

## Deepak Fertilisers And Petrochemicals Corporation

### Q2FY12 Post Result Conference Call Transcript

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**Moderator -Lavina**

Ladies and gentlemen, good afternoon and welcome to the Deepak Fertilisers and Petrochemicals Corporation's Q2FY12 Results Earnings Conference Call hosted by Prabhudas Lilladher Pvt Ltd. As a reminder for the duration of the conference all participants' lines are 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 this conference call please signal an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. Joining us on the call today are members of the senior management at Deepak Fertilisers. At this time, I would like to hand the conference over to Mr. Manish Mahawar from Prabhudas Lilladher. Thank you and over to you sir.

**Mr. Manish Mahawar – Prabhudas Lilladher**

Thanks Lavina. Good afternoon everyone. On behalf of Prabhudas Lilladher, I welcome all the participants on the call. From the management, we have Mr. Somnath Patil - President and Chief Financial Officer and Mr. Vivek Y. Kelkar - Senior Vice President, Strategic Communication and Investor Relations. Without taking any further time, I would like to hand over the call to Mr. Patil. Over to you Sir.

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

Thank you Manish. Good afternoon ladies and gentlemen. Welcome to Deepak Fertilisers and Petrochemicals Corporation Q2FY12 earning's call. I have with me my colleagues Vivek Y. Kelkar and Debashish Banerjee. As you might have seen, the company has recorded a sharp increase in income and profitability for Q2FY12, driven largely by an increase in sales volumes of own manufactured fertilisers and chemicals. For quarter ended 30<sup>th</sup> September, 2011 income from operations is Rs. 577.19 crores which represents an increase of 41% over the corresponding period of last year. For Q2FY12, the company's profit before tax rose 31% to Rs.75.18 crores and profit after tax rose 30% to Rs.53.90 crores.

In this quarter too, the Chemicals segment has been the biggest driver for growth, having achieved a growth of 50% in Q2 of this year over the previous year's corresponding quarter. We have had additional volumes coming from our new 3 Lakh tons per annum Technical Ammonium Nitrate plant,

as well as higher volumes and improved realizations across other chemical products. The Segment profitability for the chemicals business was Rs77.76 crores in Q2 of this year. On the margins front, our margins for Technical Ammonium Nitrate have been under pressure during the current year due to the steep increase in ammonia prices. We have not been able to fully pass on this increase and actually we would like to wait and watch the situation for some more time before we take any more steps to increase prices. Further demand for the product in Q2 was a bit sluggish mainly due to the extended monsoon and to some extent on account of Telangana stir which impacted mining activities particularly coal mining to which bulk of our production is supplied.

Coming to fertilisers, the fertiliser business grew 22% to Rs.230.70 crores in Q2FY12 mainly due to higher capacity utilization and an improved availability of phosphoric acid. Own manufactured fertilisers grew 54% to Rs.112.46 crores in Q2FY12, against Rs72.76 crores in Q2FY11. This higher capacity utilization coupled with stronger operations and cost management as well as the improved margins on speciality fertilisers led to better segment profitability in this business. Segment profit grew to Rs. 34.63 crores in Q2FY12 from Rs.11.93 crores in Q2FY11. The sales of outsourced specialty fertilisers, which include water solubles, bio-fertilisers, micro nutrients, etc, grew 45% during the quarter under review over the same quarter in the previous year. And this contributed significantly to an improvement in margins.

You may have noted from yesterday's press release that we have taken a shutdown at our new TAN plant for modification and repairs. These modifications and repairs are some actions which we have taken to improve efficiencies and overall functioning of the plant. Needless to say, this shutdown will impact production in this quarter. On the realty front, the modification exercise that we undertook at the company's mall Ishanya is expected to be completed towards the end of this year or early FY13 and the new High Street Ishanya concept will then be fully ready for trading. This is expected to result in a good increase in footfalls and revenue going forward. At Ishanya, the current occupancy is about 160,000 square feet. The new sign ons are progressing even as we are continuing with the modification work. By the end of FY13, we are confident that occupancy should reach around 70%. The average rental is currently at about Rs.27 per Square feet. I now leave the floor open to your questions. Thank you.

**Moderator – Lavina**

Thank you, sir. We'll now begin the question-and-answer session. Anyone who wishes to ask a question may press "\*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "\*" and "2". Participants are requested to use handsets while asking a question. Anyone who has a question, may press "\*" and "1" at this time. Our first question is from the line of Dheeraj Devata from ICICI Prudential Asset Management. Please go ahead.

