



24th June 2019

The Secretary
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001

Listing Department
National Stock Exchange of India Ltd.
“Exchange Plaza”,
Bandra-Kurla Complex, Bandra (E)
Mumbai – 400 051

Subject: Management Transcript for Q4 FY 2019 Conference Call

Dear Sir / Madam,

We would like to provide the Management Transcript for Q4 F.Y.2019 Conference Call which was held on 4th June 2019.

The transcript of the Q4 F.Y.2019 Conference Call is also available on below mentioned Youtube video link :

YouTube link: <https://youtu.be/xY0EfE14JoM>

Thanking you,

Yours faithfully,

For Deepak Fertilisers
And Petrochemicals Corporation Limited

K. Subharaman
Executive Vice President (Legal) & Company Secretary



DEEPAK FERTILISERS
AND PETROCHEMICALS
CORPORATION LIMITED

Earnings Conference Call

Q4 and Full Year FY2019

June 4, 2019

Management:

Mr. Amitabh Bhargava – President and Chief Financial Officer

Mr. Deepak Balwani - Head – Investor Relations



Hosted by Emkay Global Financial Services

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2019 Results Call of Deepak Fertilisers and Petrochemicals Corporation Limited hosted by Emkay Global Financial Services. We have with us today on the call Mr. Amitabh Bhargava – President and Chief Financial Officer and Mr. Deepak Balwani, Head - Investor Relations. 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 the 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. Amar Mourya from Emkay Global Financial services. Thank you and over to you Sir!

Amar Mourya: Good evening everyone. I would like to welcome the management and thank them for giving us the opportunity. I would now hand over the call to the management for opening remarks. Over to you gentlemen!

Amitabh Bhargava: This is Amitabh Bhargava. Good afternoon ladies and gentlemen and greetings on behalf of our MD, Mr. Sailesh C. Mehta as well, he is traveling overseas, he is unable to join this call. Thank you for joining the Deepak Fertilisers and Petrochemicals Q4 conference call to discuss the financials and operational performance. I hope you have gone through the earnings presentation and financial results, which are already available on the stock exchanges and company website.

The year FY2019 has been a mixed bag for us. The total revenue increased by 11% to Rs. 6,742 Crores in FY2019 with profit after tax stood at about Rs.73 Crores in FY2019. The performance of our TAN business improved significantly during the year, which was primarily supported by demand and improved pricing scenario. Commissioning trials of greenfield plant at Dahej were undertaken during Q4 and subsequently, we announced commercial production in April 2019. However, the crop nutrition and IPA businesses faced challenges on account of adverse market condition and raw material issues.

Volumes of IPA was lower by nearly 17% compared to the last year on account of water shortage, which was unprecedented in off summer season as well this year and one time unexpected process constrains that we had in term of a reactor pressure job. Sudden fall in prices of pharma solvent in Q3 FY2019, which primarily arouse out of USA’s see-saw policies on Iran sanction had also led to downward valuation of trading inventory and we incurred losses in the chemicals trading segment.

Let me take you through the quarterly performance for each of the business in detail. First on the chemical segment, during Q4 FY2019 chemical segment reported revenue of Rs. 776 Crores as compared to Rs. 1,454 Crores in Q4 FY2018. Sales volume of IPA declined by approximately 14% year-on-year on account of one-time unexpected technical issue in process reactors. IPA margins were also impacted on account of reduction in IPA import prices. In Q4, TAN business continues to perform well supported by higher TAN solution

volumes which increased nearly by 48% YoY and the increase in the sales prices of HDAN as well TAN solutions.

During the year, the company recorded robust revenue growth of 27% supported by increase in demand from mining and infrastructure industry and higher export as well. Our TAN manufacturing plants are operating at full capacity. TAN achieved highest sales volume in FY2019 of 506 KT, an increase of 20% YoY. Margins in acid business significantly improved on account of the increase in concentrated nitric acid prices. This was offset to some extent on account of decline in sales volumes because the CNA price increased by about 35% in Q4 FY2019 compared to the same period last year.

