



“Deepak Fertilisers & Petrochemicals Corporation
Q4 FY'13 Earnings Conference Call”

June 03, 2013



ANALYST: MR. SATHISH MISHRA

**MANAGEMENT: MR. SOMNATH PATIL
MR. VIVEK Y. KELKAR \ MR. DEBASISH BANERJEE**



Moderator: Ladies and gentlemen good day and welcome to the Q4 FY'13 Earnings Conference Call of Deepak Fertilisers Q1 FY'13 earnings conference call hosted by HDFC Securities. 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 you may signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is been recorded. At this time I would like to hand the conference over to Mr. Sathish Mishra. Thank you and over to you Sir.

Sathish Mishra: Thank you. Good evening everyone. On behalf of HDFC Securities, I welcome all for the conference call of Deepak Fertilisers and Petrochemicals. From the management we have Mr. Somnath Patel, President and CFO, Mr. D. Banerjee, VP Finance and Accounts and Mr. Vivek Kelkar, Executive Vice President, Strategic Communication and Investor Relations. Now I would like to hand over the call to Mr. Somanth Patil for his opening remarks, after which we will move on to the question and answer session. Over to you Sir.

Somanth Patil: Thank you Sathish. Good evening ladies and gentlemen. Welcome to the Deepak Fertilisers and Petrochemicals Corporation Q4 FY'13 earnings call. I have with me my colleagues, Mr. Vivek Kelkar and Mr. Debasish Banerjee.

First of all I would like to share some good news with you. The strike at our plant at Taloja has been called off with all issues settled amicably, and the long-term settlement with the workers has also been signed. The workers will resume duty from June 6th.

Now let us move to overview of the year, and we can take your questions thereafter. I must point out that the performance of the Company is to be analyzed in the context of a difficult economic scenario and under this scenario we have done quite well. We have seen our topline increase by 11%. In terms of actual numbers for the financial year ended March 31, 2013 the company recorded total income of Rs.2606.46 Crores as against Rs.2342.53 Crores for the corresponding 12-month period ended March 31, 2012.



Deepak Fertilisers & Petrochemicals Corporation
June 03, 2013

Profit before tax stood at Rs.200.58 Crores in FY'13 as against Rs.290.06 Crores in FY'12. Profit after tax was recorded at Rs.146.91 Crores for FY'13 as against Rs.212.98 Crores in FY'12. The Company's Board of Directors has declared a dividend of 55% for FY'13.

Segment revenues for the Agri business for FY'13 grew to Rs.993.48 Crores as against Rs.969.50 Crores in FY'12.

Segment profitability for the Agri business stood at Rs.109.65 Crores in FY'13 as against Rs.113.45 Crores in FY'12. The Chemical segment registered a growth of 18% to Rs.1688.53 Crores in FY'13 vis-à-vis Rs.1430.49 Crores in FY'12. Profits for the chemical segment were however recorded at Rs.249.21 Crores for FY'13 as against Rs.325.93 Crores corresponding previous year.

For the quarter ended March 31, 2013 the Company recorded a lower total income of Rs.659.26 Crores as against Rs.690.75 Crores in the corresponding quarter of the previous financial year. Profit before tax stood at Rs. 40.89 Crores in Q4 FY'13 as against Rs.64.07 Crores in Q4 FY'12, and profit after tax stood at Rs.29.12 Crores in Q4 FY'13 as against Rs.45.48 Crores in Q4 FY'12.

Segment revenues for Q4 FY'13 for the Agri business stood at Rs.249.74 Crores as against Rs.314.97 Crores for the corresponding period of FY'12. Segment profitability for the Agri business stood at Rs.32.55 Crores in Q4 FY'13 as against Rs.34.73 Crores in FY'12 Q4. During the year, we have maintained our market share in our own manufactured fertilisers, quite unlike several other industry players. Given that this was against a backdrop of two years of drought, we would consider this to be a satisfactory performance. We have grown our technical ammonium nitrate business 15% in terms of sales volume, in a year where the overall mining industry in India has shown a negative growth of 1.9%.

Our performance in both Iso Propyl Alcohol and the various Nitric Acids has been stable. As you know the primary raw materials for the Company are ammonia and natural gas. The average price of ammonia in FY'13 was Rs.34800 as against Rs.26700 in FY'12 an increase of 30%. The average price of



the basket of natural gas, which the company uses was Rs.12.48 per SM3 in FY'13 as against Rs.11.21 per SM3 during FY'12. As you can see the primary impact on our bottomline has come from the abnormal rise in ammonia prices in FY'13, which could not be fully passed on. Prices have already started declining and from a peak of \$720 per tonne for ammonia, we are now seeing a price of around \$.560 per tonne. The reasons for the price increase during the year was a tight situation that was caused in the global ammonia market owing to production shortages in Trinidad and the fact that some new capacities, which were slated to come online in the Middle East and North Africa got delayed.

The Trinidad situation meant that ammonia exports to the US from Russia and other countries increased, and created a tight situation around the world especially in Asia. This has now changed. Middle East plants have come online and the North African plants are expected only in this month. Trinidad plants are too back online.

The long-term scenario for ammonium remains positive with new Shale Gas finds in the US and the new capacities which are being developed there for ammonia. These capacities come will up in the next two years or so. Prices of ammonia are expected to come down to a large extent since the US should be fairly self-sufficient. Our supply chain assets in ammonia at JNPT and at our plant in Taloja are already in place as you know and we are ready to take full advantages of the emerging scenario.