**Mr. Dheeraj Devata - ICICI Prudential Asset Management**

Sir, I just wanted some more details on this new plant's shutdown.

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

You see there was a mechanical equipment issue in our Solutions plant which is one of the plants at the integrated Technical Ammonium Nitrate complex. And so we had to take a small shutdown initially to carry out repairs. In any case we had lined up some more activity to be taken up later which was to be towards the latter part of the year. But as we started working on it, our technical team felt that why not combine that activity with this one. The repair would have taken anyway between 5 to 7 days. So there was a thought that let us combine the other exercise so that we save on time later on. And today in any case particularly in the month of October the demand is a bit sluggish. We thought we won't suffer too much by taking the shutdown now.

**Mr. Dheeraj Devata - ICICI Prudential Asset Management**

Sure, so sir would you be changing your overall volume guidance from this plant for the entire year?

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

Actually we have given the volume guidance of about 250-260,000 tons at the beginning of the year. Now, I think in the Q2 also we have lost something like 15,000 to 20,000 ton. If you compare Q1 performance with Q2 you will see that the volume has been a little lower in Q2. So, we have lost about 15,000-20,000 tons and this month's shutdown will also impact by about 10,000 to 12,000 tons. So, I think our overall annual targeted volume will be lower by anywhere between 25,000 and 30,000 tons.

**Mr. Dheeraj Devata - ICICI Prudential Asset Management**

Q3 and Q4 should be strong again?

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

No, I mean in Q3 we will have this problem because of the shutdown that is taken right now. Q4 should be smooth.

**Mr. Dheeraj Devata - ICICI Prudential Asset Management**

So your full year target would be roughly around?

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

It should be about 220,000 Tons.

**Mr. Dheeraj Devata - ICICI Prudential Asset Management**

On the demand and realization, you said you could not pass on the price increase. Any specific reason for that?

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

On the Technical Ammonium Nitrate, we did not deliberately pass on the full increase to the market. We have these new volumes coming in from the new plant. Overall market sentiment was little weak because of the floods and the Telangana stir. So recognizing all that, we thought we should wait a little and then react to this appropriately in a month or so from now.

**Mr. Dheeraj Devata - ICICI Prudential Asset Management**

So the Telangana issue is persisting for a while now. So are we taking any measures to offset it or would it have an impact if it continues for this fiscal at least?

**Mr. Vivek Kelkar - Sr. Vice President- Strategic Communication & Investor Relations, DFPCL**

I believe some of the collieries have already started work. I have been reading some of the news reports and they say some of the coal strikes have ended. So the crisis in all these collieries has already ended. Work has already started.

**Mr. Dheeraj Devata - ICICI Prudential Asset Management**

It should smoothen out going forward. Okay, thank you sir. I will be in the line if I have any more questions.

**Moderator – Lavina**

Our next question is from the line of Rishika Jain from Vantage Securities. Please go ahead.

**Ms. Rishika Jain – Vantage Securities**

Sir, can you please give us the sales volume of each product under the chemical business and under the fertiliser business?

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

Methanol was 18,000 tons. Then, we have Concentrated Nitric Acid at 17,600 tons. Strong Nitric Acid 5300 tons. Dilute Nitric Acid 9200 tons. IPA 21800 tons. Propane around 2000 tons. Then Ammonium Nitrate we had 41700 tons. And Nitro Phosphate 42000 tons. And Bensulf 3100 tons.

**Ms. Rishika Jain – Vantage Securities**

And sir the prices?

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

Methanol was around Rs.18000. Then the acids were at an average of about Rs. 15,500. We had IPA around Rs. 67,000. And we had Technical Ammonium Nitrate, where we have four products at an average of a little over there 19,500 actually. And Nitro Phosphate Rs. 24870 including the subsidy. And Bensulf Rs.26000.

**Ms. Rishika Jain – Vantage Securities**

Thank you sir.

**Moderator – Lavina**

Our next question is from the line of Varun Guntupali from Edelweiss Securities. Please go ahead.

**Mr. Varun Guntupali - Edelweiss Securities**

My first question is with regard to our whole year volume estimate sir. Earlier, we were targeting from the new plant 1,60,000 tons. and from the existing around 1,30,000 tons so whole year target earlier was around 2,90,000 tons, correct sir?

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

See from the existing plant we were targeting 1,10,000 Tons. And from the new plant around 140000 to 150,000 tons. As you know 250-260000 tons we are likely to fall short by about 25-30,000 tons.

**Mr. Varun Guntupali - Edelweiss Securities**

So, it's like around 225000 tons to 230000 tons we should be able to do for the whole year?

