



12 August 2020

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 Q1 FY 2021 Earnings Conference Call

Dear Sir / Madam,

We would like to provide the Management Transcript for Q1 FY 2021 Earnings Conference Call, which was held on 4 August 2020.

The transcript of the Q1 FY 2021 Earnings Conference Call is also available on below mentioned Youtube video link: <https://youtu.be/X-k3ZsXmVRc>

We request you to take the same on your record.

Thanking you,
Yours faithfully,

For **Deepak Fertilisers
And Petrochemicals Corporation Limited**

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

Encl: as above



DEEPAK FERTILISERS
AND PETROCHEMICALS
CORPORATION LIMITED

Earnings Conference Call

Q1 FY2021

August 4, 2020

Management:

Mr. Sailesh Mehta – Chairman and 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

KRChoksey
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Hosted by KR Choksey Research

Moderator: Ladies and gentlemen, good day and welcome to the Deepak Fertilisers and Petrochemicals Corporation Limited Q1 FY2021 Earnings Conference Call hosted by KRChoksey Research. 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 Ms. Parvati Rai. Thank you. And over to you, ma'am.

Parvati Rai: Thank you, Faizan. Good evening, everyone. On behalf of KRChoksey Research, we welcome you all for the Q1FY2021 Conference Call of Deeper Fertilisers and Petrochemicals Corporation Limited.

I take this opportunity to welcome the management of Deepak Fertilisers and Petrochemicals represented by Mr. Sailesh Mehta -- Chairman and Managing Director, Mr. Amitabh Barghava -- President and Chief Financial Officer; Mr. Mahesh Girdhar -- President and Crop Nutrition Business and Mr. Deepak Balwani – Head, Investor Relations.

So we will begin the call with a “Brief Overview by the Management” followed by the “Q&A.” I now hand over the call to Mr. Mehta -- Chairman and Managing Director for his opening remarks. Thank you. And over to you, sir.

Sailesh Mehta: Thank you. A very good afternoon to all of you. I hope all of you and your families are all in good health, and that all of us are hanging on during this lockdown lifting and the uncertainty. I am sure all of us will come out stronger and better as we come out of this crisis.

I guess that all the details of the Q1 FY2021 results have already been received by each of you. So I am going to share with you behind the figures and beyond the figures that how do we see the situation that emerged in Q1, and, of course. Post that Amitabh will take you through all the details of the figures and then clarify any questions that you may have.

So as far as the COVID safety measures goes, we went on a complete overdrive to make sure that we kick start temperature check, oxygen level check, face mask, social distancing, disinfecting tunnels as people entered at various places in a plant, hot salt water gargle basis and also, very strong vigilance through the CCTV cameras, particularly where there could be possible little congregation of people. Despite that, we have had a few positive COVID cases. But they have all been asymptomatic and which percolates us with all the checks. What more can we do? We had even three government committees visit us. And they were extremely happy with the COVID care that we are taking at the plant. And they said, “Well, this is the best we can do.”

We were happy that we could convince the government that all our products do fall into the essential commodities that are required. Fertilizers, of course for the farmers, the technical ammonium nitrate for the coal sector and also in terms of IPA, of course, for the hand sanitizer and some of the assets also where our downstream customers had shared that these are essential commodities. Virtually, we were back in production maybe within a few days of the COVID declaration. However, we did suffer ups and downs because of the supply chain disruption; somewhere truck drivers are not showing up, Mathadis are on and off.

Looking at each business, as far as industrial chemicals business goes, IPA, was a great show, and I will tell you more about it. But as far as the acid goes, on the weak nitric acid, there was a sufferance at the downstream where a lot of our customers were suffering the lockdown condition. As far as technical ammonium nitrate goes, while Coal India because of the overburden removal, that market segment did quite good. But, on the other hand, cement limestone was very-very dull because cement sales had virtually come to a standstill. Of course, things are much better now. Similarly, in the infrastructure sector, we notice that the percolation of the central government funds to the state government and the state government's funding to the infra project somewhere was struck. And again things are better now, but the Q1 saw a lull period for that.

Then in case of the fertilizer business, the segment performance was very good supported by right water level from our last rabi and timely arrival of rains.

Our IPA business did bring the magic touch to the Q1. IPA business contributed roughly around 40% to the Q1 contribution. Fertiliser segment profit moved from (-8) to (+16%). Even on the raw material side, gas prices were rather soft, and we are seeing for a long-term time also that gas prices will remain soft which is a good story for us for our projects and other things.

