the required quantities of phosphoric acid for the fertilisers. Thank you very much Sir that's all I have.

**Operator**

Thank you. The next question is from the line of Dheeraj Devata from ICICI Prudential. Please go ahead.

**Mr. Dheeraj Devata – ICICI Prudential**

I missed the part wherein you were guiding the volumes from the new TAN plant, could you please repeat that part?

**Mr. Somnath Patil – President and Chief Financial Officer**

I said in this quarter we expect to produce around 35,000 tons and for the balance nine months we expect to achieve capacity utilization of 70%.

**Mr. Dheeraj Devata – ICICI Prudential**

70%, that's around 200,000 tons whatever.

**Mr. Somnath Patil – President and Chief Financial Officer**

It should be around 180,000 to 185,000 tons.

**Mr. Dheeraj Devata – ICICI Prudential**

So do you see any price trends in terms of your realization in your TAN plant?

**Mr. Somnath Patil – President and Chief Financial Officer**

We actually hope to maintain the same prices going forward because from here on we don't see any significant increases in Ammonia cost. In the last few months we have seen good increase in the prices of Ammonia worldwide and they are now steady around \$500 to \$510 levels. So if that continues then I don't see any reason for us to increase our prices.

#### **Operator**

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

#### **Ms. Falguni Dutta - Jet Age Securities**

Sir, your new TAN plant has commissioned in September onwards so, I was just wondering why it is not evident in depreciation and interest cost?

#### **Mr. Somnath Patil – President and Chief Financial Officer**

It should be evident and it is. See we did not commission the whole TAN plant in the month of September, only a part of the plant was commissioned in September and the other part the bigger part was commissioned in February, the LDAN. What we commissioned in September was the HDAN and the melt plant i.e. the AN solution plants. And we commissioned the LDAN in February. The Nitric Acid plant which is a part of the TAN project was not commissioned as of 31st March.

#### **Ms. Falguni Dutta - Jet Age Securities**

So then what is the kind of incremental depreciation which we could see in the coming years?

#### **Mr. Somnath Patil – President and Chief Financial Officer**

See in this quarter we have an additional depreciation of Rs3 crores.

#### **Ms. Falguni Dutta - Jet Age Securities**

This quarter over last quarter we just have Rs one crore.

#### **Mr. Somnath Patil – President and Chief Financial Officer**

No, over last year's same quarter, we have increase of 3 crores. That's Rs. 19.39 crores as depreciation.

#### **Ms. Falguni Dutta - Jet Age Securities**

As against Rs. 16.3 crores

**Mr. Somnath Patil – President and Chief Financial Officer**

As against 16.31, so it's 3 crores.

**Ms. Falguni Dutta - Jet Age Securities**

Since it has come up in phases I just wanted to know what kind of incremental depreciation would come in FY12 over FY11 because it is difficult for us to break-up?

**Mr. Somnath Patil – President and Chief Financial Officer**

In FY12, the additional depreciation will be of the order of about 25 crores.

**Ms. Falguni Dutta - Jet Age Securities**

Ok and interest cost

**Mr. Somnath Patil – President and Chief Financial Officer**

Interest cost would be for the whole year to about Rs36 crores.

**Ms. Falguni Dutta - Jet Age Securities**

Can you give some view on this Australian expansion that you are planning because this will be a quite a big expansion. So what is the sort of realization and margins and why have you chosen that place and I understand that the demand must be there because Australia mining activity would be quite strong. Even then why abroad?

**Mr. Somnath Patil – President and Chief Financial Officer**

It is a bit early to talk about the Australian project. See what we have been doing over the past few years is trying to figure out regions where we can go for our expansion and go beyond India. Also, we have been looking at areas like Indonesia, African countries, Australia and after a lot of effort we could zero down on South Australia as a possible place that we could actually go and setup a plant. Now, in terms of the process what we need to do is we need to apply to the local government to help us identify a land where you could actually put up the plant. So the local government after carrying out its own assessment has identified a land for us and they have said this is actually where you can put up a plant if you want. Now that is also subject to so many things.

**Ms. Falguni Dutta - Jet Age Securities**

So what is the kind of payback that you are expecting from this kind of project? The project cost would be \$350 million so what is the kind of payback period that?

