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DEEPAK FERTILISERS AND PETROCHEMICALS CORPORATION LIMITED

May 31, 2022

The Secretary	Listing Department
BSE Limited	National Stock Exchange of India Ltd.
Phiroze Jeejeebhoy Towers,	Exchange Plaza,
Dalal Street, Fort,	Bandra - Kurla Complex, Bandra (E)
Mumbai – 400 001	Mumbai – 400 051
BSE Code: 500645	NSE Code: DEEPAKFERT

Subject: Management Transcript of Q4 FY 2022 Earnings Conference Call

Dear Sir / Madam,

Pursuant to the Regulation 30(6) read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find enclosed the Management Transcript of the Earnings Conference Call held on 26th May, 2022 to discuss the financial results of the Company for the quarter & year ended 31st March, 2022.

The transcript of the Q4 FY 2022 Earnings Conference Call will also be made available on the website of the Company i.e. https://www.dfpcl.com/.

We request you to take the same on your record.

Thanking you,
Yours faithfully,

For **Deepak Fertilisers**
And Petrochemicals Corporation Limited

DEEPAK FERTILISERS AND PETROCHEMICALS CORPORATION LIMITED

Ritesh Chaudhry
Company Secretary

Encl: as above

Earnings Conference Call

Q4 FY2022

May 26th, 2022

Management:

Mr. Sailesh Mehta – Chairman & Managing Director

Mr. Amitabh Bhargava – President and Chief Financial Officer

Mr. Mahesh Girdhar – President, Crop Nutrition Business

Mr. Tarun Sinha – President, Technical Ammonium Nitrite

Mr. Deepak Balwani –Associate Vice President, Investor Relations

Hosted by Systematix

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY'22 Earnings Conference Call of Deepak Fertilisers and Petrochemicals Limited, hosted by Systematix Institutional Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Tholiya from Systematix Institutional Equities. Thank you and over to you, sir.

Pratik Tholiya: Yes, thank you, Steven. On behalf of Systematix Institutional Equities, I would like to welcome all the participants who logged into this Q4 FY'22 Earnings Conference Call of Deepak Fertilisers.

From the management team, we have with us Mr. S C Mehta -- Chairman and Managing Director; Mr. Mahesh Girdhar – President, Crop Nutrition Business; Mr. Tarun Sinha -- President, Technical Ammonium Nitrate; Mr. Amitabh Bhargava -- President and CFO; Mr. Suparas Jain -- Vice President, Corporate Finance; Mr. Deepak Balwani -- Head, Investor Relations and other members from the management team.

At the outset, I'd like to thank the management for giving us the opportunity to host this conference call.

I would like to now invite Mr. Mehta to begin the proceedings of the call by giving his opening remarks, after that, we will open the floor for Q&A.

S C Mehta: Thank you. A very good afternoon to all of you, and welcome to the Q4 FY'22 Earnings Conference Call. And I hope you've had a chance to look at the "Financial Statements" and "Earning Presentation" that were uploaded.

So, at the outset, let me share with all the joy that the top line for the year grew by 32% and we crossed a milestone of US$1 billion in terms of the top line, and as far as the PBT goes, profit before tax, again, a milestone that we crossed Rs.1,000 crores. So, that gives a certain kind of joy. The operating EBITDA grew by 42%, net profit increased by 69% and all in all, it resulted into a very strong cash flow available then for projects which was around Rs.1,200 crores which helped us to reduce the net debt by around Rs.400 crores.

And looking at all these good results and looking forward to also the good times, the board has recommended upping the dividend from 75% last year to 90%.

I was wanting to just broadly share that what do we see as undercurrents, how did this happen, and somewhere to share some of those insights.

So, on the face of it, it is obvious that while we had some severe raw material price jumps, I mean, unheard of jumps, ammonia jumped by 192%, phos acid by 90%, propylene by 39%, gas by 58%, but we were in a position to enhance the finished good pricing also, sufficient enough to widen the delta. So, that is at the face of it.

But at an undercurrent level, some of the aspects that we see are these five. So, number one, it got validated that all our products, whether it is the fertilisers, industrial chemicals, or mining chemicals, all are beautifully aligned with the country's growth story. And with that came in the positive current as far as the demand goes. So, that aspect of it got established and that was certainly a good support to make these operations, these results to come in.

The second aspect that got established was that the 40-years of our working in the space and the efficiency in terms of the supply chain management, efficiency in terms of the manufacturing, cost optimization, all those in the challenging times of various disruptions, various COVID shocks, it also got established that those systems and those processes are indeed robust and they ended strong, and that also got validated by way of the performance.

The third aspect that came in and as you can see the results of it in terms of the financial results is the emphasis that we had put on systems, processes, digitizing over the last couple of years and last year in particular. The internal world we had put in a lot of emphasis on a sales and operation planning system, where based on demand generation, one could plan right from raw material, inward logistics, manufacturing, outward logistics market. So, those in terms of internal systems including the SAP HANA-based, dashboard-based systems, those certainly came in very handy during these kinds of volatile times. At the plant, we also brought in some of the smart factory digitization efforts. And at the external side, we have brought in the farmer connect digitization efforts. So, I would feel that these systems and processes also got tested and came in very handy during these kinds of volatile times and helped us.