But all in all, the profit has shot up 11x in comparison to last year, which was a very-very tough year where all kinds of challenges that were there. Q1 FY2021 was indeed the best quarter ever, including the highest collection which could help us combat all our short-term loans and bring in a real good spend.

Now, if I look at the fundamentals at a macro level, which are going to be impacting us. One aspect that we are noticing is that higher hygiene level certainly seems to be the new normal. And from that perspective, the consciousness on a lot of these aspects are going to stay with us for a much longer period.

On the fertilizer front, we were very pleased with our transformative announcement of the new agriculture policy where the government came up with a path-breaking kind of a policy change and we are seeing a very positive impact on fruits and vegetables, and

contract farming. This will in a longer run will also have a very positive effect on fertilizers segment.

Similarly, at the macro level, the government came out with a very good policy on commercial mining which is opening up that sector. In the long run, we see this is also a very positive effect on our TAN project and TAN business itself.

At the micro level, we see a continuing positive traction on IPA. Our move from IPA to hand sanitizers and to other B2C product, is something which we feel should be in the right direction and should find not only a better traction but a good value addition to IPA over a period.

On fertilizers side, we are very clearly seeing that our shift from commodity NPK to high tech crop-specific NPK, the journey from customers to consumers, that is from the dealer segment to a very strong focus on the farmer level, those we are seeing aspects which will fundamentally impact and bring competitive strength in the fertilizer business.

And similarly, the fundamental change we are trying to bring at the micro level in the TAN business where we are bringing in a new try to move from product to total mining solution. That also we see as taking us to a value-added area and somewhere where we could be climbing the value chain as well as looking at margins and somewhere creating entry barrier.

So, all in all, I would say this quarter has opened up of somewhere the good days to come and somewhere each of the three sectors taking more of a strategic turn into what we had worked out as our long-term plan.

So, more details and the specifics figures of Q1 FY2021, I will allow Amitabh our CFO to share with you.

Amitabh Bhargava:

Thank you very much and let me take everyone through the broad numbers. Good afternoon, everyone. And thank you for joining the Deepak Fertiliser and Petrochemicals Conference Call to discuss the Q1 FY2021 results. During the quarter ending June 2020, despite COVID-19 pandemic, most of the products being essential commodities, the company continued its operation with some intermittent disruptions during the period of lockdown as Chairman also briefed a little earlier.

During the Q1 FY21, we reported total revenue growth of 23% YoY to Rs.1,382 crores. Operating EBITDA increased by 128% YoY to Rs.272.2 crores. Operating margins increased to 19.7% in Q1 FY21 as compared to 10.7% in Q1 FY20. Significant improvement in profitability was driven by improved fertilizer business performance,

increasing demand for IPA along with lower cost of major raw material materials. Net profit increased over 11x YoY to Rs.121 crores in Q1 FY21.

In chemical segment, manufactured chemicals, chemical business reported revenue of Rs.634 crores in Q1 FY21. Our IPA revenues increased by 178% YoY to Rs.196 crores in Q1 FY21. IPA sales volumes increased by about 49% YoY. And improved margins were driven by as you would know unprecedented surge in IPA demand on the back of the increased awareness of use of IPA and hand sanitizers and disinfectants along with increase in international IPA prices. However, our TAN revenues decreased by 23% YoY to Rs.253 crores. The lockdown had severely impacted demand and consumption of ammonium nitrate in India. TAN solid volumes were lower by 11% and AN Melt volumes were lower by 48% YoY. LDAN sales volumes in Q1 FY21 was lower by 52%, mainly due to liquidity issues and stalled large scale infrastructure projects due to COVID-19 lockdown. LDAN sales volumes also dropped due to stoppage of production in the cement plants across India. Acid revenues decreased by 33% YoY to Rs.86 crores in Q1 FY21. Nitric acid demand faced challenges due to shut down and low capacity utilization of our downstream customers due to again in a very COVID situation.

Chemicals trading business was at Rs.150 crores in Q1 FY21, up by 42.6% YoY. Strong demand for IPA resulted into the higher trading revenue in Q1. Though as such we maintained our volumes at similar levels that we were talking earlier before Q1.