**Mr. Somnath Patil – President and Chief Financial Officer**

It is quite early as I said. We had to disclose it as per corporate governance but otherwise, now that the Government of Australia has identified land for us, we will be carrying out the Environmental Impact Assessment studies which will take about 12 to 15 months. And during that period of time, we will also be carrying out a detailed feasibility study, you know, which will include technology aspects, project costs, demand supply scenario, Ammonia scenario and how much we have to sell locally and how much we can export and other costs. You know the location is very ideal. We have studied location and we feel that it is an ideal location for us to explore atleast to setup a plant and if everything works out well and eventually our detailed feasibility report shows that at a certain cost the project would be feasible then we will go ahead with the next steps.

**Ms. Falguni Dutta - Jet Age Securities**

And so the last question, can you just tell me the Ammonia quantity purchased this year and the value and for gas also?

**Mr. Somnath Patil – President and Chief Financial Officer**

This year, we purchased 41,000 tons and the value is Rs71 crores.

**Ms. Falguni Dutta - Jet Age Securities**

And for gas?

**Mr. Somnath Patil – President and Chief Financial Officer**

For gas we purchased around 257 mmscmd of gas for the whole year and we spent around Rs213 crores.

**Operator**

Thank you. The next question is from the line of Sameer Kulkarni from Vantage Securities. Please go ahead.

**Mr. Sameer Kulkarni - Vantage Securities**

Can I know the CapEx plans for the FY12 and FY13?

**Mr. Somnath Patil – President and Chief Financial Officer**

We don't have any plans firmed up as yet but we are looking for newer opportunities and growth in both fertilisers and chemicals segments. We have shortlisted a few projects which are actively studying and after taking a few more steps we can go ahead and actually announce but that will take a little time.

**Mr. Sameer Kulkarni - Vantage Securities**

So as of now there are no firm plans?

**Mr. Somnath Patil – President and Chief Financial Officer**

No firms plan to be announced as of now.

**Mr. Sameer Kulkarni - Vantage Securities**

On the volume front, where do you see growth panning out in FY12 and FY13?

**Mr. Somnath Patil – President and Chief Financial Officer**

You see, it will be mainly coming from the new Ammonium Nitrate plant. So that is what will happen; other than that we expect some growth that will also come from the Nitro Phosphate fertilisers plants where we'll be undertaking some de-bottlenecking to take the capacity to 300,000 tons per annum but this is under evaluation as we speak but it is a distinct possibility. And as far as other chemical plants are concerned we have reached full utilization so we have to necessarily look out for new projects which we are doing.

**Mr. Sameer Kulkarni - Vantage Securities**

On the debt as on March end, what is the debt on consolidated basis?

**Mr. Somnath Patil – President and Chief Financial Officer**

It is around Rs775 crores as on March end and at the end of 2012, it should be around Rs740 crores in case, we do not take up any project or start any project.

**Operator**

Thank you. The next question is from the line of Nitesh Sharma from Espirito Santo. Please go ahead.

**Mr. Nitesh Sharma – Espirito Santo**

My first question would be what would be the expected capacity utilization for ANP and Bentonite sulphur plants because currently they are working at 45% and 55% utilizations, so any increase over there?

**Mr. Somnath Patil – President and Chief Financial Officer**

See for FY12, we are surely targeting a capacity utilization of around 180,000 tons in ANP and the capacity is around 230,000 tons so that is the plan for this year. And for Bentonite sulphur, we had put up a 25,000 tonne plant because that is the economic scale of plant and we knew that we will gradually reach the full capacity. So we have reached around 11,000 tons this year and next year we should cross 15,000 tons.

**Mr. Nitesh Sharma – Espirito Santo**

On the TAN side, could you please provide me with the current prices of LDAN and HDAN?

**Mr. Somnath Patil – President and Chief Financial Officer**

See LDAN our prices were Rs. 21,000/tonne in Q4FY11 and HDAN about Rs16,000/tonne.

**Mr. Nitesh Sharma – Espirito Santo**

And what's the current prevailing price?

**Mr. Somnath Patil – President and Chief Financial Officer**

It is around the same level. And we also sell melt i.e. TAN solution which goes at around Rs15,000/tonne.