The fourth aspect that I see that certainly helped was the close proximity that we have with customers and understanding each customer segment, their needs, and their ability to absorb the higher prices and that is something which that understanding really helped us to make sure that despite these kinds of passing through of the high prices of raw material, that we did not destabilize the end segment market. And that aspect of it, we also saw that for our end customer, the impact of these prices are not very significant. So, to that degree, we saw that gives in inherent long-term strength during these kinds of volatile period.

Last, but not the least, and the most exciting part of our journey, which we push through last year, and we are going to be pushing through very strongly in the coming current year and the next year also, is our journey from Commodity to Speciality or a journey from Product to Solutions.

And in each of the three businesses, it panned out in terms of very strong ground level efforts. So, based on certain kind of emphasis on applied R&D in the fertilizer sector, if you recall from the earlier days of commodity NPK, we had moved 100% to Smartek, which is a very potent, I would say performance fertiliser, which gave phenomenal results. And from Smartek now, last year onwards and continuing this year, we are moving to crop specific. So, we have branded as Croptek. So, some of the crop specific grades that came in and that is something that is giving us a very positive traction.

In case of the industrial chemicals, acids and IPA, so, somewhere, we have kick started efforts for solar grid acid or steel grade acid. IPA we have, besides the hand sanitizer now, we have started pushing towards the hospital segment. So, there again the move from Commodity to Speciality, plus, of course, positioning the product for the pharma sector that we did for IPA. So, that aspect also is something that certainly helped.

In the technical ammonium nitrate sector, the mining sector, we brought in ANFO-based various cartridge products. We started looking at again from Product to Solutions. We started looking at the TCO, the total cost of the owner for a particular mine and looking at innovative products that could help them. So, this whole journey from Commodity to Speciality or from Product to Solutions is something that gave us, I would say, very positive tailwinds and these are things that are going to be helping even in the future.

So, with that, how do we look at life ahead? We see that these kinds of, I would say, volatile environment emerging out of raw material price hikes, Russia-Ukraine is something that is going to haunt us maybe another three months, six months. But having now learned to ride the volatility, we feel that all the five aspects that I mentioned are going to continue to support us. We are also seeing that because of some of these stoppages of manufacturing last year, because of COVID or sometimes a little supply disruption, we still have certain further capacities that we have not bagged, we could not have last year, but they are available this year. Plus, we had kick started some debottlenecking programs, which also we are seeing that they will allow us a little elbow room in the current year. So, those will come in handy in terms of, I would say, some additional, opening in terms of positive working,

We are also seeing that with the China shift progressing, that there are some strong positive winds coming our way in the space of speciality chemicals, who then require as their feedstock of our nitric acid and so, that's something that we are seeing again as a positive wind blowing with us.

And lastly, and not the least, as we see even further ahead, that the investments, the projects that we have taken up, both Ammonia and Technical Ammonium Nitrate, those are going through very strongly. In fact, on the ammonia project, post having got all the land, having got all the environment clearances, with almost 95%, 97% of equipment's having reached and the EPC with Toyo, that project is going into a very strong closure swing and we are talking about, I would say, middle of next year, when we should be moving towards commercial production.

So, with all that put together, this I would look at as kind of a broad brush in terms of the background within which the good results have emerged. But more details, Amitabh will take you through sector-by-sector. And of course, the team is available for any question-and-answer after the presentation.

Over to you, Amitabh.

Amitabh Bhargava: Thank you, Mr. Mehta. Good afternoon, ladies and gentlemen and thank you for joining the Deepak Fertiliser and Petrochemicals conference call to discuss the Q4 FY'22 Results.

Our growth momentum continued during the quarter and overall FY'22 was an important year for Deepak Fertiliser. We have come a long way in our journey to climbing the value chain strategy that Mr. Mehta was earlier alluding to. And the same has started giving us the targeted benefits in terms of revenues and margin expansion. We still have a long way to cover and major further growth is expected from this journey and the upcoming background, backward integration to ammonia project.

During Q4 FY'22, we reported a total operating revenue of Rs.2,012 crores, an increase of 28% compared to same period last year. Our operating EBITDA increased to Rs.502 crores compared to Rs.273 crores in Q4 FY'21 and operating EBITDA margins expanded to 24.9% from 17.3% During Q4 FY'21,.our net profit for the quarter recorded a growth of over 144% to Rs.283 crores with margins of 14%. Finance cost reduced by 19% YoY during Q4 FY'22 due to amortization of operating term loans and continued reduction of short term debt. Overall, Net Debt reduced by about Rs.400 crores during the year and net debt-to-equity improved to 0.35x compared to FY'21 when it was 0.65x.

During the quarter, our chemicals segment revenues increased from Rs.870 crores in Q4 FY'21 to Rs.1,500 crores in Q4 FY'22. Segment profitability also improved from Rs.232 crores to Rs.523 crores in Q4 FY'22.