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

Yeah, that is what we should be targeting for the whole year.

**Mr. Varun Guntupali - Edelweiss Securities**

And the pricing you were just mentioning about Rs. 19500. We are not having last year around Rs20000, the pricing for Technical Ammonium Nitrate?

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

This price of Rs. 19,500 is the weighted average of all the TAN products. So we have even now Rs. 23,000 for our superior quality product. And what I'm telling you is the weighted average which is around Rs. 19,500 to Rs.20,000.

**Mr. Varun Guntupali - Edelweiss Securities**

Meaning year-over-year it's like on an weighted average basis, have we maintained the price or have we given some discount on Technical Ammonium Nitrate in this quarter?

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

See year-on-year, the price increase has been of the order of Rs.2500.

**Mr. Varun Guntupali - Edelweiss Securities**

And apart from that if you can give the breakup in this quarter for revenue from the various products sir?

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

Methanol Rs. 33 crores. Acids Rs. 49 crores. Plus we have IPA Rs. 146 crores. Technical Ammonium Nitrate Rs. 87 crore and NP Nitro Phosphate Rs. 104 crores.

**Mr. Varun Guntupali - Edelweiss Securities**

Okay sir. And with regard to our Methanol volume sir, the volumes in this quarter have been down year-on-year basis. Any particular reason for the same?

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

When the prices are not remunerative enough given our gas costs we don't produce Methanol. You see Methanol is produced from the spot gas that we buy. So, we produce only when it makes absolute economic sense for us to run the plant. **Mr. Varun Guntupali - Edelweiss Securities**

Okay sir. I mean at current gas prices what's the breakeven on Methanol?

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

Current gas cost, the breakeven will be around Rs. 15000.

**Mr. Varun Guntupali - Edelweiss Securities**

Okay and it's like if you can give a trend in terms of the pricing of our raw material or price of the gas basket on year-on-year basis and the price of ammonia from first quarter to second quarter, how it has been in this year sir?

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

Year-on-year for RGP which is the Refinery Grade Propylene, the prices have gone up from Rs41,000 to Rs. 51,000. For phos acid from Rs. 37,000 to Rs. 47,000. Ammonia has gone up from Rs. 15,600 to Rs. 26,000. Gas from Rs. 10 to Rs. 11 overall.

**Mr. Varun Guntupali - Edelweiss Securities**

Thank you very much sir.

**Moderator – Lavina**

Our next question is from the line of Tarun Surana from Sunidhi Securities. Please go ahead.

**Mr. Tarun Surana - Sunidhi Securities**

Sir, what is the status on new plant TAN plant that we are planning in Australia?

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

Well, we are still evaluating the feasibility of that plant. We are studying the demand supply position, logistics issues, the sourcing of ammonia, etc. We are also simultaneously evaluating the capital cost of setting up similar size plant in Australia because there are quite a few variables which we need to factor in to determine the capital cost of the plant. This exercise is expected to take another 3 to 4 months time, after which we would be in a very clear position to say whether we would be pursuing that project or what else we would be doing.

**Mr. Tarun Surana - Sunidhi Securities**

Okay and will the benefit of Rupee depreciation come to you because you would be competing against imported ammonium nitrate?

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

We are a marginal net importer actually. Most of our raw materials are also priced on import parity basis. RGP, ammonia, phos acid are on import parity pricing. On the output side we have this, as you rightly said Technical Ammonium Nitrate, and then we have IPA and some other products like methanol which are priced on Forex parity. So net-net, we are marginally negatively impacted I would say. In fact, we are carrying mark-to-market loss of Rs. 8 crores in our results this year, this quarter.

**Mr. Tarun Surana - Sunidhi Securities**

And this is on account of?

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

The import of phos acid and the bulk fertilisers that we imported.

**Mr. Tarun Surana - Sunidhi Securities**

And the other question is that, there are plans like Coal India to set up Technical Ammonium Nitrate Plant at Talcher in Orissa while they take out this urea revamp plant. So do you see any threat and though it will take four to five years minimum to come up but do you see demand moving up by then to the extent that it would be enough for you also to sell the TAN if Coal India also can meet some of its requirements captively?

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

We have heard about it even earlier. We are aware of this. I think the demand will be there. Demand growth is there at the rate of 8 to 9% per annum. And today the country is consuming about 650,000 tons. And when we go at full steam we will be manufacturing something like 430,000 tons. There will be definitely a gap. So if you add the growth of 8 to 9 % over the next four years, at the gap will be more than 300,000 ton per annum in the country. So the demand is there and now it all depends on the economics of their plant.