**Mr. Nitesh Sharma – Espirito Santo**

And could you provide me the volume breakup of these three? The approximate percentage breakup of these three.

**Mr. Somnath Patil – President and Chief Financial Officer**

Normally, we don't provide volume breakup for this .

**Mr. Nitesh Sharma – Espirito Santo**

Not an issue and what would be the AAmmmonia requirement for the new plant for the coming year?

**Mr. Somnath Patil – President and Chief Financial Officer**

We will need around 80,000 to 85,000 tons of Ammonia for the new plant.

**Mr. Nitesh Sharma – Espirito Santo**

And most of it would be imported right?

**Mr. Somnath Patil – President and Chief Financial Officer**

Most of it is planned to be imported.

**Mr. Nitesh Sharma – Espirito Santo**

And on the trading fertilizer front, have we renewed our contracts for trading fertiliser?

**Mr. Somnath Patil – President and Chief Financial Officer**

From the domestic market, yes, we have renewed all our contracts and for imports we are waiting and watching. We will tie up something very soon.

**Mr. Nitesh Sharma – Espirito Santo**

So, do you expect the market remains to be at the similar level in terms of trading?

**Mr. Somnath Patil – President and Chief Financial Officer**

Yes, it will be at a similar level.

**Operator**

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

**Mr. Tarun Surana – Sunidhi Securities**

Can you explain me the sensitivities of the TAN margins to the Ammonia prices. If Ammonia falls to US\$450 from the current level US\$500 plus, how it will change the margins of new TAN plant? Whether it will result in price reduction at your end or you will get the benefit of reduction in Ammonia prices?

**Mr. Somnath Patil – President and Chief Financial Officer**



We should get the benefit. If not the whole, we will get part of the benefit. The cost will go down by about you know by US\$25 if there is a drop of around US\$50 to US\$55 per ton of Ammonia, so the TAN price will go down by about US\$25. And depending on the scenario, we will be able to take a call whether we should pass on the reduction or the market can absorb a price increase.

**Mr. Tarun Surana – Sunidhi Securities**

And how much has been the depreciation and interest on account of newer TAN plants booked in FY11?

**Mr. Somnath Patil – President and Chief Financial Officer**

I'll get back to you quickly. You can go ahead with other questions.

**Mr. Tarun Surana – Sunidhi Securities**

You have said that utilizations will be 70% for new TAN plant.

**Mr. Somnath Patil – President and Chief Financial Officer**

For the remaining 9 months. The first quarter of FY12, we will produce around 35,000 tons.

**Mr. Tarun Surana – Sunidhi Securities**

So, for nine months it will be 70% average.

**Mr. Somnath Patil – President and Chief Financial Officer**

We are targeting that.

**Mr. Tarun Surana – Sunidhi Securities**

You also spoke about the de-bottlenecking of ANP, any indicative Capex that will be required to do so?

**Mr. Somnath Patil – President and Chief Financial Officer**

It is slightly early. In fact that is what is being evaluated now by our technical team and the entire proposal will be put up for consideration.

**Mr. Tarun Surana – Sunidhi Securities**

And you are planning for going towards specialty fertilisers also, any update on that side?

**Mr. Somnath Patil – President and Chief Financial Officer.**

You mean customized fertilisers?

**Mr. Tarun Surana – Sunidhi Securities**

Yes.

**Mr. Somnath Patil – President and Chief Financial Officer**

As such there is nothing to say straight away except that we have been working on this. We have been trying to evaluate what could be the best way to actually go ahead with this kind of a plant and what is important the challenges of marketing we have to deal with carefully and only when we are clear about these aspects we will really take a call on this.

**Mr. Tarun Surana – Sunidhi Securities**

On ANP side the MRP currently is Rs. 9,000/tonne. Any plans to take the price hike before the season begins or is it already increased price from the last season?

**Mr. Somnath Patil – President and Chief Financial Officer**

It is an increased price from the last season. So there could be some scope but at this point in time we are not approaching any significant price increase.

**Mr. Tarun Surana – Sunidhi Securities**

How much has been the price increase, this Rs. 9000/tonne represents, how much percentage price hike?

**Mr. Somnath Patil – President and Chief Financial Officer**

See last season the MRP was around Rs. 7800 and now it is Rs. 9000.