Manufactured mining chemical, that is TAN business recorded revenue of Rs.839 crores compared to Rs.400 crores in Q4 FY'21. Mining chemicals business delivered an outstanding quarter. Pricing of all products remain competitive.

Margins in all segments that is HDAN, AN Melt and LDAN Improved despite adverse impact of increasing ammonia and commodity costs. This was achieved on the back of good demand and better realization.

As far as Acids are concerned, we are in the process of segmenting the market depending on the concentration of Acids, their application and different end user segments. Robust demand for nitric acid due to improved consumption and enhanced prices of downstream products have been realizing better prices and margins.

CNA that is Concentrated Nitric Acid and Dilute Nitric Acid, NSP in Q4 increased year-on-year though the DNA production volumes were impacted due to ammonia unavailability and temporary mechanical limitations.

IPA sales volume increased by 66% YoY in Q4, despite some production loss on account of mechanical issues.

The propylene prices continue to rise; they rose almost 39% YoY which impacted the IPA margins.

During the quarter, our fertiliser segment revenues were Rs.506 crores compared to Rs.702 crores in Q4 FY'21. Steep increase in raw material prices, that is ammonia, phos acid and MOP did impact the production cost of fertilisers adversely in Q4.

We recently launched Croptek Sugarcane and Croptek Cotton on the back of successful Croptek Onion launch in Q3 last year.

During the quarter, our IPA plant operated at capacity utilization of 88% and both Acids and TAN operated at 77% and 100% respectively.

In the crop nutrient segment, NP+NPK plants operated with utilization levels of 34% and Bensulf plant operated at 60% utilization level. Increase in raw material prices and disruption in supply chain were essentially the reason as I mentioned earlier.

The available capacity across our plants provides us headroom for future growth potential. And as Mr. Mehta was also mentioning that we're also doing some debottlenecking in our plants, which should also give us the opportunity to further increase our production in our Taloja facility.

Long term growth is expected from our continuous endeavour to transform from a Commodity to Speciality player in each of the product segment as Mr. Mehta was mentioning earlier. Increasing utilization levels. capacity enhancement and backward integration initiatives should also help us with the long-term growth.

With this, we will be happy to take your questions. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from line of Madhav Marda from Fidelity International. Please go ahead.

Madhav Marda: I had a few questions. Firstly, I think your production was impacted because of ammonia unavailability in some of the segments. Could you just help us understand like what is happening there exactly? And is the supply now normalized or could we continue to see some volume impact maybe in 1Q and first half of FY'23?

Amitabh Bhargava: So, we did face issues with ammonia because one of our largest suppliers had certain disruptions, particularly on the logistics side. And as a result, we had to then move to ad hoc supplies from some of the international players as well, we bought ammonia from local players who have had surplus ammonia. But since I think, April onwards, we've been back on track in terms of supplies from one of our long-term suppliers. So, as such, this year, we are not anticipating. Of course, it's early days, but we're not seeing any challenges as such on ammonia. That's the situation on ammonia. MOP was another product or other raw material, which had challenges. Again, I think, partly, it was logistics and partly also a good part of MOP also, globally traded, that comes out of Russia, Belarus. So, that also we saw some disruptions. As of now we've worked on some alternate sources. And for the foreseeable period, we do have the required quantity, but we'll have to see as it goes in future.

Madhav Marda: So, our nitric acid capacity utilization in Q4 which have come to 77% and the fertilizer NP+NPK which is at 34, that should largely normalize and come back to a healthy level now onwards, right?

Amitabh Bhargava: Yes.

Madhav Marda: The second question was on the ammonia CAPEX. I think a lot of companies are facing CAPEX cost inflation because of steel prices, etc., going up. So, have you largely locked in our CAPEX of that Rs.4,350 crores for ammonia, could there be like any escalation there because of commodity price?

Amitabh Bhargava: We have a fixed size turnkey contract with Toyo and what we understand is that as contracts that they had also tied up their material purchase before the inflationary trend came into metals. So, we as such have contractually fixed price. So, we don't see any risk. But even contractor on the back end has helped tied up with metal.

Moderator: The next question is from the line of Pritesh Vora from Mission Holdings. Please go ahead.

Pritesh Vora: First of all, congratulation for super milestone, which you achieved in this quarter. I want to understand, is there any specific one-off in terms of like our finished goods prices have moved up in light of raw material price movement, and we could have sourced the raw material at cheaper rate somehow. How do you look at the spread between the raw material price and the finished goods? And do you think that the spread may come off in coming quarters?