Fertiliser segment delivered third consecutive profitable quarter. Manufactured fertilizers reported revenue increased by 41% YoY to Rs.479 crores in Q1 FY21. Sales volumes of NP increased by 59% YoY and NPK volumes increased by 46% YoY. Fertilisers trading business increased by 113% to Rs.117 crores in Q1 FY21. Overall margins improved significantly due to good kharif projections by IMD and timely arrival of monsoon in core command areas along with higher Smartek in product mix with higher net sale sides.

During the quarter, the company continued its journey to move from commodity to specialty and accordingly moved almost 100% volume is Smartek and also launched differentiated Bentonite Sulphur variant, that is Bensulf Super-fast. Bensulf Super-fast is being manufactured at our Taloja plant.

With extensive farmer and channel connect through digital marketing initiative, the company was able to connect with over 7,000 dealers and retailers through digital meeting during the quarter.

While contribution of fertilizer segment in total revenue has been in the range of 35% to 45% since last few quarters, its contribution in the segment profit improved from (-8%) in Q1 FY20 to now 16% in Q1 FY21. With gradual improvement in profitability of fertilizer segment, quality of profit mix is improving quarter-on-quarter.

Counting on strong start of the year, we are confident of attaining our business goals and maximizing shareholders wealth and very optimistic about the coming quarters going forward.

With this, we would be happy to take your questions. Thank you again for joining the call.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Subrato Sarkar from Mount Infra Finance. Please go ahead.

Subrato Sarkar: My question is regarding IPA. So, what is the current price, if you throw some light on that? And after COVID, what is the total estimated Indian market and how much has it gone up? And what is the current import situation? Right now, there are two players in the market. So, if you can highlight whether there is any other player or entirely being imported and whether there is any restriction on Chinese imports?

Amitabh Bhargava: So, as such the price currently is in the range of \$1,200 to \$1,300 CFR India. As you know, pre-COVID we were at around \$800 and during Q1, post COVID essentially the price shot up to as high as \$1,500 but it is now somewhere between \$1,200 to \$1,300. So that also is typically the trend that we have seen in our realization in terms of direction of prices going up and then now settling at a slightly lower level. As far as the overall demand is concerned, essentially we saw pharma demand by and large continues the way it was pre-COVID. It is the hand sanitizer segment pre-COVID, we were seeing a demand of let us say 100 tons per month kind of a demand, which shot up to as high as 2,000 tons per month. And that is in essence whatever demand was there from hand sanitizer segment, we met our demand though the prices were restricted by the government. Now, as we are seeing the hand sanitizer demand is somewhere in the range of 700 to 800 tons per month and we believe that as the economy opens up again, where a lot of the commercial establishments whether it is hotels, schools and organizations, you would see that demand going up but already I would say gone up from pre-COVID 100 tons per month to nearly 700 tons per month. Rest of the demand of course is also being getting met by ethanol. In most of the hand sanitizers we are seeing ethanol as the ingredient. For ethanol as such we believe that there are other better sort of end usage in terms of fuel blending and potable liquid. To that extent, once the ethanol demand from the other segments picks up, we will see more demand again coming in favor of IPA on the hand sanitizer segment. We are seeing nearly 7,000 tons every month roughly is the import that comes in India where anywhere between 2000 to 3000 tons comes from China and then the rest of it is coming from other regions. Other than us, as we understand, Deepak Nitrate is the other producer of IPA currently with 30,000 tons per annum capacity. So, overall even at 2 lakh tons of demand which was pre-COVID, country would still require a lakh ton per annum of import. So that is the overall situation.