**Mr. Tarun Surana - Sunidhi Securities**

And what would be the impact in mining due to Bellary and Goa and legal actions that have been taken? Has that affected TAN demand because mining has got banned in some places.

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



Of the s TAN that we sell about 6% to 7% of that goes to the iron ore mining industry. The bulk goes to the coal mining industry and infrastructure. So the effect of these mining shutdowns is there but it is minimal because our total production going there is just about 6 to 7%.

**Mr. Tarun Surana - Sunidhi Securities**

Okay. And the last question, there was CAG report wherein they have asked GAIL that GAIL should collect the data from companies which are producing chemicals and fertilisers both from APM gas and it has asked GAIL to basically prepare the amount of loss that it has caused because APM gas was diverted to make chemicals which was technically not allowed. APM gas should be used only for power and fertilisers. Deepak's name is there in that list along with RCF and GSFC kind of company. So do you see any problem happening and start amount being recovered from retrospective effect from 2009 and 2011 that you already mentioned?

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

This issue actually pertains to period prior to January 2009. And it of course concerns all three of us -- RCF and GNFC and ourselves. We all have integrated manufacturing complexes. These issues have been referred to the relevant authorities for guidance. We at this point of time, would not like to comment on this. This issue is not as simple as you say. It's quite a complex matter being matter concerning integrated manufacturing complexes. So all concerned parties are discussing the issues and I think it would be better that we wait for some time till some more clarity emerges on the whole thing. And therefore would not like to comment much on this.

**Mr. Tarun Surana - Sunidhi Securities**

But legally can the GAIL actually send a notice get the charges from retrospective effect for last three four years or so?

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

Well, again it depends on how things are being looked at when something has been supplied to an integrated complex knowing well that is an integrated complex. And there will always be complications that arise in an integrated complex like the gas used for utilities, the power plants, and for the ammonia.

**Mr. Tarun Surana - Sunidhi Securities**

Can I just on the propane side ask what was the sales and realizations

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

We sold a Propane quantity of 4200 tons in this quarter.

**Mr. Tarun Surana - Sunidhi Securities**

And the sales amount and realizations?

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

Realization was about Rs. 44,500.. The sales amount was about Rs. 19 crores.

**Mr. Tarun Surana - Sunidhi Securities**

Thank you sir. That's it from my side.

**Moderator – Lavina.**

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

**Falguni Dutta - Jet Age Securities.**

Sir just a few questions what is the ANP realization now I mean have you revised it upwards currently?

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

The average realization for the quarter has been Rs. 25,000 rupees as I said. And we has revised it a bit in line with increasing raw material prices. So that's about it.

**Falguni Dutta - Jet Age Securities.**

So what it would be post revision?

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

is the MRP is around Rs. 10,000 .

**Falguni Dutta - Jet Age Securities.**

And for ANP targeted volume for FY'12?

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

We are targeting a volume of about 150,000 to 160,000 tons.

**Falguni Dutta - Jet Age Securities.**

Sir in the second quarter what was our production from the new TAN unit and what was the sales from that?

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

In the second quarter the production from the new TAN plant was 21,300 tons.

**Falguni Dutta - Jet Age Securities.**

And sales?

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

Almost all of it was sold.

**Falguni Dutta - Jet Age Securities.**

So in short from Q4 this is likely to go up but Q3 it would be again similar number.

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

We will be under pressure for volumes.

**Falguni Dutta - Jet Age Securities.**

And sir finally this whatever output is there from the new TAN unit as and when it comes which are the countries were you plan to export it apart from meeting the domestic?

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

I think the countries where we could actually export our TAN is will be Australia, Indonesia and we are also exploring some countries in Africa.

**Falguni Dutta - Jet Age Securities.**

And how much you roughly plan to export?

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

This year it won't be much but on a full year basis we....

**Falguni Dutta - Jet Age Securities.**

Full scenario as a percentage of this three lakh what proportion would do

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

It will be around 15% to 20%.

**Falguni Dutta - Jet Age Securities.**

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

**Moderator**

Our next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

**Rohan Gupta - Emkay Global**

Sir couple of questions one is on other expenditure for the quarter. You have gone up significantly. Now its Rs. 68 crore for quarter as against previous quarter, I mean Q1 were Rs. 55 and last year, it was just only Rs. 39 crore. Any specific reason any inclusion in of extraordinary kind of expenditure in this.

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

You see basically it includes cost on account of the new technical ammonium nitrate plant that we have commissioned so there is power, water packing material, etc. And then repairs and maintenance other overheads chemicals and catalysts. So basically one reason is that there is an increase in line with the increase in overall volumes plus increase on account of the commissioning of the new plant. And then we also have a Forex fluctuation hit of about Rs. 8 crores as I said which is sitting in this line item.

