

Deepak Fertilisers And Petrochemicals Corp. Ltd

Q2FY11 Conference Call Transcript

29 October, 2010

Moderator:

Good morning ladies and gentlemen. I am Allwyn, moderator for this conference. Welcome to the Q2 FY11 post-earnings conference call for Deepak Fertilisers and Petrochemicals Corporation Limited hosted by Emkay Global Financial Services. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is being recorded. I would now like to hand over the conference to Mr. Rohan Gupta of Emkay Global Financial Services. Over to you sir.

Rohan Gupta:

Thanks Allwyn. Good morning everyone. On behalf of Emkay Global Financial Services, I welcome all the participants who have logged into this conference call. Representing the management of Deepak Fertilisers; we have Mr. Somnath Patil President and CFO of the company. Good morning sir. We also have Mr. Vivek Y Kelkar consultant to Deepak Fertilisers. Good morning sir. Now from here onwards in request the management that they can give the brief results for the Q2, FY11 results and then we can follow it up with a question and answer session. Sir, over to you.

Somnath Patil:

Thank you Rohan. Good morning ladies and gentlemen. I welcome you all to the Deepak Fertilisers and Petrochemicals Corporation Q2, FY11 earnings call. I have with me Mr. Vivek Kelkar. Let us start by summarizing the quarter under review and at the end of the summary I will throw the floor open to your questions.

The significant news at this point of time is the completion of the 300,000 tonnes per annum Technical Ammonium Nitrate complex at Taloja in Western Maharashtra. Trial production at this plant is in progress as we speak. Coming to the performance for the quarter ended September 30th, 2010 income from operations rose by 16% to Rs.410.77 crores as against 354.92 crores in Q2, FY10. Profit before tax grew by 11% to Rs.57.44 crores as against 51.97 crore in the corresponding quarter of the previous financial year. Profit after tax was up 15% to Rs.41.44 crores as against 36.12 crores in the corresponding quarter of the previous year. Now coming to segmental results, for Q2, FY11 the fertilizers business grew 29% in terms of revenue for the quarter and 51% for the half year ended 30th September 2010 as compared to the previous year's corresponding quarter and half year. The chemicals business registered a growth of 12% during the quarter over the comparable quarter last year and 21% for the current half year over the comparable half year of last year. For the six month ended 30th September 2010 at a company level, the income from operations grew 27% to 761.31 crores as against 597.31 crores in H1 of FY10. Profit before tax in the current half year grew 23% to Rs.130.94 crores against 106.41 in H1 of FY10 and profit after tax in H1, FY11 grew 24% to Rs.93.64 crores as against 75.03 crores in H1 of FY10.

Now coming to some analysis of the segmental results on the fertilizers segment, though the profit has been higher than the profit in the corresponding quarter of the last year, on a successive Quarter basis it has been lower. It has dipped from 11.31% in Q1 to 6.31% in the current quarter. There are 2 major factors for this dip. One, we had to take a hit of Rs. 3.35 crores on account of the differential in the annual subsidy that was announced for the year '09-'10 and so there is a debit of Rs. 3.35 crores. If you exclude that then the profit drop has been to the extent of 8% from 11.31%. The other significant component when you compare on a successive Quarter basis is the doubling of the traded component in the fertilizers from about Rs. 55 crores. Our trading volume and revenues have doubled to Rs. 116 crores in this quarter. Trading margins are significantly lower at just about 2% and that has impacted the percentage of profit from the fertilizer segment in the current quarter.

Coming to the chemical segment, again there has been a dip in the profitability from 30.4% last year same quarter to 26.16% this quarter and when compared to Q1 there has been a dip from 33% to about 26%. There are two main factors for this dip. One is the negative impact on the IPA profitability by about Rs. 7.5 crores mainly because of drop in the NSP of IPA by about Rs.4000 compared to Q1 and also an increase in RGP prices which is the raw material for IPA by about Rs.500 per tonne in this quarter compared to Q1. So basically these two factors contributed to about Rs. 7.5 crores on IPA. Further we have lost about Rs. 3 crores due to lower off take on the ammonium nitrate side. That is because of excessively high monsoon this time, which has impacted the off take from the infrastructure segment and that in turn has negatively impacted our ammonium nitrate profitability by about Rs. 3 crores in this quarter. So these are the two major factors for the lower performance of the chemical segment.

Coming to some of the other financial parameters, we have a current debt of about Rs. 752 crores and a cash equivalent of Rs.177 crores as on 30th September 2010. The interest cost has been lower this time. It has reduced to Rs. 9 crores from Rs. 10 crores in the corresponding quarter of the last year. Even on a half year basis it has been reduced by Rs. 2.6 crores. This is mainly on account of both the regular repayment and the repayment of high cost debt of about Rs. 94 crores that we did in the first quarter of this year. So that has reduced our average borrowing cost.