On the gas front, the natural gas scenario in India today continues to remain somewhat uncertain, though potential for the KG basis remains high, the gas extractions are still to reach the desired levels and policy and pricing uncertainties remain. We will have to wait and watch. As far as the product scenario for FY'14 goes, the monsoon is expected to be normal and which should be good for our fertiliser business. Our 24-24-0 grade of NP introduced during the second half of FY'11 remains a strong performer and its nitrate content, with its direct application into the soil, remains a unique property. Agri business remains a key focus area for future growth for us. At one level



we are augmenting capacity with work-in-progress for our new 600,000 tonne per annum Nitro Phosphate plant at Taloja and the new 300,000 metric tonnes per annum Bentonite Sulphur plant at Panipat. At another level we are also driving our brand campaigns, and strengthening distribution networks within renewed vigor and focus. Last mile connectivity to farmers is being enhanced with our 17 Saarthie service centers and strong relationships with nearly 10,000 farmers through our services model, and the fresh fruits and vegetable business.

In Technical Ammonium Nitrate we are confident that as the mining and construction industries grow, we will be in a position to gain positively.. We are targeting 325,000 tonnes of technical ammonium nitrate sales for FY'14. To provide just in time product, we have augmented our distribution chain with warehouses closer to the customer, which gives a proximity advantage. The new TAN regulations will be effective from July 11, 2013. We expect as every company in the industry does that there maybe some compliance related issues for a couple of months. Overall the regulations will be positive for the industry.

In chemicals Iso Propyl Alcohol continues to remain one of the fast growing products of the chemical industry, with growth expected to remain in the 6% range for 2013-14. In order to augment our market share, we have gradually commenced import of IPA beyond our own manufacturing, which itself offers, favorable scale in the Indian market. Capacity growth in this product is being closely examined given the promise for the future. In Nitric Acid, which is crucial to the Nitro Aromatics sector, we enjoy a strong scale advantage and customer relationships and geographical advantages are proving to be key strengths.

I now leave the floor open to your questions.

Moderator:

Thank you. We have the first question is from Mansi S from SBI Mutual Fund. Please go ahead.



- Mansi S:** Good afternoon Sir. What would be the total debt on Deepak Fertilisers consolidated as on March 2013? How much would be attributable to solely the subsidy part ?
- Somnath Patil:** The total debt as of the year-end was Rs. 1122 Crores.
- Mansi S:** Is this short-term, or long-term or everything together?
- Somnath Patil:** Yes, everything together. Short-term was around Rs. 322 Crores and about Rs. 800 Crores was long-term.
- Mansi S:** Subsidy receivables?
- Somnath Patil:** Subsidy receivable was around Rs. 240 Crores.
- Mansi S:** This would represent how many months of receivables due?
- Somnath Patil:** This is actually almost the whole of last year because last year we could receive only about Rs. 35 Crores and so the balance of Rs. 240 Crores is outstanding practically from August of last year.
- Mansi S:** Sir, from the capex plan what would be the spend for FY'14 and because you have taken a view that would be looking at increasing the capacity at Taloja and for Panipat, so what cash spend are we looking at?
- Somnath Patil:** We will have a normal capex of close to around Rs. 50 Crores in our plants and for the Nitro Phosphate & Bensulf plant the total capex is around Rs. 415 Crores of which I think this year we will be spending between 10% and 15% for advances, technical studies, engineering studies, etc. Bulk of the expenditure will happen next year.
- Mansi S:** So, this time, we would not have tied up any funds for this?
- Somnath Patil:** Now we haven't tied up funds.
- Mansi S:** Thank you so much.



- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from Systematix. Please go ahead.
- Rahul Agarwal:** Sir, my question pertains to your real estate business. I just wanted to know how much investment we have made there and what is the plan going forward?
- Somnath Patil:** If you see we have a total of around Rs. 261 Crores that is invested in that business.
- Rahul Agarwal:** Sir, any plans for increasing this further?
- Somnath Patil:** No plans absolutely.
- Rahul Agarwal:** What has been the ROCE from this investment?
- Somnath Patil:** Well it has been negative. In fact if you see the results we have incurred a loss of around Rs. 4.31 crores in this quarter, for the full year it is Rs. 18.5 Crores.
- Rahul Agarwal:** How do you see recovering the money back from this business? How do you plan to keep going?
- Somnath Patil:** Last year we undertook an exercise to modify the format of the Ishanya Mall. With the modification that we have tried to do is to move away from home and interior specialization to a more broad-based kind of offering thereby the mall becomes a destination mall, which will offer a wide range of products, including things like clothing, the accessories and entertainment, food etc., so therefore with this, new sign ups are in progress. We hope that we should be able to do better in the months to come and having said that we must say that the value that is appearing in the books does not capture the underlying value of the land at market price, which is significantly higher. Obviously there is no further investment that is planned in this mall.
- Rahul Agarwal:** Sir, what was the motivation behind investing money in this venture? We could have also liquidated the land and invested that part into our business, which is actually very good?



- Somnath Patil:** Your point is well taken, but I think I will ask Vivek to explain the rationale. This happened some six years back and when Vivek was actively involved..
- Vivek Kelkar:** Actually this investment was envisaged in 2004-2005 and the mall opened around 2008, early 2008. At that point in time if you recall the malls business did look extremely promising, and you have to look at it in that context. Subsequently when we launched the mall for home and interiors the recession hit at which point in time, discretionary spending came down. We did a lot of research on this and we have done research with Knight Frank and ICICI Properties before we launched the concept and all the numbers at that point in time looked extremely good, but now this is in hindsight because this is all eight years ago. At this point in time, the mall business is not picking up right across India and it is a difficult time for retail as you would appreciate.
- Rahul Agarwal:** Sir, in future would you guys be open to liquidating the mall, if there is a buyer in the market?
- Somnath Patil:** We are exploring various options. Right now this is part of Deepak Fertilisers so as a first step in due course of time, we are also looking at possibilities to restructure this entire business, and we will take the right steps at appropriate times. We are not as desperate because at this point of time things are not that good and it is expected that with FDI opening up and new international brands coming in, the sector as a whole should look up in some time.
- Rahul Agarwal:** But Sir, investors can be rest assured that going forward we will be putting money into our core business only?
- Somnath Patil:** That is the objective exactly.
- Moderator:** Thank you. The next question is from the line of Mr. Balwinder Singh from Prabhudas Liladher. Please go ahead.
- Balwinder Singh:** Thanks for taking my question. If you can give some more update on the strike?