**Rohan Gupta - Emkay Global**

But cost of commissioning a new plant and catalyst chemicals and those will be a normal part.

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

Not cost of commissioning but after commissioning this as well as the new costs that have come in line with the new volumes.

**Rohan Gupta - Emkay Global**

No apart from this Rs. 8 crore there is no any, one off item which we accounts for this.....

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

No.

**Rohan Gupta - Emkay Global**

And this Rs. 8 crore that you said was Mark to Market loss on import of DAP and other I mean what's this inventory loss or what it is?

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

No,It is on account of most of the import that's happened on phos acid and the bulk fertilisers. We take six months buyers credit. And therefore this remains as a loan outstanding as at the end of the period. On that we have to do a mark-to-market. And therefore this has resulted in this forex loss.

**Rohan Gupta - Emkay Global**

As of it is because of currency depreciation.

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

Foreign currency depreciation

**Rohan Gupta - Emkay Global**

So we don't follow any hedging policies.

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

We do follow hedging policies. So what we make sure is that actually on a fully hedged basis we make sure that we don't lose money. There is a good arbitrage available for us. We take buyers credit for six months, we hedge it and then the surpluses we have are deployed in liquid and medium term funds. As a result of which we earn an arbitrage of about 1.5 to 2%.

**Rohan Gupta - Emkay Global**

Second, in the fertiliser business we did a very good amount of trading this quarter also. Almost 50% of the revenues are now showing fertilisers. But despite the fact that our margins in fertiliser business have been pretty decent of almost 15% considering the revenue mix of 50-50 of owned manufacture and trading, the 15% margins look there the higher side. So I mean how do you justify that?

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

We, this year, in fact, had large amount of speciality fertilisers i.e. outsourced speciality fertiliser that we sold.. Last year we had MOP in the first six months which contributed to about Rs. 68 crores of the turnover.

**Rohan Gupta - Emkay Global**

In first half?

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

In first half last year on that Rs. 68 crores we hardly earned anything which is more than replaced by the large volume of specialty fertilisers like water soluble, micro nutrients etc. for which the margin was anywhere between 13 and 15%.

**Rohan Gupta - Emkay Global**

13 to 15%?

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

Yes, it was a positive shift for us.

**Rohan Gupta - Emkay Global**

So out of the quarter when you have traded fertilisers, the Rs. 118 crore all is coming from specialty fertilisers not coming from MOP....

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

No, there is something coming from the complex and some other bulk also.

**Rohan Gupta - Emkay Global**

What will be sir that turnover?

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

Around Rs. 56 crores.

**Rohan Gupta - Emkay Global**

So on those Rs. 56 crore we'll not be making more than probably 2% margins 3% max to max?

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

On, Rs. 56 crore for this year luckily we have earned a margin of 4 to 5%.

**Rohan Gupta - Emkay Global**

Okay so this Rs. 56 crore for the quarter also gave us a margin of 4%.

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

This year this margin has been good. And on the rest of the things our margins have been not less than 15%. And the other thing which we should keep in mind is this year on our nitro phosphate plant there is zero depreciation. So that has reduced our cost apart from the fact that better utilization of the plant has also reduced our overall manufacturing costs.

**Rohan Gupta - Emkay Global**

And going forward this specialty fertilisers is a very seasonal thing or I mean like something happen on in Q2 or we can spread it over across the quarters and the kind of trading.

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

We could continue till the end of the year. At least till February I would say.

**Rohan Gupta - Emkay Global**

So as of now, there is chances of this specialty fertiliser trading remaining robust right?

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

Yes absolutely.

**Rohan Gupta - Emkay Global**

And will contribute to make 15% kind of margins in that business?

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

In that business, yes surely.

**Rohan Gupta - Emkay Global**

But isn't it that 15% margins in a trading business are on very higher side and I mean is there any further scope to increase this trading opportunity because I mean 15% because in trading I think that there is no cost involved there except working capital.

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

Actually this is not simple trading as one typically understands trading to be. These are actually long term contracts with specific producers of specific type of micro nutrients and water soluble etcetera. And it also includes a lot of services which we render while supplying these products. So that is where we are able to derive some premium.

**Rohan Gupta - Emkay Global**

That's it from my side .Thank you.

**Moderator**

Our next question is from the line of Gauri Anand from MF Global. Please go ahead.