**Mr. Tarun Surana – Sunidhi Securities**

Because there was a notification regarding revision in NBS wherein government said that all DAP prices can only be hiked by Rs. 600 per ton and complex fertiliser price hike should also be limited in proportionate to DAP price hike.

**Mr. Somnath Patil – President and Chief Financial Officer**

So we do have scope to increase prices further by Rs 600 so we will see what has to be done about that. But the subsidy has been increased from Rs. 11,700 to Rs. 14,278 for our product.

**Mr. Tarun Surana – Sunidhi Securities**

Can you get back to me on the question that I ask so about FY11 numbers about interest and depreciation?

**Mr. Somnath Patil – President and Chief Financial Officer**

In FY11, the depreciation was Rs6 crores and interest was around Rs10 crores.

**Operator**

Thank you. The next question is from the line of Amol Kotak from ASK Investment Managers. Please go ahead.

**Mr. Amol Kotak – ASK Investment Managers**

My first question is in new complex for TAN, how much Capex has been done in last year and what has been pending which will be done in the current year?

**Mr. Somnath Patil – President and Chief Financial Officer**

We did a total Capex of Rs340 crores last year and that was a part of the asset which was capitalized and about Rs 234 crores is in CWIP. So that is the Capex totally committed and so Rs. 340 crores actually been capitalised and another Rs 234 crores has been in CWIP which has not been capitalized so around Rs574 crores is what has been spent so far on the project.

**Mr. Amol Kotak – ASK Investment Managers**

So basically the whole Capex program has been completed for the new TAN complex.

**Mr. Somnath Patil – President and Chief Financial Officer**

Almost, except for some few operating expenses until we capitalize the Nitric Acid plant. So, almost all of it has been done.

**Mr. Amol Kotak – ASK Investment Managers**

Second question is how much worth of bonds still outstanding in your balance sheet?

**Mr. Somnath Patil – President and Chief Financial Officer**

It is about Rs32.5 crores.

**Mr. Amol Kotak – ASK Investment Managers**

And this will be encashed when, in the current year?

**Mr. Somnath Patil – President and Chief Financial Officer**

That will be encashed in the current year. We had total Rs. 65 crores, half of it we encashed in last year FY11 and the other half will be encashed in this year FY12.

**Mr. Amol Kotak – ASK Investment Managers**

So it will by the end of FY12?

**Mr. Somnath Patil – President and Chief Financial Officer**

It depends on when the RBI will decide to buy the bonds back.

**Mr. Amol Kotak – ASK Investment Managers**

Now my second question is what is your capital expenditure? You said you have still not firmed for FY12?

**Mr. Somnath Patil – President and Chief Financial Officer**

We have still not firmed up capital expenditure going forward.

**Mr. Amol Kotak – ASK Investment Managers**

But you also guided for your debt balance sheet to be Rs 740 crores of which is Rs 780 crores currently and Rs 740 crores by the end of FY12, given the cash flows that you have why is there only a small reduction in debt balance?

**Mr. Somnath Patil – President and Chief Financial Officer**

See out of this Rs740 crores about Rs120 crores is going to be on account of the short term buyer credit that we enjoy on import of fertilisers and here we are able to raise money at very low cost and we have positive arbitrage. Therefore we continue to avail of this form of finance for meeting our short term requirements. And so this is only working capital we have. Apart from this the bulk of the debt is for the new TAN plant out of which again around US\$45 million is low cost debt. So the movement that you see in the debt profile is only account of repayment of debt that has occurred during the year.

**Mr. Amol Kotak – ASK Investment Managers**

Which is how much?

**Mr. Somnath Patil – President and Chief Financial Officer**

Which will be around Rs 35 crores.

**Mr. Amol Kotak – ASK Investment Managers**

No but my question to you is we would have significant cash accruals in the current year, while I understand there would be a debt repayment program but if it's not matching so where is the gap basically?

**Mr. Somnath Patil – President and Chief Financial Officer**

See there is no new loan going to be raised. There are all old loans and we will see if we can repay some of these loans profitably if we can do that surely we will prepare the resources for the repayment of our debt. If you see last year around we repaid around Rs 95 crores of high cost debt in FY11 and if such an opportunity represents itself in FY12, we will once again do the same rather than keeping the cash with us.