Somnath Patil: This strike was actually called on account of some disciplinary action that we had taken against some workers who had indulged in some indisciplined activities at the plant. So that was one issue. We had taken disciplinary action and they were resisting that. The second issue was of reduction in positions because we had carried out a complete exercise on the real manpower requirement at the plant and we feel that there is a surplus of about 150 numbers. So, this was the second issue and the third issue was a long-term settlement which was due for negotiation. We have been able to amicably resolve all the issues. In fact the workers have agreed to the action that we have taken and they have agreed to the number reduction as well. The rationalization will take place over a period of time, we are not going to retrench anybody. It is felt that as and when vacancies happen, we will not fill those positions and the union has agreed to the rationalization exercise that we will be undertaking. Thirdly we have also signed a long-term settlement with them, which will be valid up to September 30, 2015.

Balwinder Singh: What kind of hikes have we given on that front?

Somnath Patil: The total impact annually will be around Rs. 9 Crores, that is direct and indirect impact all put together.

Balwinder Singh: Secondly on this IPA opportunity that we mentioned that we might be looking at increasing IPA capacity because as of now we are importing to gain market share and there is a market there. So if you can give some more light on that?

Somnath Patil: See we are looking at either replicating our existing plant of 70,000 MTPA by putting up one more plant of similar type either at Taloja or at a place where we could get Propylene at reasonable price. So the key issue here is to tie-up Propylene for this new capacity. We are also trying to identify plants internationally that we would like to import just as we did for the first IPA plant.

Balwinder Singh: So what is the capacity addition we are looking at? Something like 50,000 tonnes?



- Somnath Patil:** It could be at least 70,000 MTPA I can say.
- Balwinder Singh:** Let us say if it materializes what can be the capex on that front?
- Somnath Patil:** Could be close to Rs. 400 Crores.
- Balwinder Singh:** Rs. 400 Crores for almost 70,000 tonnes?
- Somnath Patil:** For 70,000 tonnes.
- Balwinder Singh:** Okay, and regarding the Methanol plant are we still not operating it?
- Somnath Patil:** Yes, we are not operating.
- Balwinder Singh:** What is the current gas cost per MMBTU?
- Somnath Patil:** That is around \$18 per MMBTU, the spot gas cost, which is what is relevant for Methanol.
- Balwinder Singh:** Our breakeven is something like \$8, \$9 for methanol?
- Somnath Patil:** Correct.
- Balwinder Singh:** On this fertiliser side what kind of price reduction have we taken, and what kind of volume growth can we expect next year in your manufactured fertilisers?
- Somnath Patil:** Now the current price for us is around Rs. 16,200 per tonne.
- Balwinder Singh:** Previously it was?
- Somnath Patil:** Actually it has come down. During the year we increased it from Rs. 14,000 to Rs. 17,800 and now post revised NBS, it is around Rs. 16,200.
- Balwinder Singh:** I still did not get that.



- Somnath Patil:** The MRP of nitro phosphate that we manufacture in Q4 was around Rs. 17,000 and post the NBS notification we have revised prices and the MRP has been reduced to Rs. 16,200.
- Balwinder Singh:** Any kind of impact have we taken this quarter?
- Somnath Patil:** Yes, this is what it is for this quarter - Rs. 16,200.
- Balwinder Singh:** No, any kind of inventory write-down provisioning we have taken on the inventory that in line with the dealers or whatever?
- Somnath Patil:** No, nothing of that sort. You are talking for Q1 of FY'14 right?
- Balwinder Singh:** I meant in Q4 have we taken any impact of the price reduction that the government has to do?
- Somnath Patil:** No, in fact we had sold out whatever material we had and there was no reduction required in Q4.
- Balwinder Singh:** So in Q1 we might take something?
- Somnath Patil:** It seems unlikely. We will have to see because there could be some pressure from the dealers in case they are carrying some unsold inventory, but that would be an industry-wide phenomenon and largely dependent on how the monsoon plays out.
- Balwinder Singh:** What is the subsidy we are currently getting on this nitro phosphate?
- Somnath Patil:** It is approximately Rs. 9,000 But we will just get back with the precise number.
- Balwinder Singh:** What kind of volume growth can we look forward to in nitro phosphate in fiscal 14 assuming monsoons are normal?
- Somnath Patil:** We are targeting a tonnage of about 225,000 tonnes.
- Balwinder Singh:** Sorry.