The nitro phosphate fertilizer volume was constrained during this quarter on account of a technical problem at the bagging plant, which was further aggravated by excessive humidity on account of unusually strong monsoon. While the volume has been more or less on par with what we achieved in the first quarter, we could not achieve what we had targeted to achieve for the second quarter because of these technical problems. Now this problem has been sorted out and we are quite confident that we should be able to do another 100,000 tonnes in the second half of this year. Chemicals profits were also constrained on account of an unforeseen shut down at the IPA plant for about 20 days. So had that not happened, our profitability would have been better. Volumes would have been better inspite of higher price of raw materials and slightly lower realization on the IPA selling price.

The new TAN complex productions will be gradually ramped up. We are in trial production at this stage and we expect to produce and sell about 60,000 tonnes in the balance part of this year from this new complex. By the end of March 2011 we should be able to reach capacity utilization of about 70%. Our marketing strategy for this additional volume is firmly in place and we have proper logistics and distribution systems which have been completely revamped to take care of larger volumes. We have set up 7 dedicated depots at the critical off take points across the country. I now throw the floor open for questions.

Question and Answer Session

Moderator:

Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Our first question comes from Ms. Falguni Thakkar from Jet Age Securities.

Falguni Thakkar:

Hello, good morning sir. I just wanted some data i.e the sales value for four of your products IPA, TAN, TAN solution, methanol and AMP this quarter and same time last quarter, I mean last year Q2 of FY10 and Q2 of FY11.

Somnath Patil:

You need for IPA sales value?

Falguni Thakkar:

That is right sir.

Somnath Patil:

Okay we will come to that. You can continue with any other questions.

Falguni Thakkar:

Right sir. So for the 4 products the sales value and the second question is like would it be possible to disclose the quantity and value of ammonia purchased in this quarter as against Q2 of FY10 and also your gas cost currently and then.

Somnath Patil:

We purchased around 7800 tonnes of ammonia in this quarter and last year we purchased 4600 tonnes.

Falguni Thakkar:

4600 tonnes and what would be the average cost?

Somnath Patil:

Average cost was about Rs.16,000 this time as against Rs. 14,000 last year.

Falguni Thakkar:

And what would be the quantity of gas purchased and the rate this time similarly as against same time Q2 of FY10?

Somnath Patil:

Yeah, we purchased about 60 million Sm³ this time and at an average cost of Rs.9.50p as against of more or less similar quantity at an average cost of Rs.7.

Falguni Thakkar:

Okay. So sir, would it be fair to assume that some impact on the margins would have come in on account of this higher gas cost?

Somnath Patil:

Yes, to some extent.

Falguni Thakkar:

And sir, secondly I wanted to know once this new TAN comes in, then we would be relying on purchased ammonia. So then would our margins, I mean overall margins, again come off because purchased ammonia cost would be more than captive produced ammonia.

Somnath Patil:

Yeah, the margins for the new plant will be a little less than those we were enjoying from own captive ammonia because it is based completely on imported ammonia.

Falguni Thakkar:

So sir, what are the margins that we are currently enjoying for captive ammonia in TAN.

Somnath Patil:

Yeah, we are currently enjoying the margin of anywhere between 30% and 35%.

Falguni Thakkar:

This would be excluding interest and depreciation?

Somnath Patil:

Yes.

Falguni Thakkar:

Okay and what would this be for the new project when we would be relying on imported ammonia?

Somnath Patil:

Yeah it should be between 25% and 30%.

Falguni Thakkar:

Right and that is at the current ammonia price?

Somnath Patil:

Yeah, that is at the current ammonia prices hovering between \$350 and \$375.

Falguni Thakkar:

Okay. That is all sir my side sir you can give the figures on the four products- the sales value.

Somnath Patil:

On the IPA the sales value for the current quarter was 91 crores as against 81 crores.....current quarter sales value on IPA

Falguni Thakkar:

Hello.....

Moderator:

There is no response from her line sir. Next question comes from Mr. Varun Guntupalli from Edelweiss Securities.

Varun Guntupalli:

Good morning sir. My first question is with regard to the sales value which you were just mentioning if you can give the breakup for the different products sir.

Somnath Patil:

Yeah. The IPA value is Rs. 91 crores in the current quarter as against Rs. 80 crores last year same quarter and methanol is Rs. 27 crores as against Rs.26.5 crores last year. Ammonium nitrate is Rs. 43 crores as against Rs. 50 crores and fertilizers Rs. 72.68 crores as against Rs. 40 crores last year.