Amitabh Bhargava: Fundamentally, I would say, it was a mixed bag as far as the raw material prices and the finished goods prices are concerned during the year. So, on one hand, increased raw material prices particularly ammonia, phos acid, MOP impacted us on our fertilizer segment. One is of course production was low and also in terms of the margins, it resulted in squeezed margins. But in other segments, like nitric acid, for example, where generally our pricing passes through the raw material prices. And also, there was an impact and we've been talking about this for last couple of quarters that because of China Plus One kind of inclination of global supply chain, we are seeing the speciality chemicals segment showing strong sort of growth and impact of that on the demand for nitric acid has been very strong. So, we're seeing better realization in the spot market and that we believe is so long as I think the industry believes and so do most of the players that this impact of China Plus One is something which is here to stay, because as we understand some of our customers also have fairly long-term supply contracts with their customers. So, we are going to see this nitric acid strong demand continuing and therefore, these prices or the margins should largely sustain not withstanding the movement in ammonia prices, which is the basic raw material for nitric acid. As far as TAN is concerned, I think obviously as the raw material prices went up, so, did the finished goods prices. So, to that extent TAN could not just pass on the raw material prices, but overall the margins expanded during the year. Let me also say that in IPA for example, while overall demand came back as some of the challenges that pharma sector was facing on their supply chain started normalizing, because the oil prices went up so did the propylene prices, margin squeezed during the year. So, I think we had both sides of this raw material price increase in our numbers. Some products face headwinds, some had a bit of a tailwind, giving us better ability to pass on the raw material price.

Pritesh Vora: My next question is about the CAPEX, which we're doing where you're saying that mid of next year, this project should come online. What is the amount of CAPEX we have spent and what is the asset turnover we see in that particular project?

Amitabh Bhargava: So, we are looking at ammonia. I mentioned earlier that expected project cost is Rs.4,350 crores. We have nearly spent Rs.2,500 crores already and whatever balance Rs.1,850 or Rs.1,900-odd crores is yet to be spent. As far as the asset turnover is concerned, look, I think ammonia as a commodity has seen cycles. And if one were to look at today's price, for example, that's the price which would get in a way translated into revenue for the project, then we are talking almost at current prices upwards of $500 million of revenue, which is almost kind of I would say touching 0.8-0.9x of the asset turnover. But ammonia is a commodity that we'll see cycle in next five years, 10 years, 15 years, whichever way you look at it. And to that extent, asset turnover may vary year-on-year.

Moderator: The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: I just had two or three clarifications to seek. One is, in the context of the improvement in the debt number that we've seen already by the end of this year to about Rs.1,400-odd crores net debt I believe. Given the CAPEX program that is yet to be undertaken over the next year, year and a half, where do you see the peak debt ending up for the company now -- is it substantially lower than what you had originally anticipated, say a year or two years back before the numbers turn so strong on the earnings?

Amitabh Bhargava: Abhijit, this is a question that if you recall, I've always been a little I would say hesitant in pointing a number here. The case is that while both of these projects from a financial closure standpoint, we have a base case where we are looking at, I would say, Ammonia we used to earlier look at 60:40 debt-equity, we are possibly looking at 50:50 debt-equity ratio now. Likewise, in TAN while from a financial closure standpoint, we are tying up 70% of the project cost as debt. But given the kind of cash that we are generating internally, we are quite confident that the debt requirement in both these projects would certainly be below the base case that we have planned. To give you an example, in ammonia, we have already spent about Rs.2,500 crores, we require another Rs.1,850-odd crores and let's say another Rs.2,200 crores in TAN. So, put together let's say another Rs.4,000 crores of additional CAPEX that is required in these two projects. We ended this year with almost Rs.1,150-odd crore of cash. We generated roughly about Rs.1,200 crores through internal generation. So, if you look at very conservatively also, the run rate is somewhere around Rs.250 crores per quarter. Now, TAN is some project that we would be implementing over the next 30-odd months. So, if you look at the numbers, our current cash balance and the kind of cash that we are generating quarter-on-quarter, we do believe that we would not grow the debt that we are looking at from a base case perspective. Equally, we are amortizing our existing operating debt. So, the numbers we believe will remain fairly within control, whichever metrics you apply, debt-EBITDA or debt-equity. To that extent, while I'm not giving you a number, but I think you would have got a sense, we are not going to go up to the levels that one would have envisaged in the beginning when we had announced these projects.

Abhijit Akella: Other thing was just on the debottlenecking. benefits that you had alluded to earlier on the call. Any further colour you could provide please what sort of impact this might have say in fiscal '23 or fiscal '24, how much capacity can we expect and how it might benefit us?

Amitabh Bhargava: You're talking about the debottlenecking?

Abhijit Akella: Yes, that's right.

Amitabh Bhargava: So, debottlenecking, one is in TAN, we are looking at in the first step roughly about 30,000 tons per annum kind of capacity enhancement. And by second phase of that debottlenecking, it will add another 45,000-odd tons from the existing facility. So, put together about 70,000 - 75,000 tons. As far as the fertilizer is concerned, because of different reasons in last two years, we haven't managed to, I would say, utilize our entire NPK capacity, but we are also debottlenecking NPK capacity, where in case of NPK would go up. So, overall, there is also capacity debottlenecking that is sitting there in NPK. But I think it's only fair that we first utilize that capacity completely before we start sort of capturing the upside through the debottlenecking in the NPK. But the immediate ones are essentially TAN which as I mentioned is 30,000 tons per annum and another 45,000 tons per annum into sales.

Abhijit Akella: By when are these getting commissioned?