- Somnath Patil:** 225,000 tonnes of nitro phosphates in FY'14.
- Balwinder Singh:** This year we have done how much?
- Somnath Patil:** This year we have done around 178,000 tonnes.
- Balwinder Singh:** So almost more than 20% - 30% increase I guess?
- Somnath Patil:** Yes.
- Balwinder Singh:** Lastly, on this fertiliser we have done superb 13% margin this quarter. What is the sustainable margin we can assume for fiscal 14, because I think specialty fertilisers are doing quite well here? What kind of sustainable margins can we expect for fiscal 14?
- Somnath Patil:** I think it would be around the same levels if you see, 12% to 13%.
- Balwinder Singh:** On the blended side, the fertiliser that you report in your quarterly numbers?
- Somnath Patil:** I think that is likely to be 9% to 10%.
- Balwinder Singh:** On the chemicals margin side, this quarter we have done something like 11.3%. With ammonia prices now cooling off, what kind of margins can we get back to in fiscal 14?
- Somnath Patil:** We expect the margins to go up about 3% to 4% at least.
- Balwinder Singh:** So it can rebound to something like 15% - 16%?
- Somnath Patil:** Yes, it should.
- Balwinder Singh:** I am done Sir. If I have something I will come back in the queue. Thanks.
- Moderator:** Thank you. Our next question is from the line of Mansi from SBI Mutual Fund. Please go ahead.



- Mansi S:** Sir just a small follow up, if you could just give a breakup of your major chemical sales for FY'13 which is TAN, Methanol, Nitric Acid, IPA. How much would be the volume and value?
- Somnath Patil:** I will start with methanol. For the year FY'13, we sold about 15,000 tonnes. Then you can note down nitric acid - all nitric acid put together we have sold about 118675, tonnes. IPA 68,000 tonnes, TAN we have sold about 220,000 tonnes.
- Mansi S:** What would be the corresponding value?
- Somnath Patil:** Methanol value is Rs. 35.49 Crores.
- Mansi S:** Nitric acid Sir?
- Somnath Patil:** Nitric acid Rs. 172.85 Crores. Then we have own manufactured IPA about Rs. 550 Crores and we have done good amount of IPA trading as well which is Rs. 151.87 Crores.
- Mansi S:** Which is included in this?
- Somnath Patil:** No our production was 68,000 tonnes and 20,000 tonnes is the traded IPA.
- Mansi S:** Okay 20,000 tonnes IPA so that has increased your traded chemical sales quite a bit?
- Somnath Patil:** Yes, that is right, we have done some other chemicals as well. TAN turnover was Rs. 560.16 Crores Fertiliser is Rs. 990.05 Crores of which nitro phosphate was Rs. 492.19 Crores.
- Mansi S:** ANP was Rs. 492?
- Somnath Patil:** Yes, Rs. 492.19 Crores on the volume of 177,000 tonnes.
- Mansi S:** Thank you so much for these details also. Thank you.



- Moderator:** Thank you. Our next question is from the line of Pratik Poddar from ICICI. Please go ahead.
- Pratik Poddar:** Sir just if you can give us an update on the capex plan where that the one is the IPA plant, which you have, which is around Rs. 400 odd Crores and you have a fertiliser capex plan also?
- Somnath Patil:** See as of now what is approved by the board is only the fertiliser capex plan and the IPA plan is on the drawing board. We are looking at various options and it is just an estimate that we have been able to arrive at for 70,000 tonnes plant. The typical capex will be around Rs. 400 Crores but we have not started that project.
- Pratik Poddar:** For the fertiliser plant what would be the capex amount if you can just quantify?
- Somnath Patil:** Around Rs. 360 Crores, for the nitro phosphates it is around nitrophosphates and around Rs. 55 Crores for Bentonite sulphur at Panipat.
- Pratik Poddar:** This Rs. 360 Crores would be at Taloja?
- Somnath Patil:** That is right.
- Pratik Poddar:** The second question is on the APM gas. Sir if I were to assume that the APM gas would increase what kind of margin hit would you have on your fertiliser business?
- Somnath Patil:** It depends on how much it will increase.
- Pratik Poddar:** See the market rumor, which is now \$8 or say if I say 100% impact?
- Somnath Patil:** Yes, that will impact my margins by around Rs.3000 to Rs.3500 per tonne.
- Pratik Poddar:** Sir given the uncertainty over this APM gas price hike still, I just wanted to understand again why the management again going for a fertiliser?



Somnath Patil: See we are going to manufacture different grades of nitro phosphates, which will have varying contents of nitrogen. That is point number one. Second is with the wide variety of nitro phosphate that we will make, we will be able to consume different types of phos acid and today we are constrained to buy phosphoric acid from very limited sources and therefore we do not have any flexibility on that, but once we go for this granulation project, we will have flexibility to a consume variety of phos acids and that should help in our operations in a big way.

Pratik Poddar: What would be the timeline like for this Rs. 360 Crores plan?

Somnath Patil: This will be about 18 months.

Pratik Poddar: 18 months from today.

Somnath Patil: Yes.

Pratik Poddar: So in two years' time what could be your core competency in terms, so what could be your base business would it be chemicals, or would it be fertilisers?

Somnath Patil: It would be both actually, because if you see chemicals, even the TAN business would have crossed 400,000 tonnes by then so it will be 60-40 like I would say 60% will be chemicals and 40% will be fertilisers both will grow.

Pratik Poddar: Sir your strategy is to grow in both segments it is not only in chemical side Sir? So your strategy going ahead is to concentrate on both the divisions that are fertiliser and also chemicals?

Somnath Patil: Yes absolutely. We will focus on both fertilisers as well as chemicals and when I say chemicals including technical ammonium nitrate.

Pratik Poddar: Sir any land monetization or any asset monetization plans that we have going ahead?

Somnath Patil: We do not have anything specifically as of now, nothing as such. We have lot of land but then there are no plans to monetize it as of now. We have a land in



Paradeep for example we may use it for setting up a Technical Ammonium Nitrate plant there. We have surplus land in our subsidiary company at Srikakulam. We might put it to some use either for fertiliser or for Technical Ammonium Nitrate or for some chemical plant.

