DEEPAK FERTILISERS AND PETROCHEMICALS CORPORATION LIMITED

Earnings Conference Call

Q1 FY2020

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Management:

Mr. Sailesh Mehta – Chairman & Managing Director

Mr. Amitabh Bhargava – President and Chief Financial Officer

Mr. Mahesh Girdhar – President, Crop Nutrition Business

Mr. Deepak Balwani –Associate Vice President, Investor Relations

PhillipCapital

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Moderator: Ladies and gentlemen, good day and welcome to the Deepak Fertilisers And Petrochemicals Corporation Limited Q1 FY2020 Earnings Conference Call hosted by PhillipCapital India Private Limited. As a reminder, all participants' 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, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Deepak Chitroda from PhillipCapital Thank you and over to you, sir.

Deepak Chitroda: Good afternoon everyone and welcome to Deepak Fertilisers And Petrochemicals Corporation Q1 FY2020 Earning Call hosted by PhillipCapital India. Today, on the call we have representing Deepak Fertilisers management joined by Mr. Sailesh Mehta – Chairman and Managing Director; Mr. Amitabh Bhargava – President and CFO; Mr. Mahesh Girdhar – President of Crop Nutrition Business and Mr. Deepak Balwani from Investor Relations.

Now, I hand over the call to Mr. Mehta for his opening remarks and afterwards we can start Q&A session. Thank you and over to you, sir.

Sailesh Mehta: Thank you. I hope my voice is clear. Very good afternoon to all of you. I thought I will just undergo some of the major headlines and then hand over to Amitabh, our CFO, to take you through details.

So, basically, we have seen I would say the good early green shoots of the trouble times getting behind us and the turbulence that we had seen in the last few quarters. The operating margins have improved from around 6.7% in Q1 FY2019 to around 10.7% in Q1 FY2020. The Technical Ammonium Nitrate (TAN) and Acid businesses are doing and performance is in line with our expectations of. In case of Iso Propyl Alcohol (IPA), we did see some hit coming in because of the Chinese products are landing into India. But we are now seeing a gradual improvement in terms of the raw material pricing getting more reasonable and the finished product pricing gradually improving.

As far as the new acid project goes at Dahej, there again we are seeing good stabilization coming in place with Nitric Acid reached at 98% capacity and Concentrated Nitric Acid (CNA) at 90%. We expect that it will stabilize at those levels and in this current year we will see the positive benefit emerging out of the Dahej investments.

As far as the Fertiliser business goes which has been challenging because of the high raw material cost and at some point in time the availability itself. Q1 FY2020 we were also hit with the delayed monsoon and that is something what normally one expects the rains in early June. As you all know that rains actually hit end-June-early-July. But having said that, we now see again very positive developments where the raw material prices have come down in a very interesting manner in terms of Phos-Acid, ammonia and others. Rains also now have been bountiful all over Maharashtra and we are having now water dams brimming with water. And with this, we are seeing that though the monsoon came in late, it is going to give us a little longer kharif season which will be good. It will also result into a better rabi season. We are also seeing larger acreage coming under cultivation. Overall, I would say it is good time at the macro level. For us, the Smartek product, which is differentiated NPK, we are finding a better and better acceptance of this unique product. This aspect of almost 13,000-15,000 demo plots and university positive feedback on much better yield emerging out of Smartek product. It has now also found good acceptance at the farmer, retailer, dealer level. And as we go forward, we will see some more positive traction emerging out of this acceptance. This is decidedly our thrust towards moving away from commodity fertilisers to performance fertilisers or speciality fertilisers. As we go forward in terms of our future strategy and where we are positioning our fertilisers as somewhere very clearly linked to yield improvements in terms of the crop protection and all.