Amitabh Bhargava: That 30,000 tons per annum by and large we are ready as far as the process is concerned. We are seeking some regulatory approval. And as soon as those approvals are in place, we are in a position to start producing that additional quantity. 45,000 tons additional would be I think between somewhere this financial year third to fourth quarter.

Abhijit Akella: Any update you could provide us on the status of your gas contract negotiations for the ammonia project?

Amitabh Bhargava: Gas contract today, while we do have the heads of terms available from the large gas aggregators, but at this stage, I would say, given the prices in Europe and therefore, even the spot prices, we believe that there is more negotiation that is possible as far as the slopes are concerned. And to that extent, we are keeping the options of having spot gas in the initial phase, and then tie up on a long-term with the contractor. And it could be with the same contractor that we initially get into a spot kind of a contract and then starting from subsequent years, we then move to the long-term formula. So, that's I would say a current negotiation that is on. This also depends on how we see ammonia prices standing out. Because the ammonia prices do come down from here, it is expected that even the long term gas prices and the slopes will also climb down. So, we are keeping both these options open and in engagement with three different gas aggregators.

Moderator: The next question is from the line of Yogesh Bhatia from Sequent Investment. Please go ahead.

Yogesh Bhatia: I have the question for the gas, which we need for the ammonia plant. So, if you go for the spot pricing, and if the prices are very high, how does it affect the economics -- is it like pass-through or how does that work? And my second question is in mining chemicals, we've seen the volumes are lower year-on-year, but realizations are very high. So, how sustainable do you think these realizations are?

Amitabh Bhargava: Thank you. On your first question, see, gas today, even for our current operations, we buy certain quantities of spot gas. And that gas today we are buying is somewhere around $20, $21. So, at $20, $21 also, if we were to buy gas, our cost of production would be in the range of $650-odd per ton.

But if you look at the realization, based on let's say CFR prices and some of the incentives built into our project through government of Maharashtra, ultra mega project scheme, our realizations could be as high as $1,200 today. Today, we are sitting on a delta of almost $550 to $600-odd per ton, which is significantly higher than what we had planned for our project. For today, if you were to look at the economics between spot and ammonia prices, they are actually significantly better than the long term economics that we had planned. But, this is a very sort of static way of looking at this project. One needs to look at this from a life cycle perspective. And that's where we go back to last 10-years of history, whether it is ammonia prices or gas prices. And I think we've discussed that and we sort of earlier also indicated those numbers. And those economics continue to be attractive based on what last 10-years, 15-years of experience. So, as such, spot prices of gas, if at all, today, given where ammonia prices are, things are looking better than what they were. But, like I said, we need to look at this more from a 10-year, 15-year perspective. Your second question on mining chemicals for Q4. I think I've already answered that question, which is to say that, essentially, in mining chemicals, we've seen as much as the raw material prices went up, we also saw the finished goods prices going up globally. And so we will have to see how both raw material prices and finished goods prices pan out in the coming quarters. But the other aspect of mining chemicals is as what Mr. Mehta was alluding to earlier, that we are gradually going from product-to-product plus solution where we are working with our consumers in terms of giving them overall blasting solutions, and not just a product. We are also going downstream in terms of manufacturing and for the bulk and package explosive. And that's where some of these margins or sustainability of these margins or expansion of these margins, where some of these would lie in terms of our downstream journey in that.

Moderator: The next question is from Pritesh Vora from Mission Holdings. Please go ahead.

Pritesh Vora: How big the revenue when you go ahead with the downstream journey for your explosive -- can you quantify in terms of revenue?

Amitabh Bhargava: There are a number of areas within downstream that we are working on. So, the kind of work that is happening in coal mining is very different from the kind of work that we are doing in infrastructure side. So, it is very difficult at this moment to predict what will happen to, but what we're essentially doing is that, whatever will be pricing of your TAN, you're going one step further, and you are charging your customer based on either the value-added explosive that you are manufacturing and supplying, or you are giving them a solution where let's say typically what happens in developed countries is where you take the entire blasting contract, where the whole coal blasting design is done by you, you take the product right down to the mine hole and blast it for the customer. So, you in a way capture that next step. And when you get into a solution-based approach, the pricing could also depend on not just a product plus, but it's more like the value add minus. What value add you added in terms of reducing the overall cost of your customer or you reduce the time in terms of certain infrastructure projects, and your pricing could be linked with what value you are providing. It would be early to say for us to make an estimate of what it would do to the revenue, but more than revenue, we are seeing this as a margin gain.

Pritesh Vora: Sir, second question is about your ammonia project. Whatever your assumption for the gas price and spread of between gas and ammonia or long-term basis, what should be considered in your project economics, what sort of return on capital employed you've considered when you envisage this particular project?

Amitabh Bhargava: We've looked at equity IRR of I would say high teens and early 20s. Though today's economics suggests that those numbers would be significantly higher. But in our economics or in our internal calculations, we have gone by last 10 or 15-years average numbers. And that's where the equity IRRs are high teen, early-20 kind of.

Moderator: The next question is from the line of Vidit Shah from IIFL. Please go ahead.