Pratik Poddar: Just a couple of questions on this capacity expansion if you could just help me with what would be the incremental revenue, which I would get from this 360 Crores capex plan and the EBITDA margins also?

Somnath Patil: If you take today's revenue numbers in fact it will be around Rs 1500- 1600 Crores. It will be the total at 600,000 tonnes.

Pratik Poddar: The EBITDA margin Sir?

Somnath Patil: EBITDA margin, you can assume to be the same. We would like to target earning around 12% margins going forward.

Pratik Poddar: So say on a very base case or on a conservative I can assume 8% to 10% kind?

Somnath Patil: Yes, surely it should be more than that.

Pratik Poddar: So on a Rs. 1500 Crores revenue Rs. 150 Crores of EBITDA is what I will generate?

Somnath Patil: Yes, absolutely and our investment is just Rs. 360 Crores.

Pratik Poddar: Yes and how would the funding go like. Sir how much would be debt and how much would be equity?

Somnath Patil: We will try to go for 2:1 given the fact that we are underleveraged.

Pratik Poddar: If I were to assume gas prices are hiked by 100%, which is the market rumor then your margins would be 3%?

Somnath Patil: Our margins will come down to say 7% or so, if we are not able to pass on the increase to the customers, which is unlikely we will have to pass on some of it at least to the farmers.



- Pratik Poddar:** So since this is NBS scheme how is the price of end product determined or how is the subsidiary of end determined is it based on the local ammonia gas cost?
- Somnath Patil:** It is based on the imported ammonia price. So the other option for us is that we can also import ammonia for running this plant in case there is a gas shortage.
- Pratik Poddar:** So if I compare the international ammonia price with the current domestic ammonia price that is assuming \$8 of APM then what would be the delta like or what would be the cost differential or is it that indigenously manufacturing ammonia would be more than...?
- Somnath Patil:** No, it will be indigenously manufactured. At \$8 indigenously manufactured ammonia will be cheaper than ammonia cost at today's prices.
- Pratik Poddar:** That is it from my side. Thank you so much for answering my questions.
- Moderator:** Thank you. Our next question is from the line of Vinay Shah from Reliance Mutual Fund. Please go ahead.
- Vinay Shah:** Good evening Sir. Sir what was the average gas cost that you mentioned for FY'13?
- Somnath Patil:** For FY'13 our total gas cost was Rs.12.48 per SM3 as against Rs.11.21 in the last year.
- Vinay Shah:** Update on the methanol plant. Did we have any production in this quarter from the methanol plant?
- Somnath Patil:** This quarter we did not have any production.
- Vinay Shah:** For the current quarter do we see that scenario is improving and we will be able to produce methanol for this quarter?



- Somnath Patil:** No I do not think we will be able to produce any methanol given that the current spot gas prices are at \$18 per MMBTU whereas our breakeven is somewhere around \$8 to \$9.
- Vinay Shah:** So what will be the related fixed cost that is setting the P&L as of now per quarter?
- Somnath Patil:** See the plant is completely depreciated. It is a very old plant and there is some maintenance here and there that happens which is not a significant amount.
- Vinay Shah:** Sir in the PBIT for the fertiliser segment would it be possible to quantify the PBIT between the traded fertiliser and the manufactured one?
- Somnath Patil:** We normally do not do that, but as you can imagine traded fertilisers will have a very low margin, a few percentage points but specialty fertilisers were quite significantly higher-- with a margin upwards of 15%.
- Vinay Shah:** What was the quantum of specialty fertiliser traded for Q4 and FY'13? I was asking what would be the quantum of specialty fertiliser for Q4 and FY'13.
- Somnath Patil:** Specialty fertiliser for Q4 was around Rs. 23 Crores and for the whole year it was around Rs. 145 Crores.
- Vinay Shah:** Thank you very much.
- Moderator:** Thank you. Our next question is from the line of Koushik Sekhar from Vermilion Advisors. Please go ahead.
- Koushik Sekhar:** Mr. Patil good afternoon. I just wanted to find out what is the cost of the ammonium nitrate which has been imported that grade what is the cost and what is the price at which we are selling? What is the difference in the cost? What exactly are you have what kind of marketing plans are you having to increase your turnover in this because periodically you have been saying that really the challenge is to only switch so the mining growth is immaterial to you and even the mining does not grow much because you have to change the



usage domestically from imported lower grade to a higher grade so can you throw some light on this?

Somnath Patil: Yes actually what gets imported into the country is the fertiliser grade ammonium nitrate which is inferior quality compared to our high density ammonium nitrate. Typically when there is a growth in the industry then it becomes easy for us to increase our market share in the growing phase but if it is a stagnant situation then people who are used to using the inferior quality continue to do so. Now as far as the price differential is concerned, there is a difference of at least Rs.3000 to Rs.4000 per tonne between the imported ammonium nitrate and what we sell in the market as a comparable product. Further LDAN which is a product which is superior to HDAN where the price is another Rs.3,000.

Koushik Sekhar: My question is that this ammonium nitrate rules which they passed is around 91 pages and even on reading it is so confusing. Who is going to implement or how are they going to implement. So whom will it cause more confusion? The people who are importing or to companies like Deepak?

Somnath Patil: As far as we are concerned, we had our own set of internal rules and regulations and systems and processes, which we are following very tightly. Looking at the sensitivity of the product. We have practices like KYC on your customer, tracking of the trucks and we employ the best transporters with the entire record of all the drivers, cleaners with us, . Now this is in a way formalizing of those systems and adding something more, which is okay with us. We welcome these regulations and they are in the interest of the nation as well. Those who have not been following this, will have to make some investments. To some extent we will also have to make some investments in making sure that our warehouses are of proper size because of the regulations and therefore to that extent our storage costs could go up a bit. Secondly, whatever comes into the country, also will have to get regulated, like material will have to come in bagged form. They cannot be moving around the country in loose form, and also keep a lot of inventory in loose form at the ports, which itself is a big hazard. I think all these are welcome steps and since we



are already complying with much of it, there is not going to be any great cost implication to us. Cost implication will be for those who are not complying with it and who will have to now invest in either warehouses or making sure the material is moved in proper authorized trucks with GPS systems, etc.