Our chemical trading business, as we had also mentioned earlier, was consciously reduced progressively in last four quarters. It was reduced from Rs. 817 Crores Q4 2018 to Rs. 146 Crores in Q4 FY2019. The company continued to consolidate its trading portfolio and is focused on select high margin products only. USA see-saw policy, as I mentioned earlier, on Iran sanction also had an impact on methanol pricing scenario in India, which resulted in sudden fall in methanol prices during Q3. In Q4 FY2019, margins of methanol were not favorable to support production during the quarter. Therefore, methanol sales volume during the quarter reduced by nearly 77% year-on-year to 4,444 metric tonnes on back of limited production. Opportunistic production of methanol is undertaken as per availability of affordable gas and pricing trend outlook in the market as you are aware.

Fertilizer segment, during the quarter NPK sales volume declined by approximately 6.7% YoY. The decline was mainly due to severe drought condition in last Rabi season in Maharashtra, which resulted in high inventory buildup; however, the segment has witnessed continuous growth in our value added products such as Smartek and other specialty products.

The segment reported revenues of Rs. 512 Crores in Q4 FY2019 as compared to Rs. 446 Crores in Q4 FY2018. The company has maintained leadership position in core market in Maharashtra for NPK with approximately 19% market share. Unlike the first half of FY2019, availability of phosphoric acid improved substantially in Q4 FY2019. However, the prices of phosphoric acid in Q4 FY2019 increased if we compared to previous year may be 45% up compared to Q4 FY2018 and the higher raw material prices coupled with inability to pass through it entirely has impacted the segment margins. However, over the recent months the prices of phosphoric acid and ammonia, which are key raw materials have started moderating and this gives us confidence for improvement in margins in the near terms. The segment has witnessed continuous growth in differentiated and specialty products category. For differentiated product segment sold approximately 1,23,000 tonnes during FY2019. The differentiated NPK product under the brand name Smartek, which is performance fertilizer. Banking on strong customer response we have shifted about 43% of NPK portfolio to Smartek during this fiscal year.

Now as far as the balance sheet is concerned, you would notice that the gross debt of the company has reduced from Rs. 3,532 Crores in March 2018 to about Rs. 3032 Crores in March 2019. Short-term debt declined from Rs. 2,839 Crores to Rs. 1,176 Crores. Strategic reduction in chemicals trading volumes has helped us in the overall reduction of short-term debt. Decrease in short-term borrowings was also due to short-term loans for ammonia projects, which were then converted into long-term loans, which have 19-year door-to-door maturity. Net debt at consolidated level declined to Rs. 2,698 Crores in March 2019 from Rs. 3,063 Crores in March 2018. Net debt to equity improved to 1.26x in March 2019 from 1.47x in March 2018. Our ICRA long-term debt rating is A+ with stable outlook while the short-term debt rating is A1. Dahej plant hits very quickly, on operational front we have recently commissioned commercial production of nitric acid complex at Dahej, Gujarat. The new facility with capacities of 92 KTPA of CNA and 149 KTPA for DNA strategically located in the vicinity of all the major consumers of CNA and fully commissioned of this facility DFPCL is now the second largest manufacturer of nitric acid in Asia, having the largest integrated nitric acid plant with a combined capacity of 1.07 million TPA at Taloja and Dahej. The new plant caters to the growing demand for concentrated nitric acid and diluted nitric acid markets in the Gujarat region along with customers in North and East India. Most of the production capacity has already been tied up with long-term customers from new plant and project is expected to operate at full capacity within a short span of time. With growing demand and faster capacity ramp up the project is expected to achieve faster payback than that was envisaged earlier.

A quick brief on IFC funding something that you would have noticed earlier as well. As a testimony to our strong business foundation and endorsement of our strategy direction, we have recently announced partnership with International Finance Corporation, a member of World Bank Group. The company has secured US \$60 million financing from IFC by way of compulsorily convertible debentures and foreign currency convertible bonds. IFC will subscribe to CCDs of about \$30 million in two equal tranches issued by Smartchem Technologies the wholly owned subsidiary of DFPCL; while DFPCL will issue FCCBs of US \$30 million to IFC in two equal tranches of US\$ 15 million each. The proceeds would be utilized for funding capex and working capital requirements of the company.

Before opening the forum for Q&A, I just would like to say that as Mr. Mehta had mentioned earlier in his press statement, FY2018-2019 has been really a perfect storm for DFPCL; however, softening in prices of major raw materials such as ammonia, phosphoric acid and even natural gas, which is currently being good. We expect that it will benefit DFPCL in the coming quarters.