One more aspect that we are seeing with very positive traction is the government I would say drive towards DBT 2.0. If I may put it that way, the Direct Benefit Transfer where we are seeing that earlier that is year and a half back odd where it was started, that system has stabilized where the farmers through the biometric confirm that they have indeed bought the fertilisers and then the government would release subsidies to the companies. So, it was kind of a partial DBT process and despite all the infrastructure issues and all, I think the industry is working close cohesiveness with the government, we have now seen a stabilization of that system and the resultant thing has also been somewhat faster release of subsidy. Now, we are seeing in case of DBT 2.0 it is a move towards direct transfer of subsidy amount to the farmers itself. We are looking at this very positively because then on the industry will be creed of all the shackles of control and innovation, brand, farmer service level, everything will start getting valued like in a normal product.

As far as project goes for our Ammonia Project, we have tied up 100% debt funding, and that is also in a very attractive 19-years door-to-door and all with close to 1.5-years of moratorium. As far as the other projects goes, TAN and ICA, we have planned to somewhat space them to smoothen the leverage peaks. We have also begun monetization of non-core assets and we will see more positive traction emerging out of these initiatives in the next 12-15 months.

As far as the funding part goes, as you would recall that the promoter had opted for the preferential allotment to the tune of around Rs.200 crores and 25% of that we have already subscribed at the rate of around Rs.309 and the balance will be brought in, in the stipulated time. Additionally, after a long intensive due diligence process, IFC Washington has also joined us by way of CCDs and FCCBs of around US$60 million between Smartek and Deepak Fertilisers.

And besides money, we are also very happy with the rich knowledge base that they bring of the petrochemicals, chemicals sector and the due diligence process. We feel very happy with that they have in turn indicated all the trends that Deepak brings in over the last 35, 40-years in the growth projects that we are planning.

So, with this background, I will hand you over to the able hands of our CFO, Mr. Amitabh Bhargava who can take you through the details and then post that any further clarifications/questions that you may have, we will help you elaborate on those. Thank you. Amitabh?

Amitabh Bhargava: Thank you, Mr. Mehta. Good afternoon, ladies and gentlemen. I think the headlines have been covered by Mr. Mehta. I would just maybe take you through briefly the numbers and then we will open the forum for question-and-answer.

During the quarter, Q1 FY20, we have reported revenue from operations of Rs.1,122 crores; operating EBITDA stood at Rs.120 crores, during the quarter EBITDA margins improved significantly from 6.8% in Q4 FY19 to 10.7% in Q1 FY20. PAT stood at Rs.10.7 crores, with nearly 104% QoQ growth supported by softening of raw material prices and various strategic measures undertaken for improving operational efficiency.

Segment Wise:

In Chemicals segment, Manufactured Chemical business reported revenues of Rs. 613 crores in Q1 FY20 as compared to Rs. 610 crores in Q1 FY19. Chemical Trading business was consciously reduced from Rs.1,028 crores in Q1 FY19 down to Rs. Rs.105 crores in Q1 FY20. The company continues to consolidate its trading portfolio and focus on high margin products, primarily IPA.

Our recently commissioned Dahej facility operated with capacity utilization of weak nitric acid at 60% and concentrated nitric acid at 54% in the first quarter of operations amidst initial teething period and system stabilization phase. The new facility contributed positively to the growth of acid business during the quarter and coming soon it is expected to operate at an optimal capacity.

Our TAN business reported robust performance during the quarter, supported by increasing demand and better product mix. TAN business margins improved significantly driven by higher TAN Solutions volume increase by about 43% YoY and High-Density Ammonium Nitride volume increasing by 11% YoY and increase in NSP of HDAN and TAN Solutions.

However, during Q1 FY'20, IPA business was impacted on account of reduction in IPA import prices on account of cheaper Chinese imports and hike in RGP prices on year-on-year basis. Production volumes were also temporarily impacted as plant was shut down for non-availability of propylene; primarily driven by annual maintenance shutdown at suppliers' end. Meanwhile, supplies of propylene have been restored and plant is now operational. Our Fertilisers business during quarter impacted by delay in monsoon in core demand areas and hence resulting in delayed crop sowing.