Varun Guntupalli:

And nitric acid sir?

Somnath Patil:

Yeah one minute, about Rs. 42 crores this year as against Rs. 32 crores last year.

Varun Guntupalli:

Okay sir and in terms of this margin for chemicals, now this quarter it has come in at 26.2%. Now how do we see it going forward in the next couple of quarters sir for the chemical business?

Somnath Patil:

For the chemical business, it should be more or less in the same range and if the prices remain what we saw in this quarter, then the margins will remain at around the same level of about 26%.

Varun Guntupalli:

Okay sir. It means the pricing of IPA is expected to be lower in the next few months as well and also the raw material prices are expected to be higher for IPA.

Somnath Patil:

Yeah, in fact as we speak we are seeing slightly better prices on IPA but it is difficult to actually predict. So we typically, we would like to say that it will be between 25 and 30% is what we will expect on IPA and in the chemical business overall.

Varun Guntupalli:

Okay in the first quarter we were getting anywhere between 30 to 35% in IPA margin. Am I right?

Somnath Patil:

No we got a little less actually than that.

Varun Guntupalli:

First quarter sir?

Somnath Patil:

Yeah it was around 21%.

Varun Guntupalli:

Okay sir which has gone down close to 25% in this particular quarter right in Q2.

Somnath Patil:

Yes.

Varun Guntupalli:

And how about the outlook in TAN sir, the margins have been stable in TAN from first quarter to second quarter?

Somnath Patil:

Yeah margins have been broadly stable at about 30-35%. They have been stable.

Varun Guntupalli:

Okay sir and pricing has been stable as well in TAN.

Somnath Patil:

Yes, pricing has been stable as well.

Varun Guntupalli:

Okay sir and in this new TAN plant from when is the commercial production expected sir?

Somnath Patil:

Right now trial production is going on. So we expect that this could take about 15 days or a month before we come to a certain steady state of operations. Thereafter we can top up commercial production.

Varun Guntupalli:

Okay so it is like mid-November is the fair date.

Somnath Patil:

It is a fair date to expect.

Varun Guntupalli:

And with respect to TAN volumes this year you are saying that you would be looking at 60,000 tonnes right?

Somnath Patil:

From the new plant.

Varun Guntupalli:

Yes sir, and for 2012 what is the target for the new plant sir out of the capacity of 300,000.

Somnath Patil:

We are targeting about 210 thousand tonnes. You can say an average capacity utilization of 70%.

Varun Guntupalli:

Okay sir and with respect Ishanya you are saying then additional 100,000 sq ft you have got the commitment for the 100,000 sq ft right? So how is the occupancy rate currently and how is it expected to be. Is it expected to improve going forward?

Vivek:

Varun this is Vivek here. The current occupancy is around 200,000 which is around 40%. Its remained at this level for the last 6 months. This additional 100,000 that we have signed is an additional one.

Varun Guntupalli:

Okay sir. So it will be going closer to 60% occupancy>

Vivek:

Yeah, yeah but there will be some time lag before the stores actually open because the modification work that we have discussed before is still ongoing. So the actual opening of the stores might well happen towards the end of the year or towards the first quarter of FY12. These are firm commitments that we have in hand arising from additional commitments from the Kishore Biyani group and from Nilkamal Plastics of @HOME who are both existing tenants.

Varun Guntupalli:

Okay sir, and at what rental are these lease agreements being drawn sir.

Vivek:

These are currently higher than the average rentals that were prevailing in the past by about 20%-30%.

Varun:

Okay sir and the prevailing rental was how much sir.

Vivek:

It was around 30 odd rupees. Right now we are looking at something like Rs.45-48.

Varun Guntupalli:

Okay Rs.40 per sq ft was what it was right?

Vivek:

Sorry?

Varun Guntupalli:

It was Rs.40 per sq ft right earlier?

Varun Guntupalli:

Okay sir that is all the questions I had. Thank you very much.

Moderator:

Thank you sir. Next question comes from Mr. Bharath Seth from Quest.

Bharath Seth:

Good morning sir. My question is relating this new TAN plant where we have spent around Rs. 650 crores.

Somnath Patil:

Yeah we will spend about that amount.

Bharath Seth:

We have spent correct?

Somnath Patil:

No we have not spent Rs. 650 crore as of now. That is the estimate.

Bharath Seth:

Okay. So, I mean sir what is the payback period that we are looking for the kind of the margin you said was based on imported ammonia.

Somnath Patil:

Yeah, we had actually done that exercise right in the beginning. So the pay back period would be you know, between 4.75 to 5.5 years depending on the different scenarios.

Bharath Seth:

Okay maximum is 5.5 years that we are looking at.