**Mr. Amol Kotak – ASK Investment Managers**

And on Ishanya, you had some programs to modify your project, how much have we spent last year and what is the current expenditure program?

**Mr. Somnath Patil – President and Chief Financial Officer**

You see the current the total expenditure for the modification that we have with us is around Rs. 54 crores of which we have so far spend Rs. 26 crores and we expect to complete this modification that we have undertaken by end of Q1FY12. By the time all fit outs are over and tenants start moving in it will be end of first half of FY12.

**Mr. Amol Kotak – ASK Investment Managers**

And just one last question which is we've met a lot of times and every time you said that we have some plans, when you will see these plans crystallize and when do we see the announcements come?

**Mr. Somnath Patil – President and Chief Financial Officer**

We are also working with the same fast paced spirit and with the same concern. So we have taken a lot of steps in that direction in fact, we had also appointed some strategic consultants in the chemicals space to guide us. As a result of that a few projects have been shortlisted but these projects are not straightaway easy that we can just go ahead and implement. They are also dependent on certain external factors in terms of raw material tie up and the location constraints and all that. So we need to overcome some of these before we can actually announce and embark on these projects. So you will have to have little more patience and we should be able to do something soon.

**Mr. Amol Kotak – ASK Investment Managers**

Do we I mean do you want to suggest the timeline that you would do by the end of FY12 or something or is it still in the pipeline?

**Mr. Somnath Patil – President and Chief Financial Officer**

I think by the end of FY12 we are quite hopeful that we should be able to crystallize atleast on one good project.

**Operator**

Thank you. The next question is from the line of Neha Pathak from KR Choksey. Please go ahead.

**Ms. Neha Pathak – KR Choksey**

Could you just throw some light on the Ammonia for the new TAN project? I mean we are going to import as you said but are we looking at some capacity expansion in that space so that we can reduce our dependence on that imported Ammonia?

**Mr. Somnath Patil – President and Chief Financial Officer**

See actually we can't simply expand our capacity. We can do some marginal de-bottlenecking to kick our capacity in the current plant to about 129,000 tonnes or so. But we can't actually put up any large Ammonia plant. These are all large plants and you need gas as feedstock to be available for you to put up any Ammonia plant. Ammonia plants typically would be a billion dollar, one million tone, project. So considering the size, constraint of gas and no firm supply of gas from any source, it is difficult to envision setting up of an Ammonia plant. And therefore we are dependent on outsourced Ammonia, which could be from domestic as well as international sources and Ammonia is available in plenty. It's not such a big issue.

**Ms. Neha Pathak – KR Choksey**

And do we have any long term contracts with these suppliers?

**Mr. Somnath Patil – President and Chief Financial Officer**

We have a long term contract with a Middle East supplier, a major supplier in Middle East, for our new TAN plant.

**Operator**

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

**Mr. Balwinder Singh – Emkay Global**

Yes congratulations on the great set of numbers. I just wanted to ask on the margins side. If you see the chemicals margins last year Q4 FY10 it was 31.7% while this is around 29% this quarter, was it primarily because of the lower margins in the new plant?

**Mr. Somnath Patil – President and Chief Financial Officer**

That's right. One reason is the lower margins in the new plant. Second reason is that Ammonia prices have been higher compared to what they were last year. So there has been a slight impact of that.

**Mr. Balwinder Singh – Emkay Global**

Ok and on the fertiliser side on a quarter on quarter basis the margins have slipped, what can be the reason for that?

**Mr. Somnath Patil – President and Chief Financial Officer**

Quarter on quarter, the margins last year we made a loss actually, minus 2%.

**Mr. Balwinder Singh – Emkay Global**

I am comparing it with on a quarter to quarter with Q3 FY11.

**Mr. Somnath Patil – President and Chief Financial Officer**

Fair enough. So typically Q4 what happens is the volumes take a serious beating. You see last year also the sales volumes are very low and anyway we have to absorb the overhead that we have and that is a major reason why we end up showing not so good results for Q4 in the fertiliser front.

**Mr. Balwinder Singh – Emkay Global**

And going forward in FY12, do we see the same kind of margins or some kind of margin expansion?

**Mr. Somnath Patil – President and Chief Financial Officer**

I think the margins remain the same in the chemicals and even in fertiliser we expect the margins to be more or less around the same level as we have been seeing in the last full year.