Koushik Sekhar: My last question is on your real estate in the mind of the management is this still a core business of the Company?

Somnath Patil: It is not. In fact if you see this is the only business where we have not been spending and we do not have plans in real estate. So that is evidence enough that it is not a core business for us, and clearly the growth drivers are the chemical and fertiliser businesses that we are in.

Koushik Sekhar: What timeframe, because I have spent almost one day running around your mall and seeing. What timeframe do you see for this transition to move from construction?

Somnath Patil: This year is an important year for us because we have changed the format of the mall and we are having some new signups that are taking place. For example we have changed from fixed rent to revenue share model. We will see how these things play out and this year it is crucial for us to take important decisions in respect of this business.

Koushik Sekhar: One more thing, periodically there is some confusion vis-à-vis this APM gas which has been supplied and which is used across the business for you. Are there any contingent liabilities on these accounts?

Somnath Patil: First of all we are not using this APM gas across the business. We are using it only for fertilisers and related utilities.

Koushik Sekhar: When we use it for fertilisers under the new NBS how does it get costed because NBS assume that you are getting raw all material at market prices. So, if there is a subsidy in the raw material how does it get accounted?



Somnath Patil: NBS has nothing to do with cost. Under NBS they fix the subsidy at the beginning of the year after taking into account all kinds of cost, all kinds of parameters and prevailing market prices etc., and therefore it has nothing to do with our cost of production as such. It is unlike the past when the cost used to be reimbursed on a pass through basis with some return on capital.

Koushik Sekhar: My question is that if A producer gets gas at market price and B producer gets gas at APM and under NBS it is the same amount for his raw material. Is not there a difference in the subsidy that the two people get? Is there any problem, which is likely from that end?

Somnath Patil: Gas is only one part of the cost; there are so many other costs. You have the power cost, you have got other overheads, your transportation cost. We have a JNPT tankage to be maintained where our material comes so there are so many things whereas there are some companies, which also source very cheap ammonia because of their joint venture overseas and they have the gas sources. **Koushik Sekhar:** One last question, any thoughts on a buyback?

Somnath Patil: Nothing at this point of time.

Koushik Sekhar: I think your share is becoming more and more undervalued?

Somnath Patil: We are examining a few things, but then at this point of time, I would not like to make any statement on that.

Koushik Sekhar: Thank you Mr. Patil.

Moderator: Thank you. Our next question is from the line of Manish Mahawar from Edelweiss. Please go ahead.

Manish Mahawar: Good evening. There are two three questions. One is your fertiliser business, you said like your volumes will be around 2,35,000 in the next year, which is roughly 30% growth, and I think some of the competitor is also giving us the same type of number. I do not know what is giving us in the marketplace these types of volume growth basically everybody knows now there is an inventory



in the market right now about 6 to 7 million inventory in the market, just can you like to elaborate a bit on this part actually?

Somnath Patil: First of all the volumes that I said was 225,000 not 235,000.

Manish Mahawar: So it is almost up 25% type of growth in the volume front and I just wanted understand like what is giving us confidence because there is inventory in the market place, so 25% growth is a quite good growth actually in the volume front?

Somnath Patil: Fortunately for us we do not have so much of material in inventory. We have a strong market presence in Maharashtra, Gujarat and Karnataka backed by a strong brand. We are making investments in making sure that our distribution network is strengthened and we are directly able to establish a greater degree of contact with the farmers, and not just dependent on the dealers. Monsoon is also expected to be favourable this year **Manish Mahawar:** Second thing, what is the ammonium nitrate TAN margin in this quarter?

Somnath Patil: This quarter it has been around 16%.

Manish Mahawar: What is the guidance for the next year for volume of TAN?

Somnath Patil: TAN volume should be around 325,000 tonnes.

Manish Mahawar: Secondly on your chemical margins. This quarter margins are roughly around 11%, and this is despite having higher trading volumes this time. Your trading will remain the same in the next year; do you think trading will be there in the chemical next year as well?

Somnath Patil: It will be there. I think it will remain at this level definitely, because no new plants will come up so soon, so we will do trading in IPA and maintain the market share.

Manish Mahawar: So, this is blended margin whatever we have like roughly we are expecting 300 to 400 basis point improvement in the margin considering the current ammonia prices?



Somnath Patil: That is correct.

Manish Mahawar: Sir, any update on the Desai Fruits basically in this business?

Somnath Patil: In terms of the way the business is performing, we should be breaking even this year and we are now focusing on the domestic market as well. Earlier the entire focus was only on export of raw bananas to the international markets, but now are focusing on the domestic market where we could sell ripened bananas and we want to move from just from Gujarat over to Maharashtra as well and also we are looking at areas in Tamil Nadu. So, we are expanding our area of cultivation, and we are also bringing in a lot of good practices like fruit care practices, fruit handling and packaging practices. So, you will see a significant change in our operations as well as in our margins and volumes in a year or two from now.

Manish Mahawar: What is the investment of (inaudible) 50.59 in this business overall investment?

Somnath Patil: We have so far invested around Rs. 30 Crores.

Manish Mahawar: Thanks.

Moderator: Thank you. Our next question is from the line of Deepak Malhotra from Silver Street. Please go ahead.