**Gauri Anand – MF Global**

Sir couple of questions sir I believe you said that margins were down because of Telangana issue as well as rising ammonia cost. And you may prepone your new TAN plant shutdown. Was not about 100,000 ton marked for exports earlier and why couldn't we evaluate this opportunity that's my first question. Second, I want to know the procurement cost of phos acid and ammonia for Q3 and that's the price hike that you have taken compensate for the cost portion and also the rupee movement. And would we be able to sustain our margins in fertiliser manufactured fertilisers. Third, gas route links and fourth, what are the methanol realizations at this point of time.

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

Coming to the first question of shutdown we had already taken the shutdown, because there was an equipment failure which we wanted to repair. And while doing so we felt anyway this is going to take 5 to 7 days time, why not take a longer period shutdown and complete the other modification job which was there on the radar. And which was to be taken in the last quarter of this year. So we advanced that and combined that shutdown with this shutdown and therefore we have an extended shutdown of 3 weeks. So that is to answer your question on shutdown. The second one is regarding Telangana as I said that has only partially impacted us the real impact has been the extended monsoons which has caused the mining activity across the country to be significantly lower in the second quarter. And that has definitely impacted our off take. Apart from that, the fact is that we are also in the ramping up phase. The third question that you had was on I think on the ammonia cost?



**Gauri Anand – MF Global**

But before that sir did we evaluate export for technical ammonium nitrate?

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

We in fact have some consignments that we are exporting. And we are going to actually increase our export significantly going forward compared to what we are doing now. But today there is enough opportunity in the domestic market itself which we are using. But export will remain a thrust area for us going forward.

**Gauri Anand – MF Global**

And what is the breakeven for TAN?

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

It is about 40% capacity utilization.

**Gauri Anand – MF Global**

In terms of price, breakeven cost for TAN.

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

In terms of price I think we would not like to share that quite frankly.

**Gauri Anand – MF Global**

And sir we wanted to know phos acid ammonia Q3 procurement cost as well as methanol realization for the current for this as of now.

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

Phos acid, it is a \$1080 now and our average cost was Rs. 46,800 for Q2 as against Rs. 37,000 last year same quarter. Ammonia which was Rs. 15,600 for the last year same quarter was at an average of Rs. 36,000 this year Q2. The Methanol price was Rs. 18,000 rupees for this quarter.

**Gauri Anand – MF Global**

And so the gas sources mix how much is APM, Reliance and Spot.

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

See I can share with you the average cost for us but the breakup normally we don't give.

**Gauri Anand – MF Global**

No, the source would do sir. Gas source would do..

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

APM, RIL, spot gas these are the sources.

**Gauri Anand – MF Global**

And spot gas would be what percentage of the total.

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

It is a very small percentage.

**Gauri Anand – MF Global**

And sir just taking this question back I believe you had accounted for the dual feed pricing when this issue has been there. And in the previous years you have accounted for something earlier. So I thought that the matter is over now but again it seems to be stringing up. So just want to know if you have already accounted or do you have to still make any further provision?

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

What we have accounted for was for the period after January 2009. What is being talked about now is prior to January 2009. And it is very difficult to talk about it because it is it exactly is being looked into. Some clarity will emerge in due course.

**Gauri Anand – MF Global**

Thank you so much sir. Wish you all the very best.

**Moderator**

Our next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

**Rohan Gupta - Emkay Global**

Just a small clarification. Once again on this Rs. 8 crore rupees Mark to market losses in segmental, if it would not have been there then fertiliser EBIT which is Rs34.6 crore right now would have been higher by Rs. 8 crore?

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

No, There are part of other unallocated expenditures that you see there because it is more to do with financing arising out of buyers credit

**Rohan Gupta - Emkay Global**

Thank you.

**Moderator**

Our next question is from the line of Rajesh Sharma from Patni Financials. Please go ahead.

**Rajesh Sharma - Patni Financials**

I just wanted to know about the incurred cost of this maintenance and repairs of this shutdown if you can share the numbers and how much cost going to be incurred on this repairs and maintenance.

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

Actually that is being assessed but I can promise that it would not be a very significant figure.

**Moderator**

Our next question is from the line of Dewang Mehta from Canara Robeco Asset Management. Please go ahead.

**Dewang Mehta - Canara Robeco Asset Management**

Actually couple of questions. First of all can you throw some light on the EBITDA margins on the various products?

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

See on nitro phosphate our margins are around on the nitro phosphates our margins are around 12%. And on IPA around 20%. Technical ammonium nitrate again 18 to 20%. On the acids nitric acids around 24, 25%. These are the major products.