Going forward with focus on offering differentiated and value added products, we will continue our transformative journey towards becoming holistic solution provider with this favorable trend along with various risk mitigation measures undertaken, we are confident of

achieving better operating margins in FY2019-2020 and creating long-term value for our shareholders. With this we will be happy to take your questions. Thank you so much.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Hardik Shah from Prospero. Please go ahead.

Hardik Shah: My question is, was there any one off gain or loss in the Q4 FY2019?

Amitabh Bhargava: There was no one off gain or loss as such, but as you would see some of the other costs have gone up. I would say not just Q4, but if you look at the full financial year we had certain cost relating to professional and legal charges that we had paid to a number of consultants who were working for us on various performance initiative measures. A majority of that would be non-recurring, so you would see that cost to an extent going down. We had certain plant maintenance repairs also. We have commissioned our plants this year, which is for phosphoric acid storage. Those were a few costs, which have come new in a sense and majority of them I would say should be in a position to make sure that they are not repeated next year.

Hardik Shah: Can you quantify the amount, consultant, legal, plant repair cost and the phosphoric acid tank?

Amitabh Bhargava: I think the overall increase in legal and professional charges was about Rs. 30 Crores odd, plants and maintenance repair was about Rs. 14 to 14.5 Crores, stores and spares likewise is about Rs. 10 Crores and the tank that we had for process is about Rs. 6 Crores. The effect of that like for example phosphoric acid tank while we are paying the effect of it in terms of saving demurrages over a period time on phosphoric acid, which is what we end up facing in JNPT. We hope that these charges or demurrages saving will more than compensate for these charges.

Hardik Shah: What was the average phosphoric acid cost for FY2019 and what are we paying currently in this quarter?

Amitabh Bhargava: Average cost in last quarter was US\$ 750, which is down to US\$ 728 now, average cost we will need some time, we will come back to you what is the average cost.

Hardik Shah: And this cost was around US\$ 1,000, I think US\$ 950 in Q3 right?

Mahesh Girdhar: There is CFR cost and this is India arrived cost plus the local transportation gets added to that, so US\$ 750 is a contracted cost. This started from US\$ 670 in the first quarter and ramped up to US\$ 750 in the last quarter, which has started going down and now it is at US\$728.

- Hardik Shah:** Things are normalizing now?
- Amitabh Bhargava:** Yes. It is going down and expected to go further down.
- Moderator:** Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.
- Lokesh Manik:** Good afternoon Sir. Thank you for the opportunity. My question was at the retail level, what we understand is that fertilizers and pesticides has sold together to the farmers along with micronutrients and other tonics, and many fertilizer companies have tie ups for such cross sell activities, would we be having a similar kind of a tie-up with any pesticide company?
- Amitabh Bhargava:** Not so far and it is something which as and when we do we could inform you.
- Lokesh Manik:** Going forward are we considering?
- Amitabh Bhargava:** I would not be able to comment on that.
- Lokesh Manik:** Just coming back to the phosphoric acid prices where you said that we have seen approximately 45% jump YoY. I just wanted to understand that when I look at phosphoric acid prices for peers, they have not moved much over the years specifically this year. I mean the variation is not more than 10%, but exactly what I have been receiving out of there?
- Amitabh Bhargava:** I am not sure who you are comparing.
- Lokesh Manik:** I am comparing to Coromandel, I just recently saw their presentation.
- Amitabh Bhargava:** I would say that some players have dual sources of phosphoric acid by this they buy phosphoric acid, they also have facilities to convert rock phosphate in to phosphoric acid and depending on which works out more economical to switch their sourcing from one to the other. Last year we do not have rock phosphate based source that is how we purchase the phosphoric acid like the other. Phosphoric acid prices did go up pretty much in the manner that we are just mentioning in our number.
- Mahesh Girdhar:** This is same for everybody in the country it is India contracted price.
- Lokesh Manik:** Sir, also just coming back to the other expenses, have you seen any significant increase in selling and distribution we heard there was discounting going on in the market?
- Amitabh Bhargava:** What we have obviously the two aspects and one is probably more specific to us and the other is more of a market situation. One is from next financial year we are planning to move a substantial part of our NPK portfolio to the Smartek, therefore, there is a level of promotional expenses that we have incurred and that would be typical to us given that we really want to

shift a product, which has better margins and better utility for farmers. The other aspect is more in terms of the inventory buildup and given the drought situation we had to pass on certain discounts in terms of even collection of our money, so there was weakness in collection. If you see the many peers were offering certain attractive discounts, as they are going through a bit of a working capital challenge. So to that extent some of them had offered attractive discounts for collection and it was important equally for products to collect money in the market. We had also pass on some of those discounts which are in line with the competition.