Deepak Malhotra: You seem very epic on the volume growth in the manufactured fertiliser part of your business, which is quite a surprise to see, given the general trend in the industry as of now. What about the traded part of the segment, because you still do almost Rs. 500 Crores of that in the year so how is that going to be in FY'14?

Somnath Patil: For the next year we are targeting to do around 175000 tonnes of different types of complex products. **Deepak Malhotra:** Which is how much in comparison to FY'13 number?

Somnath Patil: In FY'13, we did around 160,000 tonne in complex fertiliser trading.



Deepak Malhotra: So, there what you are suggesting is that is about 10% odd?

Somnath Patil: Yes. We are targeting that kind of growth.

Deepak Malhotra: How is the margin going to look like because the general trend in the market again is quite weak, with lot of inventory already impacting the industry margins?

Somnath Patil: Normally margins on these bulk fertilisers are just about 2% to 3%. They are not more than that but we need to do this, so that we are able to offer the full range of products to the farmers.

Deepak Malhotra: Now although it is within the rains of the monsoon department of the Indian weather department but how do you really see the monsoons factoring out although what we have seen in Kerala and in all the news what is coming that is really going to be good, but do you have any more information than what really is in press that this time it is really going to be very well?

Somnath Patil: This is the information we too have and we are also happy that the rains have hit Kerala coast and they are expected to hit Maharashtra in the next few days. **Deepak Malhotra:** One more question on the ammonia prices. The ammonia prices are a rise of almost 30% and which impacted everybody in the industry. What are the key reasons for that according to you?

Somnath Patil: Actually I said that in the opening remarks also that some plants in Trinidad shutdown the capacities and then also the new capacity that were to come up in the Middle East got delayed considerably, for as much as 10 to 11 months. Also the material that should have come from the Middle East from Russia to the Asian markets got diverted to US because US typically gets supplies from Trinidad and countries around the area. Of course it is this opportunistic pricing by the ammonia manufacturers, that kept the prices high throughout the year.

Deepak Malhotra: You also mentioned that you expect the prices to calm down this year?



Somnath Patil: Actually as of now we are seeing prices of around \$560 to \$570 per tonne of ammonia whereas in the last quarter it was above \$600 per tonne and it had touched the peak of \$720 per tonne last year. So, we are seeing better prices now and at least for the next five to six months, we should see reasonably softer prices.

Deepak Malhotra: Around \$450 to \$500, right?

Somnath Patil: It is difficult to say, but I would say we own estimate at \$550 which should be much better as compared to what we have faced last year. If that goes down further, so much the better for us.

Deepak Malhotra: Definitely. Just one final question on the subsidy part. Now I think we had the same situation almost three months back in the last quarter that the subsidy payment having been paid by the government and it was mentioned generally that by the end of May everything will be cleared, but obviously this has not happened. So now what is the new timeline?

Somnath Patil: It has not got fully cleared. You are right. But the flow has started slowly. The large money is blocked is hurting the industry.

Deepak Malhotra: When it is impacting your working capital completely it affects the whole cycle is not it?

Somnath Patil: Absolutely. It is a pain area for us.

Deepak Malhotra: So, we really do not know a definite timeline for this if they are given any indication, because this time, I think, it has been delayed for quite a while, isn't it?

Somnath Patil: Yes, there was hardly any subsidy released from July and August onwards, and towards the end of the year a total of around Rs. 27,000 Crores was pending against which GOI released just Rs. 5000 Crores under an interest subventionscheme with the State Bank of India.

Deepak Malhotra: That is all. Thank you so much.



- Moderator:** Thank you. Our next question is from the line of Pratik Poddar from ICICI. Please go ahead.
- Pratik Poddar:** All my questions have been addressed. Sir, one question on your trading side. Sir, just wanted to understand now that the currency is at Rs. 56 do you feel there is any opportunistic trade available as of now considering that the prices would now be roughly around 2500 to 2300 Crores tonne of DAP. So, at 56 does it make sense for a trader to basically trade?
- Somnath Patil:** Right now of course it is not and we will actually go on the basis of market situation and the monsoon situation out. So, at this point of time, we have not committed anything.
- Pratik Poddar:** Agreed. Just understanding from the industry perspective at this price of Rs. 56?
- Somnath Patil:** It is difficult. I agree with you. Your reading is correct. At least we are not very confident that we will be able to make money at this kind of price.
- Pratik Poddar:** Sir, what would be the ideal currency level where Deepak Fertiliser or you guys could make money in trading also?
- Somnath Patil:** Actually it is both. Not only in the currency, but also the base price. Now we are in talks with the suppliers to actually reduce the prices because at Rs. 53 or so, we made some money which may be difficult at present forex levels.
- Pratik Poddar:** Sir, now since that the fertiliser department will ask for cost structures and all how difficult will it be for a trader to make margins in this industry.
- Somnath Patil:** This is not applicable for traders. Whatever margin is there 2% etc., we will give whatever they want. There is no issue about that.
- Pratik Poddar:** Thank you.
- Moderator:** Our next question is from the line of Viraj Kajaria from Securities. Please go ahead.



Viraj K.: Thank you for taking my questions. I just have couple of questions. One to sort it out, do you have any plans to expand or your products range into other complex fertilisers?

Somnath Patil: The expansion that we spoke about a little while ago will be for producing different grades of nitro phosphates whereas we produce only 24-24-0 today. In fact the process will have flexibility to produce different grades of fertilisers, complexes and we have plans to induct at least 3 to 4 grades more and we will be able to produce even fortified nutrients.