**Operator**

Thank you. The next question is from the line of Ashish Malhotra from Ventura Securities. Please go ahead.

**Mr. Ashish Malhotra – Ventura Securities**

I just wanted to know what's your outlook on the sulphur as a raw material for the next two years.

**Mr. Somnath Patil – President and Chief Financial Officer**

It is very difficult, sulphur prices are very volatile and difficult to predict. To an extent they are linked to the oil prices but with a lag so it is very difficult to predict for us. Sulphur is , the smallest raw material that we consume and therefore it doesn't impact us much.

**Mr. Ashish Malhotra – Ventura Securities**

So the volatility is altogether linked to the oil prices you mean to say.

**Mr. Somnath Patil – President and Chief Financial Officer**



Not completely .There could be a time lag but ultimately it does get linked to refinery production for which crude price is the most important cost. But then the timing could be much different. And actually it is a function of demand supply.

#### **Operator**

Thank you. The next question is from the line of Kamal Gada from UTI Mutual Fund. Please go ahead.

#### **Mr. Kamal Gada - UTI Mutual Fund**

We are targeting a production of 180,000 in Nitro Phosphate, so what is the tie up for the phosphoric acid?

#### **Mr. Somnath Patil – President and Chief Financial Officer**

We don't have any firm tie up with any firm sort of stake but then we have a committed source from where we have been getting phos acid over the last several years without much of an issue. So we are quite confident that we would not be facing any issue on this front.

#### **Mr. Kamal Gada - UTI Mutual Fund**

How much quantity of phos would this require for 180,000?

#### **Mr. Somnath Patil – President and Chief Financial Officer**

Around 45,000 tons.

#### **Mr. Kamal Gada - UTI Mutual Fund**

And what is the price for the first quarter, is it US\$980.

#### **Mr. Somnath Patil – President and Chief Financial Officer**

It's about US\$980.

#### **Mr. Kamal Gada - UTI Mutual Fund**

And have you faced any supply issues in the fourth quarter for phosphoric acid i.e. supply issues?

#### **Mr. Somnath Patil – President and Chief Financial Officer**

No, we have not faced any supply issues in the fourth quarter.

**Mr. Kamal Gada - UTI Mutual Fund**

So from which country we are buying can you share that?

**Mr. Somnath Patil – President and Chief Financial Officer**

We are buying this from Morocco.

**Mr. Kamal Gada - UTI Mutual Fund**

And we are targeting around 70% utilization of the TAN plants.

**Mr. Somnath Patil – President and Chief Financial Officer**

For the remaining 9 months after Q 1.

**Mr. Kamal Gada - UTI Mutual Fund**

So any visibility on the volumes? In terms of any term contract or the uplift of this volume or this business does not have any term kind of contracts.

**Mr. Somnath Patil – President and Chief Financial Officer**

As of now we don't have any term contracts. For the domestic of course we are very comfortable and we will continue the way we have been selling till now. As far as exports are concerned we don't necessarily need any term contract but then we are talking to people because we need to export some quantity.

**Mr. Kamal Gada - UTI Mutual Fund**

And my next question was how much export we are talking out of this 180,000 ton?

**Mr. Somnath Patil – President and Chief Financial Officer**

Well 40 to 50,000 tonne something like that.

**Operator**

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

**Ms. Falguni Dutta - Jet Age Securities**

Hello. If you could just give me the quantity of RGP consumed and the value of that?

**Mr. Somnath Patil – President and Chief Financial Officer**

Full year we consumed about 43,000 tons and that was valued at about Rs 188 crores.

**Ms. Falguni Dutta - Jet Age Securities**

And what would be the prevailing propylene prices?

**Mr. Somnath Patil – President and Chief Financial Officer**

That's around the same -- Rs 44,000 to Rs 45,000 per ton.

**Operator**

The next question is a follow up from the line of Sameer Kulkarni from Vantage Securities. Please go ahead.

**Mr. Sameer Kulkarni - Vantage Securities**

On the capacity from the debottlenecking, on all the fronts like IPA, Nitric Acid, methanol and ANP what will be the capacity post-debottlenecking?