Manufactured Fertilisers business reported revenue of Rs.341 crores in Q1 FY20 as compared to Rs.429 crores in Q1 FY19. Fertilisers Trading business was reduced from Rs.151 crores in Q1 FY19 to about Rs.55 crores in Q1 FY20. The reduction in traded revenue in CNB was in line with our strategic decision to move to differentiated NPK grade. In line with our strategic decisions to move from commodity to differentiated Fertiliser segment, differentiated NPKs, i.e., Smartek reported sales volume growth of 37% YoY to volume of about 40,235 MT in this quarter. Our Fertiliser segment margins impacted on YoY basis in Q1 FY20 due to the increase in prices of phosphoric acid and ammonia. However, margins have improved compared to Q4 FY19 on account of declining raw material prices trend in the recent months which resulted in higher margins per ton.

As we mentioned earlier, during the quarter, we have secured US$60 million investment and we have contracted with IFC by way of Compulsorily Convertible Debentures and Foreign Currency Convertible Bonds in Deepek Fertilisers and Smartchem. Going forward with portfolio of differentiated, value added and unique products, we are confident of enhancing shareholders value and to achieve our long-term goal.

With this, I would be happy to take your questions. Thank you.

Moderator: Sure. Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Bhavya Shah from Girik Capital. Please go ahead.

Bhavya Shah: My question is with regard to our Dahej Nitric Acid complex. In the investor presentation we have mentioned that we have entered into a long-term agreement for 70% of the capacity. So, just wanted to know details about the agreement as to what is the tenure of the contract for which you have entered, raw material pass on clause, how are the margins fixed – is it fixed on per Kg basis or is it fixed on percentage basis? And if the customer is not able to take off the promised volume, then is it a take or pay type of contract?

Amitabh Bhargava: One is this contract is on long-term basis for different buyers. The term of the contract would vary but we have contract for next let us say up to on an average five years. These contracts are essentially based on ammonia pass-through and on top of ammonia, there is a per ton margin that gets fixed in these contracts. To your third question, these are not take-or-pay. In fact, we are at a stage some of the buyers would want us to commit higher quantity, but we have typically restricted it to say about 65-70% of our production on long-term basis because given the demand that we are seeing in nitric acid, in the spot market we have an opportunity to earn better margins compared to long-term contract. There is take or pay is not really requirement as such because we know that these buyers are completely dependent on us as much as we are dependent on us to offtake their downstream capacities are dependent on our nitric acid and the demand we are seeing from them for increasing the overall commitments. We do not think that there is a need to really get to a long-term take or pay. Having said that, we typically keep some volume-based discounts in terms of incentivizing these customers to take their full committed volume.

Bhavya Shah: So, since the demand is strong for the product and the plant has already stabilized, so second half of FY20 and FY21 what is the capacity utilization one can expect?

Amitabh Bhargava: We started the commercial operations only on 11th of April, so it was a partial utilization in terms of the stream days. Also, there were some teething challenges. So, our average utilization was about 58-60% level. In this quarter, we have already seen continuous days where we have run the plant at 100% capacity utilization. It gives us confidence that as far as the production is concerned, we would be able to run this plant at almost 100% capacity. Now from a demand perspective, given that 30% of our demand is still dependent on spot markets, we think the capacity utilization should be upwards of 80%. Very difficult to put a number, but we think overall capacity utilization should be upwards of 80% in second half of this year.

Bhavya Shah: Coming down to our Fertilisers business, since the monsoon has been good this year, so can we expect our Fertilisers plant to ramp up in the coming quarters?

Amitabh Bhargava: I must mention that right now the overall inventories in the market are still very high. As you know, we entered the kharif season with the weak rabi season and there was also delayed monsoon. Now, while at one level we have seen very clearly the liquidation has improved in July and August, but given the inventories are still very high, we will have to monitor and see how soon the inventories back to the normal levels so that further production can be then sold in the market. So, I think we will have to wait and see by end of the second quarter where are the inventory levels and depending on that our capacity utilization would have to be planned.

Bhavya Shah: Once the inventory normalizes, then what is the achievable EBITDA per ton we can achieve once our NPA and NPK plants ramp up to say 80% utilization?