Lokesh Manik: Would it be correct to understand that majority of at least the selling and distribution that is used to promote your NPK Smartek. Even for the next year good portion would have been covered in this quarter or you would still be increasing your spends going forward?

Amitabh Bhargava: No, by and large there is no further spike in the expenses going forward.

Lokesh Manik: In the NPK plant, what is the operational efficiency, at what volume level can we expect operational efficiency to pick in?

Amitabh Bhargava: The only issue that we faced last year was more around the phosphoric acid availability. In Q4 we have by and large we had completely overcome it because we had experimented with multiple sources, so we did not see any hiccups in the capacity utilization for the new source phosphoric acid. Water was another challenge we faced in last many years in summer season. Given various measures we undertook last year, this summer we have not faced any challenge in terms of the shutdown because of water problem. We expect that with the steps that we have taken going forward water and phosphoric acid would not be a challenge. As such the capacity utilization would also be a function of what kind of inventories are there in the market and how much we really want to pack up and of course the way monsoon also turns out. Technically, we do not see any challenge, but to adopt the market environment we have to make certain capacity utilization plans and we will do that.

Lokesh Manik: Thank you so much. I will come back for any further questions.

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

Ritika Garg: Good afternoon. Sir, I wanted to know what is the outlook for IPA for FY2020?

Amitabh Bhargava: For FY2020 the IPA outlook I would say depends on two aspects, one is the IPA price itself and the second is how the RGP prices moves. Because for us a large part of our, while we do trade in IPA I would say the margins that we make in servicing our customers, but majority of the margins come from manufacturing. As far as the IPA is concerned towards the end of Q4 we started seeing dumping of IPA from China and we have seen price is going down

rapidly. Though in recent times we have seen a bit of a comeback of prices by \$20 to \$30. I would say so long as the crude prices the way they have recently come down to about \$60 odd if they remain at that level or below that we believe that the RGP and IPA prices would also be subdued or would not pose that much of a challenge. But if the crude prices go up and RGP prices are on the higher side it would certainly have and in fact actually it is in short-term that we have seen till time the IPA prices remain subdued we do see a challenge in IPA margins. Like I said it is a function of both IPA as well as RGP price.

Ritika Garg: Right, so what were the IPA prices in Q4 FY2019 and probably a year ago?

Amitabh Bhargava: The prices have come down for nearly about US\$1000 odd to down to about US\$800 in the beginning of last quarter and as we see they are down to about US\$660-\$680 range.

Ritika Garg: So, we see IPA having subdued performance at least in the first half of FY2020?

Amitabh Bhargava: Not sure, I can comment on first half, but in the first quarter so far the prices of IPA have been subdued and now with recent correction in crude and effectively in RGP prices implicit better scenario.

Ritika Garg: Sure and my next question is regarding our ammonia plant, so we imported 80% of our ammonia requirements, right currently?

Amitabh Bhargava: That is right.

Ritika Garg: Now globally imported ammonia prices have corrected right?

Amitabh Bhargava: Yes, ammonia as a commodity if you go back 10 years you would see US\$700 and you would also see US\$240 -250 of FOB Middle East, so they do ammonia will go through the cycle and in line with that yes in recent times the ammonia prices have corrected.

Ritika Garg: Sir, about what price of ammonia is this project viable?

Amitabh Bhargava: Project viability as such we have looked at certain returns from this project beyond our hurdle rate and I would say that anywhere between US\$330-350 of FOB Middle East and in a 10-year horizon you would see may be US\$500 and US\$600, equally you would see US\$250, but on an average if we get about US\$340 -360 of FOB Middle East we should make a reasonably good return of just a break even, but make reasonably good returns.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Thanks for taking my question. Can you tell me what percentage of stake IFC will hold in Smartek post conversion?