**Dewang Mehta - Canara Robeco Asset Management**

And methanol around?

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

That keeps changing I mean but what we have gained now is about 23%.

**Dewang Mehta - Canara Robeco Asset Management**

Ok apart from that are we importing any ammonia. What kind of what percentage it would be of a total consumption?

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

We are importing ammonia as of now. And our total requirement of bought out ammonia at the current rate is around 92,000 ton per annum. And it is imported As well as sourced locally.

**Dewang Mehta - Canara Robeco Asset Management**

I couldn't get what will be the imported number?

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

Imported ammonia would be around 62,000-70,000 tons per annum.

**Dewang Mehta - Canara Robeco Asset Management**

Ok and one more thing I read the P&L and then the balance sheet the interest cost is gone up by around Rs. 6 crores and our loans have again remained stable around that period.

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

Actually the interest cost has gone up by Rs. 6 crores mainly on account of interest on the newly commissioned ammonium nitrate plant. So that has accounted for Rs. 6.71 crore. And there is a reduction of about a crore on account of repayment of earlier loans.

**Dewang Mehta - Canara Robeco Asset Management**

And is there any revision on the interest rates that you are paying for the loans?

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

No not a significant one. There is a marginal increase of about 75 basis points overall on an average basis because of the increase in interest rates.

**Dewang Mehta - Canara Robeco Asset Management**

Thank you.

**Moderator**

Our next question is from the line of Satish Mishra from Pinc Research. Please go ahead.

**Satish Mishra - Pinc Research**

Good afternoon sir. Sir just to understand the TAN dynamics as you said the current market size is 350,000 metric ton.

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

650,000 Tons

**Satish Mishra - Pinc Research**

So out of the 650,000 tons how much will be fertiliser grade and how much will be TAN?

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

There is no fertiliser grade ammonium nitrate that is made in the country.

**Satish Mishra - Pinc Research**

Correct so most of it we used to import earlier.

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

Remaining that gets imported into the country is fertiliser grade.

**Satish Mishra - Pinc Research**

So at the current point how much is the price differential between TAN and the fertiliser grade ammonium nitrate?

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

See the price differential between fertiliser grade ammonium nitrate and the lowest quality technical ammonium nitrate that we make is around Rs. 3000 .

**Satish Mishra - Pinc Research**

And sir my second question is related to the nitric acid capacity plans what is the status on that?

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

That CNA will be commissioned in early FY'13, may be around April 2012.

**Satish Mishra - Pinc Research**

And sir third question is as we all know that demand for TAN is very good domestically and globally. So are there any large capacities coming up in China or some middle east or some other reason even for that matter Australia.

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

There is some capacity coming up in Australia and something in Indonesia. These are the two places where some capacities are coming up. But mostly they will be for captive consumption.

**Satish Mishra - Pinc Research**

Thank you sir that's it.

**Moderator**

Our next question is from the line of Dewang Mehta from Canara Robeco Asset Management. Please go ahead.

**Dewang Mehta - Canara Robeco Asset Management**

One more question can I get the prices of gas at which we are buying ?

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

I can tell you the overall cost. Its Rs. 11 rupees which is the weighted average cost of gas for us.

**Dewang Mehta - Canara Robeco Asset Management**

And can I get a break up of different sources?

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

We normally don't share breakup in details.

**Dewang Mehta - Canara Robeco Asset Management**

And in nitro phosphates for the first half what are the volumes?

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

We had 74,000 tons for the first half.

**Dewang Mehta - Canara Robeco Asset Management**

And we are looking at around 150,000 tons?

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

That's right.

**Moderator**

Participants if you have a question you may press star and one on your touchtone telephone. Our next question is from the line of Grishma Shah from Envision Capital. Please go ahead.

**Grishma Shah – Envision Capital**

One question in your press release you said that for you the phos acid supply has been adequateduring the quarter is that correct?

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

That is correct. In fact if you see our sales turnover of nitro phosphates this quarter it is better compared to what we did last year same quarter. We did 42,000 tons this year in this quarter It's 35,000 tons last year. So that was mainly on account of better availability of phos acid.

**Grishma Shah – Envision Capital**

But then isn't it a little worse in the industry where some of the market players are experiencing problems with the supply in the quarter two.

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

I think we have been able to plan our shipments much better this time. And last year the problems were more severe I would say.

**Grishma Shah – Envision Capital**

I mean where do you source your phos acid from?

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

We source it mainly from Morocco.

**Grishma Shah – Envision Capital**

Thank you sir.

**Moderator**

Our next question is from the line of Dheeraj Devata from ICICI Prudential. Please go ahead.