Somnath Patil:

Yes.

Bharath Seth:

So that is the cash flow that we are expecting to be correct?

Somnath Patil:

That is right.

Bharath Seth:

Okay and sir, second thing how do you see this fertilizer second half vis-à-vis first half?

Somnath Patil:

In the second half as I said we are confident that we will be able to produce and sell about 100 thousand tonnes nitro phosphates as compared to close to 70,000 tonnes in the first half.

Bharath Seth:

That is own manufacture correct?

Somnath Patil:

That is own manufacture.

Bharath Seth:

Okay, okay and sir can you tell me how much interest we have capitalized on this TAN plant in first half?

Somnath Patil:

See we have come down about Rs. 300 crores. So close to Rs. 15 crores has been capitalized.

Bharath Seth:

In the first half?

Somnath Patil:

In the first half.

Bharath Seth:

Okay is it possible that can you share with us the consolidated numbers because we have 100% subsidiary where I mean sales which was around Rs. 100 crores in say 08-09 which came down in a year because of some problem in 09-10. Now how is that subsidiary? Can you share I mean or if you can say that consolidated number for Q2?

Somnath Patil:

See we will have to maybe mail it out. So we do not have it here straight away consolidated numbers.

Bharath Seth:

But is it possible that...can you share I mean, standalone numbers for this first half?

Somnath Patil:

I think we will have to give it to you separately. Right now we do not have it.

Bharath Seth:

And sir, Ishanya when do you think that will be able to breakeven.

Somnath Patil:

I think once the modification project is completed by the last quarter of this year we hope that we should be able to breakeven there and that is the very objective of carrying out this modification project.

Bharath Seth:

Okay. How much sir so far we have spent on the modification in the first half and how much we expect for the full year.

Somnath Patil:

We plan to spend about 55 crores of which we have so far spent just about 20 crores.

Bharath Seth:

Okay. Thank you. That is all from my side. Thank you very much sir.

Somnath Patil:

Thank you.

Moderator:

Thank you sir. Next question comes from Mr. Sagar Tanna from Kotak Securities.

Sagar Tanna:

Hi sir.

Somnath Patil:

Hi.

Sagar Tanna:

Sir, my first question is on TAN. Currently we are doing roughly 30 odd percent margins correct?

Somnath Patil:

Right.

Sagar Tanna:

With the new capacities coming up, what kind of margins do you think we should be able to sustain?

Somnath Patil:

As I said earlier around 25%, anywhere between 25% and 30%. Currently we are doing on an average 35%. The new plant it should not be less than 25%.

Sagar Tanna:

Okay don't you think economies of scale will play out there sir?

Somnath Patil:

Yeah, but the point is you know the new plant is completely dependent on imported ammonia. So we will not be able to enjoy the benefit our own produced low cost ammonia for the new plant. Therefore the economies of scale will be partially offset by slightly higher input cost.

Sagar Tanna:

Okay and sir, currently TAN is completely imported in the country and this is an import substitution. So upto what level of rupee do you think you will continue to enjoy 25-30% margin?

Somnath Patil:

See again as I said, since ammonia is imported there will be a natural hedge but that will be partial yeah, half of it.

Sagar Tanna:

But that will be partial sir. So say hypothetically, if rupee goes to say 40-41, then what do you think the margin can turn into?

Somnath Patil:

It can dip by about 5%-6%.

Sagar Tanna:

5%-6% they can come down.

Somnath Patil:

Yeah, from the current margins.

Sagar Tanna:

Right, the second thing was on the real estate project. Sir, when we sign the agreement what kind of period do we have a lock in?

Vivek:

That typically varies from tenant to tenant because anchors tend to have a longer lock in period while some of the smaller stores might have a smaller lock in period. There is no consistent this thing that can be taken for that. But typically in any mall scenario you would see that the lock in periods are between 3 to 7 years.

Sagar Tanna:

3 to 7 years.

Vivek:

Yeah, that is the range in any mall that you take in the country today.

Sagar Tanna:

So post the modification etc. in the next financial year do we see any renewals coming up for any of the older tenants?

Vivek:

I do not have that information now. I will have to get back to you on this.

Sagar Tanna:

Okay thanks a lot sir.

Moderator:

Thank you sir. Next question comes from Mr. Tarun Surana of Sunidhi Securities.

Tarun Surana:

Sir, can you share your plans in any capacity expansion that you are looking into fertilizer business or specialty fertilizer right now.

Somnath Patil:

Right now in fact, we do not have anything crystallized. We are evaluating various options and one of the options we are evaluating is to actually enhance capacity within our own plant. We can retrofit the plant and take the capacity from the current 220 thousand tonnes to about 300 thousand tonnes. So that is one project which is under evaluation.