- Amitabh Bhargava:** Actually the way it would work is that convertible instrument where it could get converted on an average at five to six years depending on the two transfers, which will get converted and they have time for 10 years conversion, but assuming that they gets converted at the end of five or six years, which is essentially the time after which we would have completed all our capex plan, if we get converted at the fair value of Smartchem at that point of time. It is difficult to say at this stage what percentage, but overall I would say it should not be and I am just putting a number right now like I told you that it is a function of fair value, but it should be more than 15% to 20% or I would say rather it works in terms of the valuation term Smartchem's fair valuation was low when we expect 15% to 20%, but it should not cross that number.
- Nitin Gandhi:** What are the conversion terms for DFPCCL?
- Amitabh Bhargava:** FCCB conversion terms are Rs.250 per share.
- Nitin Gandhi:** And time duration?
- Amitabh Bhargava:** It is a five-year and six-and-a-half-year instrument, half of the plant will get repaid, if it is not converted it gets repaid in five years or in six-and-a-half years.
- Nitin Gandhi:** And what is the coupon rate, which it carries?
- Amitabh Bhargava:** About 6.75%.
- Nitin Gandhi:** And similarly is the case for Smartek or Smartek is a little higher?
- Amitabh Bhargava:** Smartek is B2B where the coupon rates are marginally higher.
- Nitin Gandhi:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.
- Lokesh Manik:** Sir, my question is on the chemical segment, we witnessed an EBIT margin if I look at the segment finance of about 18.7%, which I am assuming is mainly driven by TAN and increase in nitric acid prices, so I just wanted to check if this is sustainable going forward, these margins?
- Amitabh Bhargava:** As such we are seeing strong demand and therefore in actually short-term we do not see a challenge in acid, but acid would overall again is a commodity, which could go through a cycle, I think the good thing is that we are seeing a lot of nitration chemistry shifting to India from China for obvious reasons and to that extent we see demand remaining strong. In fact we continue to get enquiry from the downstream customers as to what are our next plans in

terms of beyond Dahej. It gives us an indication that there is going to be further expansion in the downstream capacity and demand will remain strong. TAN is essentially margins are not just sustainable, but we expect that margin should get better as we move our portfolio to low density ammonium nitrate from high density ammonium nitrate and in the foreseeable future we do not see challenge.

Lokesh Manik: And increase in TAN prices for this quarter in percentage terms how much it would have been for the year?

Amitabh Bhargava: On an average if I take all LDAN, HDAN and TAN solution, roughly about 8-9%.

Lokesh Manik: So that would be about 20% volume growth and your 8% to 9% value growth I would guess, your total sale was 27%, so I am just taking the value part of it as 8% to 9%?

Amitabh Bhargava: That is right, volume and price.

Moderator: Thank you. The next question is from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.

Dixit Mittal: Good evening Sir. My question is on NPK, so how much capacity do we have currently, we were looking to debottleneck the capacity further, so what is the current status of that?

Amitabh Bhargava: NPK 6 lakh tonnes.

Dixit Mittal: We were hoping to get some environment clearance to enhance the capacity further, so I just wanted to know the status on that?

Amitabh Bhargava: As of now we are awaiting that approval.

Dixit Mittal: But Sir on this 6 lakhs in terms of your estimate, so by when can we hope to achieve the full utilization in terms of NPK?

Amitabh Bhargava: In case of NPK, our plan going forward is to move the portfolio from plain vanilla NPK to more and more specialty. The first step was that is the market that we have already. Last year we have sold about 1,25,000 MT and this year we have plan to move a good substantial part of our NPK to Smartek. The plans going forward are also for launching cost specific nutrients which would have a combination of NPK and micronutrients. So the capacity utilization given that there are different products, capacity utilization could also improve. Just give you an idea that if we produce 1 tonne of CN acid it is not the same as selling 1 tonne of plain vanilla NPK, so you would utilize the capacity to the maximum of 10, but the portfolio mix is what is more important from the point of you of margins going forward.

Dixit Mittal: In the medium term assuming the optimum kind of utilization, so in a per tonne basis what kind of margins are we targeting?

Amitabh Bhargava: We are not quoting our margins in terms of EBITDA or any of that. Broadly, yes, we are today behind some of the other more efficient players and our target is to really come as close to those margins. But I would not be able to really comment on the specific number.

Dixit Mittal: Sir, secondly in spite of decline in our overall debt position our interest cost had jumped quite substantially during this year, so is there any increase in the interest cost or what is the effort of that?