Amitabh Bhargava: Normally, as you would see in our financials, we do not report EBITDA segment wise. What we are reporting is EBIT for the fertiliser and the chemicals segment. Now, at this stage it is very difficult to comment in terms of rupees per ton even on EBIT level but what I would say is that compared to last year given the overall raw material prices have softened, take the case of Phos-Acid which come down from almost $768, down to $655, about $100+ of reduction. We will have to see of course how market in the sense other players to what extent they would reduce the prices or pass on that reduction in the raw material prices in the MRP, depending on that. Also, we are also looking at Smartek primarily this year we are targeting almost 90% plus sales of Smartek. Now we have seen in the Q1 FY20 as well as we are seeing in July-August, the areas where we have sold Smartek last year, we are able to easily adjust the price premium but in the markets where we are yet to reach out to the farmers, we may require certain level of push in terms of certain additional expenses may have to be incurred to sell the Smartek product and therefore the effective premium that we would get on Smartek. I think there are too many variables at this stage for us to put a number, but what gives us the confidence that overall reduction in raw material prices, improved reservoir levels in Maharashtra and also the sowing acreage that has gone up in some of the fertiliser consuming crops, we believe that it is going to be a more extended and uniform consumption this year compared to last year and that should adequately reflect in both capacity utilization and per ton margin.

Moderator: Thank you. The next question is from the line of Vineet Arora from Arora Capital. Please go ahead.

Vineet Arora: My question is pertaining to the monetization of non-core assets. So, what is the progress been so far?

Amitabh Bhargava: As such as far as our non-core assets are concerned, one is we have of course we have made a modest beginning in terms of selling stake in one of our subsidiaries. That transaction is complete. We are now looking at the other non-core assets, namely, one is we have some real estate in Pune as well as some spare land that we have in other geographies that we were planning to set up a plant where that land could be utilized for further plant purpose. Those are the assets that we are looking at monetizing. Also, we have a stake in subsidiary in Australia and we are also looking at possibilities of part sale of our stake in that subsidiary as well. So, there are multiple areas where we are working on. It is difficult to put a timeline because some of them we have just started the process of identifying the buyers or we are kind of in very initial stages. So, it is very difficult to put a timeline but like I said we are making efforts across wherever we have non-core assets in terms of both land and our stake in subsidiary.

Moderator: Thank you. The next question is from the line of Ritika Garg from Equitas Investments. Please go ahead.

Ritika Garg: I wanted to know what are the internal measures that we are taking so that we do not face storm that we face last year again…everything that we went through?

Amitabh Bhargava: So, one is if you see fundamentally two, three areas where we had challenges last year – One is the availability of Phos-Acid itself. We were dependent primarily on Moroccan acid in terms of our plant being capable of processing only Moroccan Phos-Acid. What we have done in last two or three quarters where the Moroccan asset was not available adequately to us, we have done trial runs from the asset from other sources, Jordan, Vietnam, Chinese and the other sources. So, one is we are capable now of taking acids from different sources. We may still have to take Moroccan asset to a large extent. But our ability to mix the acid from other sources and still able to produce the required quality of finished goods has substantially improved in last two, three quarters. So, that would make sure that if we do face a similar situation of Phos-Acid shortage, we would be in a much better place to handle that. The second aspect that we are also seeing is as early as Q3 FY2019 there was water clutch done by MIDC. Now, we took certain steps in terms of reducing the water requirement itself in the plant by way of arresting leakage as well as there are other conservation methods and also improved our overall supply by laying additional pipeline. Now I am happy to tell you that in Q1FY2020 which was just before monsoon, normal course every year and particularly this year when the water levels in reservoirs were also gone down to all-time low, we would have certainly faced some level of disruption or shutdown but we did not lose a single day of production in Q1 this year on account of water because good measures that we have taken. The third one is on the chemicals side, two aspects which were a challenge for us last year – One is the overall reduction in trading volumes. We had still done almost Rs. 2,000 crores of trading and that meant that the working capital requirement as far as the interest on working capital was high. So, we bring that run rate down almost to Rs.120-150 crores per quarter. Second is we are now restricting ourselves only to IPA. Last year we had done trading in other solvents as well. And to that extent our ability to monitor prices and the price movements where we lost in trading also in Q3 and Q4 particularly. I think that aspect in IPA we should be able to predict much better and IPA has been already more in terms of also projecting our manufacturing margin. So, there is synergy in the IPA trading as well as the manufacturing. To that extent, I think we should be able to completely avoid those trading losses that we incurred last year. Having said that, in IPA trading, "Could there be losses in certain quarters?" There is a possibility given the prices would fluctuate, but at least what we are seeing now is that there is after IPA touching $640 per ton, the movement of IPA prices is mostly towards $700 and $720-odd. Though we will continue to trade in IPA, hopefully we would not have trading losses in IPA. I think those were two, three main areas where we did hit last year.