Vidit Shah: My first question was on the margins of the fertiliser business which has significantly improved this quarter despite volumes being down YoY and even manufacturing revenues and given the challenges with input costs rising over last year. So, what explains the growth in margins in the fertiliser business and are these likely to sustain in the coming years?

Mahesh Girdhar: So, as Amitabh already delved around that we are seeing significantly increase in the raw material, and you also would have noticed that twice in the last year, the government of India intervened by virtue of enhancing subsidy in the month of May, and again, there was enhanced subsidy in October So, raw material prices increases, the three avenues whereby you're looking to pass through, either through enhancing subsidies, as well as enhancing through the price changes, right. So, subsidy particularly supported in the last two quarters, plus, you may also notice that we have done a significant portfolio development with crop-specific solutions called Croptek. Most of our Q4 focus was on Croptek Onion, and Croptek Sugarcane, as well as in this period, we have significantly enhanced our manufacturing of speciality products, bentonite sulphur. Last year, we had launched enhanced version of Bentonite Sulphur by the name of “Superfast Bensulf” with good assemblies and that gave us good advantage in the market, as well as overall impact on the margin also came from increase in our speciality product volume and pricing, which are non-subsidized, which grew by about 54% over last year. So, coupled all these put together helped us sustain better margins.

Vidit Shah: So, any guidance you could give for margins in FY'23, '24?

Amitabh Bhargava: The million-dollar question for FY'23 is also how raw material prices would move, because as Mahesh was mentioning that realization are a combination of MRP and government subsidy, and of course, how raw material prices move alongside. So, it's very difficult today. To give you an example, we are almost in the May end, we still don't have the phosphoric acid prices for India for Q1 decided, because that's something which government is directly involved in negotiating with the suppliers. So, as we would see what kind of raw material prices emerge in Q1, and then subsequent quarters, that perhaps would give us a better handle on given all these two, three parameters, I would say difficult to give any guidance.

Vidit Shah: Just one question around the gross profit for the chemicals business, especially TAN and nitric acid. You alluded to passing on rising raw material costs easily. But if you compare the gross profit per ton in 4Q versus 4Q last year, how much higher do you think it would be in percentage terms versus what we were making last year in nitric acid and TAN?

Amitabh Bhargava: I think the answer to the question is really in terms of Q4 segment EBIT, which was Rs.744 crores, is up to Rs.1,164 crores. So, that's the increase that we've seen in a combination of TAN and nitric acid margins. Overall, one is in nitric acid also, last year, this whole China Plus One effect on the demand side of nitric acid, I would say, this started last year, but the major impact of that came in second, third, fourth quarter. Q4 as such of last year, compared to this Q4, there were significantly better margins because of this whole China Plus One demand side panning out in the way realization we saw at the spot market. While the contractual customers, which are largely on cost plus basis, contractually, we could pass on those prices. Some contracts also came up for certain revision. So, we got effect of that also in Q4. So, there was a combination of factors that change the margin drop in Q4 last year to Q4 this year.

Vidit Shah: Any update on the sale of the realty mall, are we still looking to sell it, what's the valuation currently and what are we looking at that?

Amitabh Bhargava: We have done valuation at different points in time; they were anywhere between 700 to 900 crores, but the real value if there is actually a transaction that happened, you would know the fair value. As such, we are still working on certain regulatory aspects that we need to iron out before we could decide to do any transaction there. So, right now, I think we are more focused on ironing out those regulatory aspects.

Moderator: The next question is from line of Rohit Sinha from Sunidhi Securities. Please go ahead.

Rohit Sinha: Two questions on my side. One on I would say this ammonia price. Just wanted to understand your thoughts on this green hydrogen thing which people are talking about and ultimately going through green hydrogen to green ammonia. How does thing look viable for you as of now and going forward what would be your take on this in terms of your business?

Amitabh Bhargava: For us the ammonia projects that we are working on is grey ammonia, in a sense that we have manufacturing it through natural gas route. The green ammonia which is where let's say through hydrolysis of water you produce hydrogen and also hydrolysis is used is done by renewable energy. Now, what we understand is that as far as the cost structures of green ammonia is concerned, while there are players who have taken a view in setting up the capacities, there are others who are actually waiting to see what happens to the cost structure because in renewable energy and trying to hydrolyze water on a 24-hour basis, you need certain storage technologies and so on so forth. So, today for manufacturing, the same level of hydrogen which is required for equivalent capacity of ammonia through gas route, you need a much higher renewable energy capacity. And to that extent, the cost structures today are significantly on the higher side. These are very-very initial estimates that we hear from our project team, that the cost of manufacturing ammonia through green ammonia route could be in the range of $800 to $900-odd per ton. This is a cost structure. And therefore, while today's ammonia pricing scenario, they may make sense, but if the ammonia prices were to overall go down from here, this kind of green ammonia would require certain carbon credit and the other factors to make it economically viable. So, for us, it is gray ammonia and what the way we would want to create a balance in terms of the environmental aspect is to essentially increasingly look for investments into green or renewable energy for our operation. Last year, for example, we invested in one solar capacity and we are now buying power from that solar capacity. We already have some wind mills. And it will be our constant attempt to diversify into sort of more and more of our power consumption towards renewable energy side. The other aspect which we are exploring is to use the carbon dioxide that we generated out of our ammonia plant for enhanced oil recovery measures, but I think we'll have to see what are the plans of large oil majors before we could really on an economic way plan, selling or transportation of CO2 to the oil field.