Amitabh Bhargava: So, one is I would say that during the year we were moving our chemicals trading portfolio, but we ended up still giving the first two quarters we had done substantial trading, we ended up doing actually more trading than what we did last year. In terms of run rate of course we have come down substantially in Q4 and that is how the Q4 end number is lower in terms of the starting and the end date March 31, 2018 versus March 31, 2019. During the year the working capital had remained high both on fertilizers side and on IC trading, but IC trading we progressively brought down the volumes quarter-on-quarter.

We have ended up with much lower trading inventory as well as receivable and that is how we could bring that down. So one is during the year yes working capital was high and that is the interest cost. The other thing is overall we were also beginning up the year we had as much as Rs. 1,250 Crores of commercial papers, which we over a period of time completely repaid and we were also had a lot of buyer credit last year and post the buyer credit issue that happened in Nirav Modi case banks had discontinued those facilities. So we did see about say about anywhere between 140 to 150 basis points increase in our debt cost given that we have to move to more of working capital demand loan and NTC and a combination of the two has reflected in the interest cost.

Dixit Mittal: Lastly on ammonia project, how much capex have already been done and is there any debt reflected in the consolidated balance sheet on account of that project?

Amitabh Bhargava: Yes, we have by end of the year I think ammonia debt number is about Rs. 750 Crores. Rs. 750 Crores of ammonia debt is already there in our numbers and we have incurred about Rs. 950 Crores odd if you look at the capital work in process.

Dixit Mittal: And this is under the Smartchem?

Amitabh Bhargava: This is a subsidiary of Smartchem for Performance Chemicals Limited, so that is a special purpose vehicle where we are developing this project.

Dixit Mittal: So, that debt is not reflecting in your consolidated debt of Rs. 3,000 Crores?

- Amitabh Bhargava:** It is reflecting, 85% subsidiary of margin.
- Moderator:** Thank you. The next question is from the line of Rohan Gupta from Edelweiss Securities. Please go ahead.
- Rohan Gupta:** Good evening Sir, Rohan here. Sir, first question on this fertilizer business is a kind of losses, which you have reported in the current quarter, so you mentioned that one is that high cost of phosphoric acid that has affected the overall profitability or there is some forex or any other losses also, which are included in the current quarter number?
- Amitabh Bhargava:** Current quarter if you see one is phosphoric acid year-on-year Q4 numbers, but overall.
- Rohan Gupta:** Sir, year-on-year is okay, but I am seeing that the fertilizer prices have been also increased on YoY, so I am just looking at a Q4 where your phosphoric acid purchase price was somewhere at \$728 if I am not wrong?
- Amitabh Bhargava:** \$750.
- Rohan Gupta:** For Q4 it was \$750, which was almost similar in Q3 right?
- Amitabh Bhargava:** Q3, yes.
- Rohan Gupta:** So, Q3 versus Q4, there has not been any change in phosphoric acid prices if I understand rightly probably ammonia prices have come down only, so the kind of losses, which we have reported in Q4 number I am not able to understand that why such a large losses will be until and unless we have made some provisioning on our numbers with the falling phosphoric acid prices or the inventory mug down, which we have right now, what is related in losses, which I am still not able to understand?
- Amitabh Bhargava:** There are two things, one is that in Q4 like I was mentioning that we have the promotional expenses also some of discounts both the dealer discounts as well as the election discounts that we had to pass on even to collect our receivables given what was happening in the market and all situation were high. The second aspect is until Q3 we have taken a trading position in NPK and DAP, so in Q2 and Q3 we made good margins there, but by the time Q4 came we had by and large liquidated that and some of that we also liquidated given that, this material was there from May, June onwards, some of it being sold because it was sort of off season and we have to give that off season discounts to sell the bulk trading part. I think the combination of these two was what you can see in Q4 vis-à-vis in Q3.
- Rohan Gupta:** When we move in Q1, what is the phosphoric acid prices we have procure phosphoric acid \$728?