- Subrato Sarkar:** In our case, we have seen a very steep rise in Q1 IPA demand. So, has it come down, has it normalized right now, or we are seeing somewhere related to that level only regarding Q1?
- Amitabh Bhargava :** So that is what I clarified that as far as the pharma segment is concerned, the demand by and large, continues at the same level and it has not changed that much. It is from hand sanitizer segment that we saw a huge increase from pre-COVID 100 tons per month to as high as 2,000 tons per month in certain period during the quarter, which is now at about 700 to 800 tons per month. So, in essence, the hand sanitizer segment after peaking has settled, but even there pre-COVID it was 100, now it is about 700 tons. And like I said, depending on the opening of the economy and the pace at which it opens up and the fact that ethanol as an ingredient for hand sanitizer segment, if it starts finding the other better use in terms of fuel blending and potable liquor, we could see the 700 tons going up again, but we will have to wait and see what happens to the demand. Like I said, pharma remains stable.
- Moderator:** Thank you. The next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.
- Manish Bhandari:** I have a question regarding the fertilizer business. There is a lot of change what has been done in the fertilizer business over the last two years. And I wanted to know what kind of EBITDA per ton we should look forward for the fertilizer business with the change in the phosphoric acid, supply changes what you have done, and now with the composition on the product side, if you could tell us that? And is the last two quarters was driven by the lower input cost, so do we see that this is an abnormal number, or we should see the improvement in the number? And kindly also give us some guidance on your CAPEX plan on the TAN and IPA the expansion you have spoken about in long time back, where are we sitting on that?
- Amitabh Bhargava:** As far as the fertilizer segment is concerned, if you look at YoY, the factor of lower raw material prices played a role, but there was a much bigger role that was played in terms of the product composition. I mean earlier if I say that Smartek which is our value added product, if I am not wrong, it was in the 40,000 tons in that particular quarter, we sold nearly 96,000-odd tons in this quarter. So, there is significantly on the NPK side, 100% of the volume now has actually moved to Smartek. Smartek, as you know that given the marginal cost benefit ratio that we are able to demonstrate to the farmers, we are able to price it better in comparison to competition or in comparison to a similar grade, which is the plain vanilla grade. So to that extent, in our overall portfolio Smartek volumes have gone up and therefore, even the price premium that we are able to get on that has gone up. The second thing that we have also done there is we made certain changes or I would say certain corrections both on the organization side, so we have done some bit of consolidation of our regional and zonal offices. We have managed to cut down some organizational costs

which is basically marketing kind of costs that are there. Also, we have done some improvements in terms of the usage of raw materials in manufacturing these days. So, there is a level of saving that has gone in even in terms of factory variable cost as well as certain factory overhead. So it is a combination of all of this is reflecting in the numbers. This if you see our capacity utilization in Q1 has been about 59-60%. So there is an operating leverage that is there in our plant in terms of our capacity for which we have already done the CAPEX, but we are not utilizing that capacity from production standpoint to the fullest because the Smartek as a product has taken a little bit of time. We have done some market work in terms of farm trials and as the product gets acceptability in the market, our ability to run our plants and produce that volume for higher capacity utilization would progressively improve in coming quarters. So, we see that there is still operating leverage sitting there and to that extent, a combination of what we have already achieved and what we can achieve from operations standpoint, the numbers we believe are obtainable in the coming quarters. So, we hope to repeat and even better our performance in fertilizer segment in coming quarter. Your second question was on the CAPEX. We spoke about it just a month back in the investors conference call that ammonia project is currently under implementation. We are, of course, seeing some challenges because of COVID situation where certain regulatory approvals and even from the contractor standpoint visibility of when the work can start given the labor and logistics issues is something that we are trying to get better grip on. But the project is under implementation, we are yet to start the construction. We have acquired the land completely. And it is just a matter of starting the construction as soon as we get some approvals that are at an advanced stage with them in Maharashtra. As far as TAN project is concerned, where we need to do some bit of groundwork in terms of land acquisition and environmental approval. So that is going to take its own course because unlike ammonia, where we are at fairly advanced stage on land acquisition and environmental approval here, we are in the initial stages. And so this CAPEX which is early days in terms of starting the CAPEX there. We have some critical equipments with us already as we mentioned that even in our earlier calls. So, we are doing the groundwork that is required for us to reach a level where we could potentially look to start the construction of TAN project.

Moderator: Thank you. Next question is from the line from Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: In our presentation we have said that the other expenses have been lower by about Rs.27 crores due to fixed cost optimization. So, is this a one-time benefit or is it going to be a quarterly run rate for the subsequent quarters?

Amitabh Bhargava: So I would say some of it could well be one-time because as you know, a lot of travel-related expenses practically we did not incur much. But I would say majority of it should be in a position to repeat that or is more sustainable. We are also continuing to work on other cost reduction measures because a lot of the things that work from home and the other

things have given us an opportunity to look at some cost completely with fresh eyes. And we are confident that even if post-COVID some of those expenses come back because there will be, let us say, travel cost and the other infrastructure cost, we should be able to cut down elsewhere and be able to continue to show the kind of efficiency in our other costs.

Rohit Nagraj: Just a small clarification on the fertilizer demand front. So we have seen that the sales have been significantly higher during Q1. So, is it some preponement of sales or is it gaining market share, and will the sale be normalized for the next two quarters?