Tarun Surana:

That is for ANP?

Somnath Patil:

That is for the ANP and similarly for IPA we can go from our current 70,000 to 80,000 tonnes, which is under review and examination.

Tarun Surana:

And what would be the cost of retrofitting ANP plant?

Somnath Patil:

In fact, we are still working on it and it will take us some time before we get all the details for that.

Tarun Surana:

Okay and have you finalized on anything in setting up your another TAN plant in Australia that you were talking about?

Somnath Patil:

No nothing as of now.

Tarun Surana:

Okay and you were also looking at ammonia abroad, anything going there?

Somnath Patil:

Nothing has been firmed up as yet. We are exploring various options. Nothing has been firmed up as of now.

Tarun:

Okay and sir, can you just explain the price difference between your low density ammonium nitrate that you produce and fertilizer grade ammonium nitrate that is imported. The difference is almost about Rs.4000 to Rs.5000 per tonne. So is it that the quantity that is required of fertilizer grade is much higher than the ammonium nitrate that you produce and hence the parity comes for a customer.

Somnath Patil:

One is because the yield is much better with our own low density ammonium nitrate compared to fertilizer grade ammonium nitrate. The other factors are obviously the ease of availability, then the handling cost, the clearing, forwarding, inventory carrying cost. So all these matter plus the superiority of our product.

Tarun Surana:

And they were also talking about selling TAN to countries like Indonesia...

Somnath Patil:

You see we have actually inquired from some of these countries, South East Asian countries, Australia, etc. there are very serious inquiries. In fact, they would be very keen to take our products. So we are just waiting for a new plant to be completely operational.

Tarun Surana:

But how would be the economy there? Will the realizations be better than the Indian market or what?

Somnath Patil:

No they will not be better than the Indian market. It will be a little less, but good enough we would say.

Tarun Surana:

Why in India also there is a lot of import substitution...that opportunity is there and if Indian realizations are better then why would you like to export to Indonesia.

Somnath Patil:

I agree with you. What we are also planning to do is, since this is a large volume that is coming up in one shot, just to be a little cautious, we are wanting to tie up upto 60,000 to 70,000 tons of TAN exports in the next year, calendar year FY11 so that we are able to cater to the Indian market carefully with this kind of volumes we just wanted to hedge our position.

Tarun Surana:

So by FY12 you will see how the market plays out and then you can decide about selling everything in India or going abroad...import substitution does not play out for the full capacity.

Somnath Patil:

We think it should play out, we don't see any reason but when you handle such large volumes suddenly then things take time to develop and therefore we have thought of this strategy.

Tarun Surana:

With imports and everything else stuck together we are expecting 70% utilization for FY12 for the new plant.

Somnath Patil:

Yeah imports and domestic taken together.

Moderator:

Next question comes from Mr. Viral Bhuta from Catamaran.

Viral Bhuta:

Good afternoon sir. My question is regarding your margins from the trading segments within fertilizers. Is it possible to give that data? What will be the difference in the trading and the manufacturing segments within fertilizers?

Somnath Patil:

In the manufacturing segments we typically enjoy a margin of 11% to 12% and in bulk commodity trading, our margins are just about 2% and in specialty fertilizers where we do some trading...we source it mainly from some domestic manufacturers... there the margin is around 10%.

Viral Bhuta:

Okay and going forward how much do you see means your trading segment will contribute to the overall revenues...the fertilizers trading.

Somnath Patil:

Totally for the whole year we should have a turnover of about Rs. 350 to Rs. 400 crores.

Viral Bhuta:

Okay, all the best and thank you sir.

Moderator:

Next question comes from Mr. Dikshit Mittal from Alchemy Shares.

Dikshit Mittal:

Sir just wanted to know what is your outlook on the various chemical prices particularly IPA and ammonium nitrate. How do you see the prices attending the next one year?

Somnath Patil:

As I said earlier also as of now IPA prices are firming up, so they are looking better, so that should be the trend. We feel they should go back to around close to Rs. 58,000 to Rs. 59,000.

Dikshit Mittal:

So these are the current prices?

Somnath Patil:

Yeah current prices. Actually as we speak we have got to Rs. 60,000. Okay but then we don't think they will continue to be that high. We want to be a little cautious in our estimation. So it should be more like Rs. 58,000 or Rs. 59,000.

Dikshit Mittal:

So then what is the other cost of raw material contracted?

Somnath Patil:

That is around Rs.40,000 to Rs.42,000. It keeps varying.

Dikshit Mittal:

Okay. Like you said in first quarter the IPA prices were down and propylene prices went up. So sir, is it due to the timing difference between the two or you could not pass on the hike in propylene prices to the final IPA prices?