- Amitabh Bhargava:** US\$728.
- Rohan Gupta:** Sir, now the current phosphoric acid prices are lower end of DAP prices have further fallen in line with the phosphoric acid prices, and now when the consumption starts in the market, so we have a high cost inventory as well as DAP or NPK is concerned, so the dealer discount and collection discount, which were key determinants in Q4 that is likely to continue in Q1 as well with the fall in phosphoric acid prices, right?
- Amitabh Bhargava:** Two aspects, one is that we are expecting that the DAP price is going down, we should see further reduction in phosphoric acid, but it may not reflect in Q1 as such.
- Mahesh Girdhar:** There are two things now we are more closer to the consumption season, which means we are not passing any advances and rebates in the market that is one thing. Second as the phosphoric acid price has gone down also is let us say the US Dollar has improved significantly, ammonia also had gone down so net resultant what we are seeing is that the pass through that was happening earlier when the acid prices are going up, there were more pass through happening, now when it is going down, also there is a lower pass through happened, so at a consolidated level we would see a bit of an improvement in the margin in the first quarter.
- Amitabh Bhargava:** In fact if you would see what has happened to gas prices also substantial reduction in gas prices in the LNG that it is getting imported on the stores and there are some other contracts that we have lined in for this year would be definitely better than the gas prices to that extent our own manufactured ammonia would also see the impact of that reduced prices in the cost of production.
- Rohan Gupta:** What is the LNG average prices we are paying now?
- Amitabh Bhargava:** We would be in the range of about US\$7.5 odd while last year we have seen it is going up particularly the current link LNG has gone up substantially, so we see at least 15- 17% reduction over last year.
- Rohan Gupta:** Sir, what is the ammonia prices right now?
- Amitabh Bhargava:** FOB Middle East it would be about US\$240.
- Rohan Gupta:** And what was the Q4 last quarter?
- Amitabh Bhargava:** Q4 was US\$260-270 range.
- Rohan Gupta:** It has come down by US\$30 roughly?
- Amitabh Bhargava:** Yes.

- Rohan Gupta:** As far as the LNG is concerned so we will be able to get on spot, earlier we are buying it at higher prices of you have seen roughly US\$9 to US\$9.5, I think even in between we bought at US\$10 also, which is now at US\$7.5?
- Amitabh Bhargava:** Yes, last year we had a combination of, we started with Brent linked portion and then even spot LNG was at a higher level, then in between November crude prices were going up, we have moved some of our portfolio to Henry Hub linked gas and now with the Henry Hub linked plus the spot gas there was a sharp reduction in spot cash in the last two or three months. What we have contracted is a combination of spot and Henry Hub.
- Rohan Gupta:** I think this US\$7.5, so it is still lower than the pool gas prices, which the urea players are paying to the government, right?
- Amitabh Bhargava:** Well, I would not have that number, but if you are saying that it is lower it is possible because a good part of that gas is also coming from long-term LNG and that means they still be reflecting in the high price, but I would not be able to comment because I do not know that.
- Rohan Gupta:** Sir, second is on other expenses, which has gone up sharply, so this is as you mentioned that mainly because of the dealer discounts and collection and higher expenses done during the quarter or any other expenses like other expenses we can see that has significantly gone up in Q4?
- Amitabh Bhargava:** Other expenses of course promotional expenses, etc., were there, but there were increase in certain plant and machine related expenses went up because of certain repairs, which were more localized in Q4. There were store spares and catalyst consumption related expenses that happened in Q4. We had certain legal and professional fees that we paid to various consultants that went up in last quarter. Off course sales and promotional expenses and I think these were the main ones, which includes that in Q4.
- Rohan Gupta:** There were quite a few amount of sort of extraordinary expenses or slightly higher expenses, which may not occur in Q1 that is what you are highlighting?
- Amitabh Bhargava:** Yes.
- Rohan Gupta:** And in fertilizers once again just to confirm, you are saying that the kind of losses, which we have incurred in Q4, so now with the current margin per tonne in our fertilizer with the given phosphoric acid prices, do you see that the Q1 are in current level we are still incurring losses or we are EBITDA positive per tonne?
- Amitabh Bhargava:** I do not think I would be able to give you any guidance as such on that, I would not have the number that we may end up with in Q1, but like I said that raw material prices across the

board whether it is phosphoric acid and ammonia perhaps all of that has come down, exchange rate comparatively has come down, so it should reflect in cost of production.