Viraj K.: On the subsidy receivables a lot have been are really talked about I just wanted to get your perspective since 2010 you will be moving to an NBS regime, companies have now been given of pre-pricing ability now you have an indicative guidance from the government to actually keep the prices in the range so are we what is your perspective of are we moving back to the whole regime where you still have a price control what is your sense?

Somnath Patil: I do not think there is any price control as such. We are free to fix our prices. Essentially it is only the NBS that is fixed by the government and otherwise the MRP is for the company's to fix.

Viraj K.: Okay and second is just talk about your views on the APM gas pricing?

Somnath Patil: The Rangarajan Committee Report, has so far not been adopted and the Gas pricing is due for renewal in 2014 so we will have to wait till then see how things play out.

Viraj K.: That is all from my and thank you.

Moderator: Thank you. We have our last question from the line of Mr. Vinay Shah from Reliance Mutual Fund. Please go ahead.

Vinay Shah: Sir that construction part is over for realty business?

Somnath Patil: Yes, that is over.



- Vinay Shah:** So what is the total leasable area there if you quantify?
- Somnath Patil:** It is about 500,000 square feet.
- Vinay Shah:** How much of this would have been tied-up till date?
- Somnath Patil:** Till date about 30% tied-up.
- Vinay Shah:** So it is operational.
- Somnath Patil:** It is operational in some parts and we are in the process of tying-up further beyond this 30%.
- Vinay Shah:** How is the cost structure at present for this segment, what kind of fixed cost that will be there?
- Somnath Patil:** We have invested around Rs. 267 Crores and that is about it.
- Vinay Shah:** So that includes the renovation of Rs. 55 Crores and the initial land acquisition all the things put in together.
- Somnath Patil:** Yes, it includes everything.
- Vinay Shah:** Okay and on the Desai fruit thing you mentioned you have invested around Rs. 30 odd Crores still now?
- Somnath Patil:** Yes.
- Vinay Shah:** So that includes the amount of acquisition plus whatever inefficiency you may have had for the segment?
- Somnath Patil:** Yes that is right, it includes everything.
- Vinay Shah:** Thank you very much Sir all the best.
- Moderator:** Thank you. Participants' that was the last question. I would now like to hand the conference over to Mr. Satish Mishra for closing comments.



- Sathish Mishra:** Yes, Sir I have some couple of questions. First is the gas volumes are there any fall in FY'13 as compared to FY'12?
- Somnath Patil:** Yes, there is. In fact I just told you. In FY'12 we have got a total gas of 232 Million SM3 as against that this year we have got only 192 Million SM3.
- Sathish Mishra:** Sir this 192 is roughly like 0.5 MSQMD per day will it be possible to just get a broad sense between APM, RIL and RLNG gas?
- Somnath Patil:** Actually we do not share the breakup.
- Sathish Mishra:** Even APM will go Sir because most of the concerns are related to APM it will be 50% less
- Somnath Patil:** APM will be about 50% and in fact there also we have seen a drop of about close to 20% in the availability of APM gas compared to last year.
- Sathish Mishra:** Okay and Reliance gas is still we are getting some quantity.
- Somnath Patil:** Yes, we are getting Reliance gas.
- Satish Mishra:** Okay Sir and will it be possible to have that ammonia consume number for the year.
- Somnath Patil:** The total ammonia consumed was around 200,000 tonnes.
- Satish Mishra:** And out of this our manufactured part was.
- Somnath Patil:** 115,000 tonnes.
- Sathish Mishra:** Sir just last two quick book-keeping questions. One is our other income for FY'13 has increased from Rs. 40 Crores to Rs. 62 Crores so is there any one-off in this?
- Somnath Patil:** Yes, we have received CDM benefit of about Rs. 14 Crores this year, which was not there last year.
- Satish Mishra:** So this still not repeat that is one and last question Sir?



- Somnath Patil:** This is a repeat for the next year to the extent of about Rs. 5 odd Crores.
- Satish Mishra:** Sir just last question we have a loss of around Rs. 17 Crores from subsidiary so can you elaborate on that and the situation in FY'14?
- Somnath Patil:** FY'13 you are saying?
- Sathish Mishra:** FY'13 there is a loss of around Rs. 17 Crores so how way there is the situation in FY'14 from subsidiary?
- Debasish Banerjee:** I will just explain that mainly it consists of dividend, intra company dividend that is around Rs. 4 Crores and then balance is write-off of goodwill and other accounting entries.
- Satish Mishra:** So most likely it will not repeat in FY'14?
- Debasish Banerjee:** Part of it around Rs. 5 Crores will end in FY'14. Otherwise it will not. Balance we have is around Rs. 13 Crores. Out of Rs. 13 Crores, 5 Crores will be there in next year also and then onwards it will not be there.
- Sathish Mishra:** Sir that is it from my side. I would like to thank everyone for participating in the call. Thanks to Deepak Fertilisers management for taking time out for the call and giving us the opportunity. Mr. Patil would you like to make any closing comments.
- Somnath Patil:** Before I do that I think, I had not answered one question on the new NBS. The actual rate is Rs.9,493 per tonne of the fertiliser that we produce. I would still like to re-emphasize the positive future prospects of our businesses. All our products are strongly linked to key sectors of the economy, as you know whether core sectors like mining, and construction or consumer sectors like food and pharmaceuticals. We are quickly leveraging our strengths drawn from our scale and market penetration to push further for growth. We are looking at ammonia derivatives space that is fertilisers and TAN and the chemical space for our next phase of growth. Thank you very much once again.



Deepak Fertilisers & Petrochemicals Corporation
June 03, 2013

Moderator:

Thank you Sir. On behalf of HDFC Securities, that concludes this conference thank you for joining us. You may now disconnect your lines. Thank you.