**Mr. Somnath Patil – President and Chief Financial Officer**

See we don't have any debottlenecking for methanol and Nitric Acid. We will do this only for ANP which is under evaluation. So after de-bottle necking of ANP the potential that we see is close to 300,000 tons and we are working towards that. So we might end up at 270 or 280 but we are trying to see how we could actually de-bottle neck to go to 300,000 tons.

**Mr. Sameer Kulkarni - Vantage Securities**

And for the IPA capacity will be around 82,000?

**Mr. Somnath Patil – President and Chief Financial Officer**

We have present capacity of 70,000 tons and there is no any major scope for debottlenecking.

**Mr. Sameer Kulkarni - Vantage Securities**

And for Nitric Acid it is around 465,000?

**Mr. Somnath Patil – President and Chief Financial Officer**

445,000. That is for the existing Nitric Acid plant excluding the new one which is captive to the new TAN plant.

**Mr. Sameer Kulkarni - Vantage Securities**

How much capacity Sir?

**Mr. Somnath Patil – President and Chief Financial Officer**

That is around 750 tons per day, so around 250,000 tons.

**Mr. Sameer Kulkarni - Vantage Securities**

And for the ANP, capacity is around 230,000.

**Mr. Somnath Patil – President and Chief Financial Officer**

That's right.

**Mr. Sameer Kulkarni - Vantage Securities**

So in the volume growth front, at that time you said the utilization levels are almost at peak almost all the fertiliser and chemicals but what do you think the volume growth will be for next say 2 to 3 years?

**Mr. Somnath Patil – President and Chief Financial Officer**

No actually I said that the capacity that we are having today will be almost fully utilized. Something that we didn't achieve last year. We had problems on phos acid for the ANP plant and in the TAN plant also there was slight short fall because of some Nitric Acid plant issues, as well as through divergence of acid to the new TAN plant. So once we have this Nitric Acid plant completely stabilized, we should have no dependence of the existing Nitric Acid plant for feeding to the new TAN plant. And therefore, we should be able to reach full capacity in 2012-13 for the new TAN plant and even for all our existing plants we should be able to reach atleast 90% of capacity utilization.

**Mr. Sameer Kulkarni - Vantage Securities**

So how do you see the competition intensity playing out?

**Mr. Somnath Patil – President and Chief Financial Officer**

In which product?

**Mr. Sameer Kulkarni - Vantage Securities**

In basically the fertilizers and chemicals both.

**Mr. Somnath Patil – President and Chief Financial Officer**

In fertilisers we don't see any competition. We have well established brands and we are strong in Maharashtra, Karnataka, Gujarat. So therefore we don't foresee any difficulty absolutely. On the TAN of course we have the product which is the High Density Ammonium Nitrate, which faces competition from the imported fertiliser grade ammonium nitrate. But still we command premium over that because of the superiority of our product. And as far as IPA is concerned, there is no other manufacturer in the country. We are only ones and so whatever else is export that happens. We price ourselves according to the import parity and we earn decent margin of about 18% to 20%.

**Operator**

Thank you. As we have no further questions, I would like to hand the floor back to Mr. Manish Mahawar for closing comments. Please go ahead.

**Mr. Manish Mahawar – Prabhudas Lilladher**

Thank you Melissa. On behalf of Prabhudas Lilladher, I would like to thank the management for taking out the time and the participants for logging into the call. Now, I would like to hand over the call to Mr. Patil for closing remarks.

**Mr. Somnath Patil – President and Chief Financial Officer**

Thank you Manish. While closing I would just like to emphasize our focus for FY12 is firmly on the growth for the new TAN business. We will continue to drive for better operational efficiencies at all our plants. We are now trying to look at new opportunities for growth given the fact that our balance sheet is considerably underleveraged. For almost all products other than the new TAN, we will virtually reach full capacity utilization. So we are necessarily looking out for new avenues for growth for both chemicals and fertilisers and we should be getting in touch with you soon on these new opportunities. One last thing I would like to mention is that our next result will be in the first week of August. So this is because of some logistical issues

and the convenience of some of our Directors. So this is just for your information. And thank you very much once again all of you.

**Operator**

Thank you, gentlemen of the management and Mr. Mahawar. Ladies and gentleman, on behalf of Prabhudas Lilladher, That concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service. You may now disconnect.