Somnath Patil:

Basically, our selling price is dependent on the import parity price. So we cannot tell we can straight away pass on. It depends on how the import price behaves and we have to price our product accordingly.

Dikshit Mittal:

Okay. So then what is the cost of debt right now?

Somnath Patil:

Our cost of debt...average is around 9%, a little less than 9% overall.

Dikshit Mittal:

So all of this is rupee debt?

Somnath Patil:

Yes bulk of it is. We have one ECB of 25 million USD.

Dikshit Mittal:

Okay, coming to the tax rate....tax rate is actually around 28.5% for the first half, so do you see the current level will be maintained for the full year?

Somnath Patil:

Yeah, we should be at that level full year as well.

Dikshit Mittal:

Sir what is the reason behind the lower tax rate, is it due to the windmill business that we get exemption or...

Somnath Patil:

We have got the windmill, then we have got our own captive power plant in our own manufacturing unit. We also have some dividend that we received from our subsidiary company. So these are the three major exemptions that we enjoy.

Moderator:

Thank you sir. Next question comes from Ms. Falguni Thakkar from Jet Age Securities.

Falguni Thakkar:

Sir, just one follow-up question that's on ANP fertilizer. As we hear that the phos acid prices are moving up so would the margins not come under pressure in H2 if the government does not increase the subsidy which looks unlikely given the kind of burden it is having. If we are not able to increase our MRP which again government does not allow, so would our margins not come under pressure for ANP given the firming of phos acid prices?

Somnath Patil:

Phos acid prices keep going up and if the government does not revise the NBS and if they don't allow us also to increase the MRP definitely margins will come under pressure.

Falguni Thakkar:

Yeah, but sir what is your sense broadly, we wanted to know that.

Somnath Patil:

I don't think it will impact too much. They have gone up a little bit but not so much that one has to be alarmed. The other thing is, if really the prices go through the roof then we are quite confident that the Government of India will take a re-look at the NBS and also to that extent we will be able to increase our MRP.

Falguni Thakkar:

And sir did you disseminate those data because the line got disconnected for some time.

Somnath Patil:

Yeah we disseminated, so you can see it on the transcript.

Falguni Thakkar:

Fine. Thank you.

Moderator:

Thank you madam. The next question comes from Mr. Sameer Kulkarni from Vantage Securities.

Sameer Kulkarni:

Congratulations on a good set of numbers. I just wanted to confirm the debt return schedule sir.

Somnath Patil:

By the end of the year we will have a debt of about Rs. 770 crores. What exactly you would like to know?

Sameer Kulkarni:

In FY12 are you going to hit any major debt?

Somnath Patil:

No, now the major debt is going to be TAN debt which will be repaid over the next seven years. So we don't have any big item to be repaid in FY12.

Sameer Kulkarni:

Apart from this, is there any Capex planned for the next year?

Somnath Patil:

Nothing tangible firmed up as of now.

Sameer Kulkarni:

Okay sir, thank you very much.

Moderator:

Thank you sir. Next question comes from Mr. Dinesh Harchandani from JP Morgan.

Dinesh Harchandani:

Hello sir, good morning. I have a couple of questions. I just wanted to know the effect that you mentioned due to the prolonged monsoon. Are you seeing any change in that? More off take of TAN from the infra companies and technical problems which you are facing for ANP volumes at the bagging plant, are these kind of overcome or are you seeing the growth in the volumes of these numbers right not?

Somnath Patil:

The bagging problem at the ANP plant has been overcome, so we therefore said that we are expecting to produce and sell about 100,000 tonnes in the second half as against the 70,000 that we did in the first half. That is on the fertilizer side. On the TAN side, generally the demand and off take is low during monsoons, if you see last year and the year before last. But this year I think the monsoon effect has been far more severe. There has been excessive monsoon and this year probably that has impacted the offtake from the infra structure sector and also from the cement industry. I think with the continuing boom in the infra structure segment, we should be able to overcome this issue.

Dinesh Harchandani:

Sir how much more volumes would you be kind of selling on TAN apart from the new plant which you are guiding to 60,000 tonnes, the old plant for the TAN volumes how much would it be better compared to the first half?

Somnath Patil:

In the first half we have sold around 53,000 tonnes, so I think we should be able to sell somewhere around 60,000 to 65,000 tonnes.

Dinesh Harchandani:

That's from the old plant right?

Somnath Patil:

Yes, from the old plant.

Dinesh Harchandani:

Okay sir. Sir, one last question, this is a maintenance question – in your statements there is a big swing in the change in stock, from kind of negative Rs. 700 million odd to kind of positive from an income to expense. So could you kind of give some color on this, what does this include?