Ritika Garg: Also, we are in great businesses, I mean, we are the only player in TAN, we are the largest in IPA, Nitric Acid also we have a great market share of 54%. So, the PAT margins if we see in the last five years have been sub 4% and our ROE and ROCs have been slow. So, what are we doing to improve margins? And what do we see sustainable PAT margins? Also, TAN has been the major contributor to our profit. But we are going to take the expansion in a phased manner. So, like what are we doing to reduce the operations of our non-profitable businesses?

Amitabh Bhargava: At this stage, if you see among the segments, very clearly, TAN, Acid, until two quarters back, even IPA, all three businesses given our strong position was in terms of being one of the market leaders in each of these segments, our performance at a contribution level was strong. In the last two quarters where we have seen challenges is one on the IPA side and we believe that going forward maybe in the next three quarters we would be able to get better margins in IPA. But the area where we are currently seeing a challenge from overall consolidated EBITDA or PAT is the Fertiliser business. And there I think there are two-three levers that we are currently working on – One is the volume or capacity utilization itself. Last year we had certain challenges. This year we believe while Q1 was definitely lower volumes because of delayed monsoon, but through the year given some of the good fundamentals we are seeing the volume should be better than last year. The second aspect where we are working on the second leverage is moving away from commodity bulk to speciality and this is where if you see our Smartek production. This year we are targeting more than 90% of our sales through Smartek. And one good thing that we have witnessed is wherever Smartek was sold last season where farmers had an experience, farmer are not just buying that product but they are willing to pay the premium. Of course, it is going to take a little more time. Perhaps at least this kharif, rabi and maybe next kharif for us to establish Smartek across our core command area because in a tier-2 like last year we did about 40% of our volumes through Smartek, this year we are trying to do about 80-90%. Initial phase we may even have to incur some additional expenses in terms of dealer margins or certain other promotional expenses, but once the Smartek gets established which is what we have seen based on our experience in areas where farmers bought it last year, we believe that we would be able to sustain certain level of premiums and that would be another lever that we are working. And the third lever I would say is that while rightly pointed out by you that while at the contribution level in other than fertiliser and other three segments we have by and large done well. I think it is the fixed expenses that last year we saw, we kind of that reduced our EBITDA margins specified at a contribution level product doing well. Now, we are working on reduction of certain fixed expenses. Last year we had certain fixed expenses in terms of certain consulting assignment. Those assignments are by and large got over. So, you will see better legal and professional expenses. I think that is one area that we are working on. There are a couple of other areas that we are working on consciously in terms of reducing our fixed cost. So, a combination of these three I think primarily on fertiliser segment and then reduction in fixed cost, we should be in a position to come back to our PAT margins that we saw in I would say 2014-2015 period.

Ritika Garg: But what according to you has gone wrong in the past five years? I understand that last year was an exception and like raw material prices were out of control due to external factors, but, our margins have been pretty low since 2015, right.