Mahesh Girdhar: Thank you, Mr. Nagraj. Your question is related to “Overall there is a surge in the demand. What is happening to our market position?” So, what I can tell you is that yes, it is correct that since rabi last year there is a good positive momentum on agriculture side. With the good rainfall in kharif, the overall area has gone up by about 18.5% in terms of sowing because sowing has been early this year. This has resulted into consumption of fertilizer higher. If you see that in the first quarter in our focused market, there is an increase of about 42% of the sales over last year in the NPK segment we operate and however our growth is 59%. So we have also gained slightly market share. From that perspective our market position has also been enhancing. Over and above, as Amitabh earlier and our Chairman explained about our portfolio strategy, we are also operating into a uniquely value price-based products which is we are developing through active farmer contact program. So, this is much more I must say that sustainable kind of growth with definitely better external environment helps developing any kind of technology and as we have also seen, but we also grew our market position in this quarter.

Moderator: Thank you. The next question is from Aequitas Investments. Please go ahead.

Nishit: Hi, this is Nishit here. Sir, I wanted to know, what is the status of the second tranche coming from IFC?

Amitabh Bhargava: So, we are expecting that we should be able to get that through in Q2.

Nishit: This quarter because of IPA, we have additional cash flows. So what are we planning to do with that -- are we going to go ahead and do debt reduction or are we planning more CAPEX?

Amitabh Bhargava: I have already explained our CAPEX plan and needless to say that CAPEX will get funded through internal accrual and the external equity infusion and the contract we are even also raising it from IFC. So, in that sense, it is not just this quarter but over a period of implementation, the cash generation would partly get utilized for CAPEX plan. As far as this quarter is concerned, since we had generated good cash, not just from IPA, but like Chairman had mentioned, the collection in the CNB segment was also very healthy. We have obviously reduced our working capital loans and to that extent the average short-term

debt at the end of the quarter versus the beginning of the quarter is obviously lower because that is where most of our cash generator has gone in the short-term.

Nishit: Sir, can you give the net debt position?

Amitabh Bhargava: Given that these are even limited audited numbers or limited review numbers, I do not think it is correct for me to give any number, but I would say that on an average, debt has come down by another Rs.250 crores to Rs.400-odd crores.

Nishit: Sir, there was this note #2 in our results which said that recovery of undue profits from the PNK fertilizer company has been settled finally by department of fertilizer and nothing is recoverable. So, can you just explain how will it impact us?

Amitabh Bhargava: So, as you would recall, a few years back Department of Fertilizer has made a certain claims on recovery under the allegation the subsidized gas was used for the fertilizer business and there were undue gains made. And at that stage when they made the claim, the benchmark or in terms of what constitutes undue gain was also not very clear to our understanding within the fertilizer ministry. Since then they have defined those parameters. And when they evaluated us on the basis of those parameters, they have come to a conclusion that there were no undue gains made as such and therefore there is no recovery claim that is due any longer. And to that extent, basically we received a copy through official channel where they have confirmed that as far as Ministry of Fertilizer is concerned, there is no recovery claims any longer.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: We did around Rs.230 crores of EBIT in chemicals segment. Can you just give us a breakup in terms of IPA, TAN and Nitric Acid?

Amitabh Bhargava: Normally we do not report EBIT on a segment or a business basis, but I would say broadly from a contribution margin perspective, what chairman had also briefly mentioned that about 40% of contribution that is before you start sort of allocating the overheads to various businesses, out of our overall gross margins, TAN and IPA are the key contributors, and this quarter IPA was about 40%, rest is from TAN and fertilizer.

Moderator: Thank you. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: I have two questions: First, there is a 22% QoQ drop in the IPA volumes. So, despite a good demand, if you can explain, what led to this drop?

Amitabh Bhargava: As far as IPA is concerned, we had taken certain plant shutdown in Q1. As a result while Q4 had almost 100% capacity utilization in IPA manufacturing in our Taloja plant, but Q1 manufacturing overall production was lower because of the plant shutdown and that is broadly reflecting in the numbers. Also, as such by the end of Q4, we were sitting on very small inventory. So, while we could meet all the demand in Q4, in Q1 we started with very low inventory and because of that plant shut down and lower production volumes QoQ were lower than that.