Somnath Patil:

Actually you have to add all the three figures basically to increase stock, then consumption of raw material, and traded goods purchases. Then compare that as a percentage to sales, so that if you see, these three have gone up to about 67% as against about 64% in the same period last year. So there is a slight increase without the cost of raw material having gone up.

Dinesh Harchandani:

Okay sir, thank you sir that's it from my side.

Moderator:

Thank you sir, next question comes from Ms. Kranti Kangukar from IFCI Financial Services.

Kranti Kangukar:

Sir, I wanted to know on the gas front you say that you source LNG also, is it spot or you source it from GAIL or Petronet?

Somnath Patil:

We have different three, four sources. LNG we source a small quantity, but the other gas we source from Reliance and Panna Mukta.

Kranti Kangukar:

Sir can you give us the break up between the natural gas, you mean to say 90% you source it from natural gas and 10% is LNG?

Somnath Patil:

Yeah, that's right.

Kranti Kangukar:

Okay sir, one more question on the TAN thing. I just want to know since you are all producing quite low TAN why has the capacity been increased?

Somnath Patil:

Can you repeat the question?

Kranti Kangutkar:

Sir, TAN in the first half you have produced somewhere around 53,000 from the old plant which has the capacity I believe of 2 lakhs?

Somnath Patil:

No, the capacity is just of 130,000 tonnes.

Kranti Kangutkar:

Okay, then going forward for FY12, what will be the production from the old plant?

Somnath Patil:

Old plant as I said will be around 65,000 tonnes.

Kranti Kangutkar:

No, that is for the second half. For FY12 I wanted to know.

Somnath Patil:

Yeah, for FY12 our target will be close to 90% of the 130,000 tonnes.

Kranti Kangutkar:

Okay thank you.

Moderator:

Thank you madam. Next question comes from Mr. Amol Kotak from ASK Investment.

Amol Kotak:

Good afternoon sir. I just wanted this new complex which you have constructed...you say next year you are going to use about 70%. When do you see it going to 100% or closer to 100%?

Somnath Patil:

FY13 it will be at full capacity. When we say full capacity, we typically talk of 90% to 95%. So FY13 we will be certainly at that level.

Amol Kotak:

About 4 lakh tones by FY13 is what you would target. Okay, my second question comes on sulphur bentonite. Could you help me with the first half volume?

Somnath Patil:

It is about 8,064 tonnes.

Amol Kotak:

And what is your target for the current year?

Somnath Patil:

Our target for the current year actually was 15,000 tonnes which we will be able to meet.

Amol Kotak:

What sort of volume growth do you see in this product year after year?

Somnath Patil:

We have a capacity of 25,000 tonnes. We sold about 1,000 tonnes in FY09 and then we went to 9,000 tonnes in FY19. So this year we will cross 15,000. It has been growing at a good pace. There is good demand for this product. But again a lot of marketing is involved in this. So I think we should be able to scale up to our capacity in the next one or one and a half years.

Amol Kotak:

Okay. What is the amount you are spending on capital expenditure in the current year as well as next year?

Somnath Patil:

Current year we will be spending about Rs. 125 crores, of which bulk of it will be for the new TAN plant. Some part of it will be maintenance Capex of about Rs. 15 crores, Rs. 110 crores will be further spent on the new ammonium nitrate plant.

Amol Kotak:

That's for the current year, for next year FY12?

Somnath Patil:

For FY12 we will spending about Rs. 70 crores...we are looking at some smaller projects within the complex so...like concentrated nitric acid plant. We will be spending on gas turbine and then we will have normal Capex, so we are not talking of any major project spend this year as of now.

Amol Kotak:

TAN project cost spending will be completed in the current year fully because you are commissioning so there will be no amount pending next year?

Somnath Patil:

Yeah it will be completed in the current year.

Amol Kotak:

You will have significant cash flows vis-à-vis your Capex spend, and you are suggesting that you are crystallizing some plans so when do we see all this getting into the picture?

Somnath Patil:

It should happen over the next three months' time. We should be able to talk about new plans.

Amol Kotak:

Okay. Is there a possibility of pre-paying your debt or something like that? Are we looking at that?

Somnath Patil:

No we are not looking at that. In fact we have pre-paid some Rs. 94 crores this year mainly because it was a high cost debt but otherwise at this point of time we are not looking at pre-paying any further debt, rather we are looking for new projects and all.

Amol Kotak:

So out of this Rs. 750 crores, how much of the debt is related to the new TAN complex?

Somnath Patil:

That is about Rs. 308 crores to the new TAN complex out of the debt of about Rs. 750 crores.