Amitabh Bhargava: Up to 2014, as you would know that, primarily our export was for our ammonia production and for our NPA because you should have NPK capacity then, was primarily through cheaper gas that we had that was APM gas which we had discontinued in 2014. Most 2014 we have been largely dependent on LME as our input cost, and there has been substantial difference between APM gas price and the LME landed price in our plant. So, that was one reason that obviously set us back in terms of our overall profitability. We have also seen our general capacity utilization in TAN which ramped up in the last two to three years and our movement from HDAN to SDAN also has happened in last two years. So, before that I think our capacity utilizations were also on the lower side and we could not take full advantage of these products. Otherwise we had the market neither shape in. But in the meantime, like I said, I think some of the fixed costs have also gone up and we are now consciously working on reducing some of the fixed cost. Our interest costs were also up last year and a year before last because of IC trading. So, a combination of I think two-three areas where we are working on we should be able to get over I would say the low profitability area that we have seen since 2015.

Ritika Garg: But if we are still dependent on R-LNG versus APM now going forward. How according to you is the profitability going to improve?

Amitabh Bhargava: As far as gas is concerned, after the increase in capacity, overall capacity in Taloja our dependence on our own produced ammonia, has been relatively low. So, if you look at our overall raw material composition, gas, imported ammonia and Phos-Acid, are the three main components. So, gas per se or the weightage of gas in our raw material has come down because we are also importing ammonia and also of course the Phos-Acid with the NPK capacity coming in, Phos-Acid is another big chunk of our raw material cost. Our current ammonia plant is highly energy inefficient. That is something that our ability to produce ammonia at the right price we should be able to do it only after we had set up our new ammonia capacity. Until then, given the sort of JNPT the constraint that we are seeing in imported ammonia to an extent we will have to run our inefficient ammonia plant also. But compared to previous years where gas was a major raw material, the weightage of gas in our raw material basket has come down.

Moderator: Thank you. The next question is from the line of Hardik Shah from Prospero. Please go ahead.

Hardik Shah: In the AGM speech Mr. Mehta was hinting at some alliance or a JV for procuring raw materials in the fertiliser business. Can you throw some light on this?

Amitabh Bhargava: At this stage, I think what Mr. Mehta announced is pretty much what we can share but just to repeat for the benefit of other participants, we are essentially looking at a tie up with a large global fertiliser player. Now the tie up could vary anywhere between strategic alliance in terms of procurement of certain raw material at differential price and at the other end I would say it would also be that the fertiliser player or the parties that we are talking to may even take a minority stake in our fertiliser business. So, it is early stage in which way or where would this strategic alliance would settle but certainly one of the main objectives is to kind of be able to procure certain raw materials particularly I would say Phos-Acid at preferential, commercial terms because that is one area where since we do not have our own rock phosphate to Phos-Acid conversion facility, in the periods where Phos-Acid prices spike, we can have disadvantage vis-à-vis other players. And that is the gap that we are trying to bridge through this alliance.

Hardik Shah: So, any timeline for this that we are targeting?

Amitabh Bhargava: At this stage, difficult to commit any timeline, but at the right time we will come back to the shareholders.

Hardik Shah: In last to last concall, we were talking of some energy benefits of Rs.70-80 crores. So, has the benefit started settling down or what is the update on it because we have just Rs.10-11 crores PAT and you are talking of some Rs.70-80 crores benefit from energy? New thermal coal plant or something because of that, some benefit we were expecting of around Rs.50 to 80 crores annually. I think in my two, three concalls we were speaking about this.

Amitabh Bhargava: We have commissioned a coal-fired boiler at Taloja which depending on the prices of coal and gas where in certain period our power or steam production cost are better compared to gas-based steam production cost. That is like I said the relative economics of it is dependent on the prices of coal as well as gas at any point in time. I do not recollect that we had tried to quantify any number as such in the previous quarter but we can go back to the script of Q2 or Q3 that you are referring to and we can give further clarification.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: If you could give what are our net debt level as on today?

Amitabh Bhargava: Net debt is about Rs.2,800-odd crores level by June-end. March '19 first quarter was Rs.2,700 level.

Saket Kapoor: Can you split it between the long-term and the working capital requirement?