- Rohan Gupta:** So, what is the DAP prices we are selling in the market right now at present?
- Amitabh Bhargava:** We do not have DAP, I guess you understand that aspect, but you are asking this more as a general question.
- Rohan Gupta:** Just a reference points for other NPK.
- Mahesh Girdhar:** MRP of DAP in the market is between Rs.1,350 to Rs.1,450 depending on different players per bag, but then you will consider there is an import price then there is a subsidy then there is a market price so there is multiple level of pricing in the complex fertilizers.
- Rohan Gupta:** So, this Rs. 1,350, this is still the same DAP prices what it was in Q4, so in last two months the DAP prices you want to say in market have not come down?
- Mahesh Girdhar:** No, actually the market has gone up to Rs. 1,450 as well, so again it depends on multiple players, people in every companies have different pricing schedule and plus my MRP comes with discounts. Some companies have higher MRP lower discount, higher discounts while some companies having lower MRP higher discounts, lower MRP lower discounts.
- Rohan Gupta:** Despite falling of phosphoric acid and ammonia prices, but that is what my question was DAP prices or NPK prices have not fallen compared to Q4 in Q1?
- Mahesh Girdhar:** The actual import prices have gone down, the reason being because there has been enough inventory in the market, which was supplied in Q4, so now there is no consumption happening in the last three to four months, so as we get closer to consumption it will be still in the old inventory, which we will get consumed and then you will start seeing the impact of the new inventory, so normally there is a one quarter lag.
- Rohan Gupta:** I have a more follow-up question, but like to come back in queue. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Raj Shah, an Individual Investor. Please go ahead.
- Raj Shah:** Good afternoon Amitabh and Deepak Ji. My question is actually on the monetization of the non-core assets, which the management has been talking about in the last two quarters, so what is your status on that?
- Amitabh Bhargava:** We have now appointed two consultants to look at various consequences in terms of the perspective buyers who would be interested in these non-core assets and I am talking about the Pune lands that we have. We also have some land in Paradip and Dahej, but that is we are

having parallel discussions, which is one-on-one with certain parties, but these two consultants have now started working with a set of prospective investors.

Raj Shah: How long can we expect the deal to go through, will it take more than a year or we can expect it to close by 2020?

Amitabh Bhargava: It is very difficult to say how long, but our target is certainly to do that in this financial year.

Raj Shah: What is the value of all the assets including the three lands roughly about Rs.800 Crores?

Amitabh Bhargava: That is what the broad numbers are, but all would depend on as we start talking to real investors we will discover the price.

Raj Shah: My question is actually relating to how much of additional debt are we planning to take for FY2020?

Amitabh Bhargava: We are essentially the nitric acid plant is completely done, so there is no additional debt is expected may be another Rs.40 -50 Crores that would come towards the last payment what we get made through contractors. As far as ammonia is concerned, depending on the timeline, but we are assuming that ammonia let us say would come out with the environmental approvals will come through and by second quarter end with that we expect that may be Rs. 600 -700 Crores of additional capex should happen and that would by and large would see additional debt of Rs. 500 Crores I would say on ammonia. Rest right now we have not yet started, ammonia is the most advanced project it is possible to make additional capex it would have. IPA and TAN are in initial stages, it is difficult to say as and when we achieve financial closure of these two projects it would be more possible to predict the fact that we would take on account of these two projects, but as of now Dahej and ammonia I told you the numbers.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Amitabh Bhargava: Well, thank you very much ladies and gentlemen for participating in large numbers. We value your continued interest and support. For any further queries or clarification kindly get in touch with our Investor Relation desk and thank you very much again.

*** **

For further information, please contact:

<p>Deepak Balwani Head – Investor Relations deepak.balwani@dfpcl.com +91 20 6645 8733</p>	<p>Ajay Tambhale Churchgate Partners deepakfertilisers@churchgatepartners.com +91 22 6169 5988</p>
---	--

Note: This transcript has been edited to improve readability



Reg. and Corp. Office: Sai Hira, Survey No.: 93, Mundhwa, Pune - 411 036, India

Web: www.dfpcl.com

CIN: L24121MH1979PLC021360

Cautionary Statement: This release contains statements that contain “forward looking statements” including, but without limitation, statements relating to the implementation of strategic initiatives, and other statements relating to DFPCL’s future business developments and economic performance. While these forward-looking statements indicate our assessment and future expectations concerning the development of our business, a number of risks, uncertainties and other unknown factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to, general market, macro-economic, governmental and regulatory trends, movements in currency exchange and interest rates, competitive pressures, technological developments, changes in the financial conditions of third parties dealing with us, legislative developments, and other key factors that could affect our business and financial performance. DFPCL undertakes no obligation to publicly revise any forward-looking statements to reflect future / likely events or circumstances.