Rohit Sinha: Secondly, just wanted to understand on the TAN business. How we should look into this in terms of revenue perspective, whether we should go by order size, or it is better to take it as on a utilization basis at how much or whatever the capacity would be there, the similar would be the offtake, the contract is basically done before or after, that is what I wanted to understand.

Amitabh Bhargava: I couldn't really get your question. I'm sorry, your voice was also not very clear. And I didn't get the intent of your question. Can you please repeat that?

Rohit Sinha: So, in TAN business, how the content basically is designed -- it is on order basis, or it is just requirement as and when comes in, we supply for them?

Tarun Sinha: We run a mix of contract and spot business, that's the first one. So, not 100% of our business is contracted. The mix of contracts and spot vary from time-to-time, depending on the market situation, the market situation is defined by a number of factors; one of them could be the commodity prices, the second could be the overall demand/ supply scenario in the market, and so on and so forth. So, once we decide to contract, then the point is, how much to contract and how to contract. Those volumes, which we get into contract for, are also dependent on the market factors that I just talked about, in terms of what's the demand/supply, what's the raw material situation, so on and so forth. So, it's not a fixed number at any point in time in summary, in terms of what volumes we contract and how far do we contract for.

Rohit Sinha: So, we basically could not provide any kind of order book in this business?

Tarun Sinha: Yes, because there is no one figure for this. Quarter-to-quarter, it will vary depending on the market situations as I described just now.

Amitabh Bhargava: Net importer of TAN, so to that extent, one could take the production that any of our manufacturers do including us. By enlarge gets placed in the market from a demand perspective.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: I just wanted to understand last year, what has been the capacity utilization of our plant?

Amitabh Bhargava: FY'22 capacity utilization, as far as TAN is concerned, it was 100%. Fertilizer bulk was 62%. Specialty fertilizer was 60%. Our Acids total were about 82%. Our IPA was about 90%.

Deepak Poddar: So, on an average our capacity utilization would be about 90% plus

Amitabh Bhargava: On the chemicals side, yes. Fertiliser like I mentioned, was 62%.

Deepak Poddar: Given our expansion is coming only by FY'24 and FY'25, is it something that this year our growth would be quite minimal assuming the ASP remain same, so any comment on that?

Amitabh Bhargava: Like I mentioned that in TAN, one is even after 100% capacity utilization, this was perhaps only the second best capacity utilization in last couple of years, we have earlier produced up to 5,05,000 tons which is roughly about 110% capacity utilization. So, that is doable even in the existing capacity. What I also mentioned is that our debottlenecking in TAN, the first phase of it, which is about 30,000 tons from a process perspective is already over. We are just seeking some regulatory approval to be able to produce that additional 30,000 tons. And the second phase that should come by the second or third quarter of this year is another 45,000 tons as far as TAN capacity is concerned. With CNB bulk getting underutilized last year to about 60%, 62%, there is definitely headroom sitting there in terms of enhancement of capacity utilization, equally on the speciality side which is bensulf, we are underutilized and that's the market that we are enhancing every year. So, that should be another segment of product where we have the headroom. Acid, while our overall capacity utilization was about 80%, 82%, we are also doing certain work on the Acids side in terms of improving the reliability of the plant. And with ammonia supply hopefully remaining steady compared to last year, we also have a headroom in the capacity utilization.

Deepak Poddar: Basically, on the back of this debottlenecking and even TAN going up to 110% utilization level, so, what sort of revenue growth we may look at in FY'23, maybe 15%, 20% growth, is that something feasible on this background?

Amitabh Bhargava: So, production is one but the other aspect is what happens to the product prices. Difficult to predict in terms of revenue numbers, what the numbers are going to look like, but if the prices remain at current level or what we saw in Q4 capacity utilization or enhanced capacity utilization should definitely help improve the top line.

Deepak Poddar: Assuming price remains at the current level, so, what sort of volume growth one can look at overall in FY'23 -- 10%, 15% volume growth?

Amitabh Bhargava: Actually, very difficult for me to put a number. I don't want to give you a guidance. I can only tell you that in fertilizer, bulk we were significantly underutilized and if the raw material disruption does not happen this year, there is definitely a scope and equally on TAN, there is a scope for higher capacity utilization.

Deepak Poddar: My final query on the margin front. Anything on the sustainability of this fourth quarter margin, I understand it's difficult because of the RM pricing, but any sort of rough comment that you can provide us on the sustainability?