Amitabh Bhargava: Roughly, I would say that about Rs.1,100 crores would be short-term working capital debt and rest is the term debt. The ammonia debt is also of roughly about Rs.830-odd crores is part of this number. Other long-term debt for our other projects which is Dahej Acid project and our NPK Taloja project and then we have about Rs.1,100 crores of working capital borrowing.

Saket Kapoor: Our blended cost of funds also?

Amitabh Bhargava: Blended cost would be in the range of 8.5-9% on total Rs.2,800 crores. Long-term would be slightly on the higher side, this is more like working capital. Long-term would be in the range of about 9.5%.

Saket Kapoor: My next question is on the revenue mix. How is the revenue going to look like for this year between the Chemicals and the Fertiliser segment?

Amitabh Bhargava: I would say that through the year most likely we would be 40% fertiliser and 60% chemicals. It would be 35-65% also, but I am just giving you a rough number of 40% and 60%.

Saket Kapoor: Nitric Acid is primarily used in the fertiliser segment only or does it find application in the sense as also we are having a dominant market share, what are these applications for?

Sailesh Mehta: We are supplying nitric acid to downstream speciality chemicals who are basically doing nitration of either organic or inorganic compound. And these speciality chemicals in turn are used in paints, dyes, food grade chemicals and the other consumer goods. So, it is basically a raw material for many speciality chemicals which use nitration as a chemistry to go down the value chain on the speciality chemicals.

Saket Kapoor: This time our Prime Minister did emphasize on non-use of chemicals and fertilisers, asking the farmers to rethink over it and on the other side, every fertiliser player are expanding the capacity, so the top notch asking to mitigate the use and reputing more money. How did you took statement from the Prime Minister this time?

Amitabh Bhargava: As far as we are concerned, we are reading a larger message in Prime Minister's this particular aspect in terms of that there has to be a right mix or judicious combination of fertiliser that should be used for our soil. And to that extent, we believe that with DBT 2.0 coming in and the subsidies getting directed to farmers, based on their Soil Health Card, based on their acreage, based on the crops that they are growing, we see that within chemicals should get a better boost because we need a balance between N, P and K which traditionally has been more in favor of N and lesser P and K. So, we believe that overall NPK fertiliser should get a better share of chemical fertiliser. It is difficult to say whether countries overall food security requirements how soon and how far can this composition between chemicals and other non-chemicals fertilisers would change over a period of time. But if a country has to continue to produce and farmers are required to get higher yield, I think the chemical fertiliser are here to stay, and within chemical fertiliser, we believe that NPK share will hopefully get better with NPK ratio itself becoming more judicious.

Saket Kapoor: What should be the outlook for the year as a whole? In realty, we have lost last year also around Rs.16 crores and in fertiliser, the losses were to the tune of Rs.39 crores and we have opened this year also with losses although we have been mitigating them. But what should be threatening in terms of these two segments?

Amitabh Bhargava: At this stage, we would not be able to give any guidance on numbers. Individually, like I mentioned, we expect fertiliser to be better for simple reasons that we expect this year a) because of raw material prices; b) because of more extended annually from fertiliser consumption given that our overall reservoir levels are in our core command area. The other product is IPA; Acid and TAN continue to remain strong. So, I think individually segment wise, I have given you some direction but we would not be able to give any commentary on the numbers.

Saket Kapoor: The real estate is also denting the profit, contributing negatively. So, what are the factors that has led to the same and what steps are we are taking to mitigate it?

Amitabh Bhargava: There are two aspects on real estate. One is over a period of time our occupancy or utilization of the overall lease in our creative team has all has gone up. I think that is one aspect. The second aspect is we touched upon which is in terms of monetizing our non-core. We have started working on that. Depending on how soon we are able to monetize some of our non-core assets, we may be able to generate additional liquidity as well as I guess depending on what level of monetization that we are able to do of our land, some of these businesses may be scaled down substantially.

Saket Kapoor: Do the current market price would be acting as a deterrent for you to subscribing to the warrants or are we confirming that the prices are not going to be a deterrent and we will be subscribing to the same because I think so they are quoting at around 25% of what your conversion prices are?