**Mr. Dheeraj Devata - ICICI Prudential Asset Management**

What I wanted to understand was the pricing pressure on the TAN front assuming that ammonia price remain at the same level or if they go up. So would we be taking the price as to stabilize the margins or we'll be taking a hit.

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

As I said earlier we are watching the situation carefully. And if this trend continues and if the prices really go up significantly we will correct our price.

**Mr. Dheeraj Devata - ICICI Prudential Asset Management**

I am just trying to understand is it because of the iron ore mining which is stopped and the extended monsoon that we have not taken the price the hike?

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

That is one of the reasons. We have these volumes coming out of our new plant and we wanted to actually seed the market much more. And also did not want to go for an immediate reaction. Now we also feel that ammonia prices should not go up significantly from here on. In fact now ammonia prices have dropped by about \$10 to \$20.

**Mr. Dheeraj Devata - ICICI Prudential Asset Management**

But dollar is going up again which very much neutralizes that fact. But on an overall level the margin should be expanding again back to on a full year basis can we see 24-25 types of margins again

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



I think we'll try to maintain at least 20%.

**Mr. Dheeraj Devata - ICICI Prudential Asset Management**

Thanks.

**Moderator**

Our next question is from Grishma Shah from Envision Capital. Go ahead.

**Grishma Shah – Envision Capital**

Just wanted to know can you specify who is your supplier in Morocco or is through any agency or something I mean....

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

OCP supply it to us.

**Mr. Grishma Shah – Envision Capital**

Thank you, sir.

**Moderator – Lavina**

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

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

Sir, just wanted to understand on your working capital. I am seeing both inventory levels and the data levels have gone up significantly over March 2011 level. So could you comment on that?

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

Actually the increase is in line with the increase in the turnover largely. But there are couple of items because of which some inventory has gone up because of the commissioning of the new TAN facility. And also we have procured some shutdown spares for other shutdown activities that we are going to have in the latter part of this quarter. So that is in the inventory as of now.

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

Okay, so nothing exceptional in the working capital.

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

Nothing except that there is one more item. There is stock of about 30,000 tons complex fertilisers which we had imported. So that is getting sold now in this month. That had come towards the end of last month. But nothing I mean to worry about.

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

And secondly sir now this phos acid availability has improved if you compare situation over Q1 and Q2?

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

It has improved. And we have lined up our shipments right up to end of December. So we are reasonably comfortable now.

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

And lastly can you give a sense as regards to end pricing. I mean what kind of I mean right now you said ammonia prices at around \$580. So how much till what level we have taken the pricing?

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

We have taken some price hike in TAN. We have taken a price hike of about Rs. 2000 per ton in this quarter. But actual that doesn't translate to passing on the full price hike of ammonia .

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

Or how much you would have required otherwise to pass on?

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

Rs. 5000.

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

That is a shortfall, that is a kind of shortfall we are taking.

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

Rs. 2500 is about the shortfall we are taking.

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

Rs. 2500/- Fine sir, Thank you.

**Moderator – Lavina .**

Next question from Rishika Jain, Vantage Securities.

**Ms. Rishika Jain – Vantage Securities**

What was the average price realization for ANP?

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

Rs. 24000

**Ms. Rishika Jain – Vantage Securities**

And what TAN it was Rs. 19,500?

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

Rs. 19,500 is what I said.

**Ms. Rishika Jain – Vantage Securities**

Thank you.

**Moderator – Lavina**

Participants if you have a question, you may press “\*” and “1” on your touchtone telephone. As there are no further questions, I would like to request Mr. Manish Mahawar to add any closing comments here.

**Mr. Manish Mahawar – Prabhudas Lilladher Pvt Ltd**

Thanks Lavina. On the behalf of Prabhudas Lilladher, I would like to thank the management for taking the time for this call. Now, I would like to hand over the call to Mr. Patil for his closing remarks.

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

Thank you, Manish. All that I would like to say is that the economy is growing at about 7.5%. We continue to expect a good demand growth for all our products. The year has been good for fertilisers and for most of our chemicals, except for TAN, where the ammonia scenario will have to be closely

watched. We will also be looking at intensifying our efforts to develop the export markets for TAN. And as far as growth is concerned we recognize the fact that we are under leveraged in terms of our borrowing capacity. We are therefore looking at expediting our strategic plans for growth in both fertilisers and chemicals. And that's about all and I once again thank you all for attending the call.

**Mr. Manish Mahawar – Prabhudas Lilladher Pvt Ltd**

Thank you, sir.

**Moderator - Lavina**

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