Amitabh Bhargava: Very difficult. Like I said, all four segments, IPA, nitric acid, TAN and fertilizer, all of them could have different dynamics going forward depending on what happens to raw material. Like I was mentioning that some segments face headwind, while the others had a little bit of tailwind on their side. So, lot depends on what happens… but what I can confirm to you, or one area where we have a fair bit of confidence is on the nitric acid and TAN side demand remains strong. IPA, the demand side which is in between had weeded down because of the challenges pharma sector were facing, that came back in Q4 and that supply chain side of pharma companies do not see another disruption. That IPA demand should remain strong because IPA, India is a net importer. So, as far as the local manufacturers are concerned, they continue to have the ability to place all their production in the market. So, I think the demand side in each of these product segment remains. We'll have to see how raw material prices pan out going forward.

Moderator: The next question is from the line of Abhijit from PI Capital. Please go ahead.

Abhijit: So, when you say China Plus One impact is here to stay, so does this mean when raw material prices go down, the realization will more or less remain around the current levels or it would also go back to the earlier level?

Amitabh Bhargava: When I say China Plus One function here to remain, I would say, one is based on the fact that a lot of our customers in the speciality chemical segments are either looking at capacity expansion, or from their order book standpoint, they seem to have order book tied up for a longer horizon. So, that's where the comment that China Plus One is here to stay. Now, long term, it's anybody's guess what happens because in any product, you could predict the demand/supply situation for a period which it takes normally for new capacities to come up. And to that extent in short to medium term, the margin that we are seeing in nitric acid, for example, should remain. What happens three or four years down the line in terms of the new capacity, it's hard to predict. We ourselves may have depending on what happens on the demand side, we including other players may also think of capacity expansion. So, then what emerges after three to four years on the demand/supply side is hard to guess. But in foreseeable future, short to medium term, we are seeing that the demand side remaining strong on the nitric acid side. TAN in any case, we are a net importer, and whether it's infrastructure, coal or cement, all of these sectors should continue to see the demand. You may always have blip at least for infrastructure in last few quarters. But on overall basis I think these three segments should continue to grow and see the demand from TAN's perspective. And we being the only producer of TAN in solid form and our capacity expansions already in the pipeline, we should be in a position to capture that growth going forward.

Abhijit: Apart from challenge on raw material front, what other challenges we are facing right now?

Amitabh Bhargava: Other than raw material, by enlarge the challenges I will say a lot of the work that we are doing at the marketplace, the initial work the market entry, all of that is fairly established. Next two to three years is when you will see the whole downstream journey or Commodity to Speciality or the Product to Solutions journey is yet to pan out in next two to three years. I think that in some sense is a challenge that we'll have to take head on for next two to three years to really translate our downstream journey in terms of enhanced margins and market share. But other than that, we are actually not seeing any fundamental challenge as such.

Moderator: The next question is from the line of Ranjit Cirumalla from IIFL Securities. Please go ahead.

Ranjit Cirumalla: Did I hear it correctly that the debottlenecking in the TAN was through a process improvement, the initial one? Second is what would be the CAPEX that you will be incurring for this debottlenecking exercise for the phase-II as well?

Amitabh Bhargava: These CAPEX are fairly small compared to the Greenfield capacities that we are spending CAPEX, we would be somewhere from 50 to 60 crores I guess that's the number.

Ranjit Cirumalla: The initial 30,000 was through the process improvement?

Amitabh Bhargava: That 30,000 were through debottlenecking which is essentially improving the capacity of certain equipment in the process, which was sort of the limiting factor.

Ranjit Cirumalla: Second, in the press release you have mentioned that the improvement is also an account of the strategic initiatives that you have taken at the marketplace. So, just wanted to understand whether these were more aimed at the volume growth or at improving profitability?

Amitabh Bhargava: So, I think all of these we spoke in bits and pieces earlier. So, the whole downstream journey in TAN is one aspect. As far as fertiliser is concerned, we are launching crop-specific formulation in the market. I think the strategy that we have as far as fertilizer is concerned. In nitric acid, we are looking at more and more having customer or consumer-specific formulation, whether it is solar grade, nitric acid or electronic grade, nitric acid. In IPA, we are looking at IPA, which is pharmacopoeia-compliant and therefore, commands better margins and pricing in the marketplace compared to commodity IPA. As part of our downstream journey in IPA, we also formulate a brand which is conceived, hand sanitizers and a number of other product segments, which are aimed largely at institutional clients, is also the other market intervention or market work that we are doing. So, of these are what we meant by strategic initiatives at the marketplace.

Moderator: Ladies and gentlemen, as there are no further questions, I now hand the conference over to Mr. Pratik Tholiya for closing comments. Over to you, sir.

Pratik Tholiya: Yes, thanks, Steven. On behalf of Systematix Institutional Equities, I would like to thank all the participants who have logged into this conference call. I'd like to thank the management for giving us the opportunity to host this call. Amitabh sir, if you would like to make any closing comments, please.

Amitabh Bhargava: Thank you everyone for your participation. Also, the line of questioning from your side was quite incisive. For any further queries, or clarifications, please do get in touch with our investor relationship team. And thank you so much for your time and patience.

Moderator: Ladies and gentlemen, on behalf of Systematix Institutional Equities, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

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