Amitabh Bhargava: Mr. Mehta in his opening remarks did confirm that while the 25% funds have come in and the balance funds will be brought within the timeframe that promoters have in terms of exercising these warrants. So, at this stage, there is no rethinking on not subscribing to these warrants. They will be subscribed at Rs.309 at which we have taken shareholders' approval.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: My first question sir is with reference to the comments made by the chairman. He mentioned that the IPA and TAN projects going to be put on hold. So, we have already made the upfront payments for TAN and we have taken debt for that and there is interest accruing on that. So, what would be the status on that right now, how do we plan to deal with it going forward?

Amitabh Bhargava: It is correct to say that we have taken some TAN equipments that we bought some time back because opportunistically we were able to get these equipments at fairly attractive prices. But we have not contracted any specific roles for this TAN project. To that extent, I will say that there is no interest cost that we are running on account of any specific loan taken. Having said that, your point that we have about Rs.250-odd crores of capital that we have blocked here, that point remains. So, what we are doing is that TAN project and IPA project while we have said that we would be implementing these projects in a phased manner, there is anyway level of work that we need to do before we come to a stage where we start investing in these projects in terms of construction, etc., So, we really need to acquire land, we need to take environmental approval. So, those steps are in any case we are taking parallely. To that extent, the big part of that investment in terms of construction and buying the balance equipments is something that we would be doing it in a phased manner.

Lokesh Manik: Also, we saw significant increase in miscellaneous expenses in FY19 annual report. What would these pertain to if I may ask?

Amitabh Bhargava: We had a few management consultants who are working for us in terms of number of performance improvement initiative. Given the size of our operations, we had invested in sales and operating, planning IT tools, until sometime back we just moved from SAP to SAP HANA. Likewise, there are a number of initiatives that we were working with the help of consultants. Now, most of those assignments by and large have got over in last year. So, we will see that cost not recurring in coming quarters. That was one. I think there were other measures that we have taken in terms of reducing our demurrages that we used to incur for some of our raw materials procurement at JNPT. We took certain efficiency measures. At least in Q1 FY20 we have seen a reduction compared to Q1 FY19. Likewise, there were also certain other plant maintenance related expenses that we have brought in some more efficiency. So, we see a combination of these but largely like I said there are fixed expenses related to some consulting assignments that have been working upon last year. Those are by and large would not recur.

Moderator: Thank you. We may able to take one last question. The last question is from the line of Rashmi Gopani from Gopani Securities. Please go ahead.

Rashmi Gopani: Sir, you mentioned in your annual report that you are going to add some additional capacity in your Taloja plant for Ammonia, IPA and Nitrogen, Phosphorus, Potassium. So, when are these capacities going to be added and what kind of revenue this will put in?

Amitabh Bhargava: Like we just mentioned during the call that as far as TAN and IPA projects are concerned, we are going to accrue them over a period of time depending on our ability to raise funds both from debt and equity side. So, they are in a sense going to be done more on a spread out basis. Ammonia project is the project that we are currently going ahead with and we have tied up long-term debt of about Rs.2,040-odd crores from that. So, that project is in the phase of implementation. We expect that project to be completed over next 28-to-30-months I would say. It would not add any top line because most of the ammonia we would be consuming internally. From consolidated numbers perspective, it would not be an addition but it would add to whatever EBITDA margin that we make in ammonia project, those margins you will see appearing in our consolidated number. Top line per se would not change.

Moderator: Thank you. We will take that as the last question. I will now like to hand the conference back to Mr. Amitabh for closing comments.

Amitabh Bhargava: Well, thank you, ladies and gentlemen for patient hearing and for insightful discussions today. We hope to deliver on the commitments that we have made and come back to you and report where we stand in a quarter. Thank you all once again for your participation. Have a great day.

Moderator: Thank you very much. On behalf of PhillipCapital (India) Private Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

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Note: This transcript has been edited to improve readability

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