Amol Kotak:

The balance is the erstwhile debt which you have with the company.

Somnath Patil:

That's right.

Amol Kotak:

Thank you so much.

Moderator:

Thank you sir. Next question comes from Mr. Rupen Masalia from RN Associates.

Rupen Masalia:

Good afternoon sir. Basically, your current business mix is two thirds from the chemical segment and approximately one third from fertilizer and agriculture. Could you give some idea regarding future business mix, especially in FY12 and beyond?

Somnath Patil:

We have been commissioning of the new plant of 300,000 tonnes of ammonium nitrate that will add to about at least Rs. 500 crores of the chemical segment. If you add that Rs. 500 crores then you can see the percentage.

Rupen Masalia:

Okay. So basically, this proportion two third and one third would ideally go up in favor of chemical segment.

Somnath Patil:

That's right.

Rupen Masalia:

Okay. That's it from my side, thank you.

Moderator:

Thank you sir. Next question comes from Mr. Manish Mahawar from Prabhudas Lilladher.

Manish Mahawar:

Good morning sir. I just missed out some data points. In the opening remarks you said in your subsidy part you have received some Rs. 3.5 crores roughly...of earlier subsidy or reversal sir basically?

Somnath Patil:

It is a reversal. It is a hit that we have taken.

Manish Mahawar:

Okay actual profit is around Rs. 14 crores for the quarter, right sir?

Somnath Patil:

That's right. You have to add Rs. 3.35 crores to that.

Manish Mahawar:

And second thing this IPA front you said that due to this pricing effect on the quarter on quarter basis, profitability has reduced by almost Rs. 7.5 crores right?

Somnath Patil:

Yes that is right.

Manish Mahawar:

If possible, could you give me sales value of all the products for the first half sir? You have already given for the second quarter can you give it for the first half?

Somnath Patil:

For the fertilizers you have. You want for the chemicals separately?

Manish Mahawar:

Yeah basically chemicals.

Somnath Patil:

Methanol was Rs. 44 crores and all acids put together Rs. 82 crores and we have an IPA turnover of Rs. 78 crores, ammonium nitrate turnover of Rs. 102 crores.

Manish Mahawar:

Regarding this specialty fertilizer trading, how much was the sales in the quarter?

Somnath Patil:

Specialty was Rs. 28 crores.

Manish Mahawar:

In P&L account, you are showing trading goods purchases only Rs. 39 crores. Your trading sales roughly comes to Rs. 107 crores, so if I am not mistaken I think so you have released some opening stock during your quarter I think so. Is that right sir?

Somnath Patil:

Yeah that's right.

Manish Mahawar:

Okay thank you sir.

Moderator:

Thank you sir. Dear participants please press star and 1 for your question. Next question comes from Ms. Kranti Kangukar from IFCI Financial.

Kranti Kangukar:

Sir on the natural gas you said that you are getting it from Reliance and Panna Muktha. Can you give a break up of these two how much you are getting from Reliance and Panna Muktha?

Somnath Patil:

Actually we don't share this kind of information in so much detail, so off hand I won't be able to tell you.

Kranti Kangukar:

Okay sir, thank you.

Moderator:

Thank you madam. Next question comes from Ms. Falguni Thakkar from Jet Age Securities.

Falguni Thakkar:

Hello....sorry sir, since we have sometime, I just thought if you can just give me that ANP as I missed in the initial discourse, ANP value for this quarter and corresponding quarter last year.

Somnath Patil:

ANP value is it?

Falguni Thakkar:

That's right sir.

Somnath Patil:

About Rs. 65 crores this quarter and Rs. 35 crores in the last year's sales quarter.

Moderator:

Thank you madam. Dear participants, please press * and 1 for your questions. There are no further questions. Now, I hand over the floor to Mr. Rohan Gupta for his closing comments.

Rohan Gupta:

Thank you Allwyn. Sir we had a very fantastic call. Would you like to make some closing remarks before we could finish the call?

Somnath Patil:

Well, quite frankly we are now eagerly waiting to see how quickly we ramp up the new ammonium nitrate plant. So that is one major thing that we will be working on. In the second half on the fertilizer front, we should be able to do much better than what we have done in the first half because we have overcome the bagging problem at the plant. The monsoon has been good and in all segments we should do much better than what we have done in the first half. That's about it.

Rohan Gupta:

Thank you and we wish you all the best for commissioning of your new plant. On behalf of Emkay Global Financial Services I thank all the participants who have logged into the call, special thanks to the management. Thanks sir.

Somnath Patil:

Thank you.

Moderator:

Ladies and gentlemen, this concludes the conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note: 1.This document has been edited to improve readability.