Anurag Patil: So for this ammonia project, whenever in future it is completed, what kind of savings we can anticipate?

Amitabh Bhargava: I would tell you is that in last several years if you look at on an average, we have purchased ammonia at an average of let us say \$400-odd on FOB Middle East and ammonia goes through that cycle. So you see lower prices and prices on the higher end as well but on an average \$400. \$400 on FOB Middle East, we typically add another \$80 to \$90 because of freight, import duty, port storage and handling charges and then of course the transportation from JNPT to our plant. So, one is we would typically say that \$80 to \$90. Also, the gas prices as we are seeing in the market today both on the LNG front and the gas that we are seeing coming from high pressure, high temperature field in India, on an average today if we were to take from the sources landed price of gas for us should be around \$7 or sub-\$7. So, at around \$7 if you convert that into ammonia, we should be in a position to convert that at let us say roughly about \$250-260 a ton. That would be our production cost. If the history were to repeat itself in next 10-years and ammonia FOB Middle East were to be \$400, and do it about \$80-90 of charges to bring them on to our plant, that is the kind of possible saving, but all of this, like I said, depends on what happens to year-on-year to ammonia. So, this is more of a picture I am trying to use on a 10-year horizon how you should look at it. But year-on-year a lot depends on what happened to ammonia price.

Moderator: Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: Just a comment regarding your nitric acid business. You mentioned that you are experiencing weak offtake from downstream customers. So, if you could please comment on how the environment is looking like now in July and heading into August, whether we are seeing any kind of pickup in demand from end users?

Amitabh Bhargava: So, in Q1, we saw obviously challenge on the concentrated nitric acid as well as on the value of nitric acid. Concentrated nitric acid is consumed by some of our large customers on sort of long-term basis and many of those plants are either running at lower capacity or was completely shut down. As far as that segment is concerned, largely that demand has come back, because most of these plants are also now in operational mode. As far as the dilute nitric acid is concerned which goes to smaller and larger widespread segment, we are still seeing the weakness in the dilute nitric acid side. so part of the demand long-term

concentrated nitric acid had come back, but the other one I think is perhaps going to take a little longer before it comes back because that is a very widespread number of end consumers.

Abhijit Akella: Thank you. Just on the timeline for your ammonia project and IPA expansion, if you could share any kind of broad timeline that seems feasible at this point in time? And a related one also is that there was this announcement about Reliance Industries AGM talk of a very large petrochemical and downstream project within which one of the contemplated products was IPA as well. Any kind of thoughts you might have on the feasibility of that going forward?

Amitabh Bhargava: So, if you would have noticed that when we spoke about our CAPEX plan, I did mention ammonia and TAN. But as far as IPA is concerned, I will put it differently that we need to assess the whole situation of IPA, because IPA can either be made through propylene route or through the acetone route. And both of these today are looking good in terms of not just the feasibility but the attractive profitability in both these. But we would like to wait and see how IPA prices and IPA demand globally settle and what happens to the acetone and RGP prices. We are with the help of external consultants conducting certain study and any plan on IPA would depend on our assessment of what is going to happen to IPA going forward. That said we are also watching the domestic new capacities that have either come up or likely to come up mainly as far as Deepak Nitrate is concerned, they have come up with additional capacity and all the other announcements that one of them you alluded to. We are also watching that and depending on our overall assessment of demand/supply in Indian context, we will take the call, but it is I would say right now not in the horizon.

Abhijit Akella: Timeline on ammonia?

Amitabh Bhargava: We would be starting the construction anytime. And from start of construction it could take anywhere between 24 to 26-months.

Moderator: Thank you. The next question is from the line of Milind Karmakar from Dalal & Broacha Portfolio Managers. Please go ahead.

Milind Karmakar: I had basically a couple of questions from IPA. One was that how much of our IPA sales goes to the pharmaceutical industry? And is there still a price control on IPA use for home sanitizer?

Amitabh Bhargava: So, like I said that during Q1 which was an exceptional situation, I would say roughly little less than one-fourth of our sales would have been through hand sanitizer segment and three-fourth from pharma. But if you look at overall demand in Indian context which is let us say about 2,00,000 to 2,10,000 tons, like I mentioned, the IPA demand from sanitizer segment today we are seeing at about 700 tons per month. This is about 8,000 to 10,000

tons. So, it is only roughly 5% of the overall demand of IPA. What happens to this because we saw peak of 2,000 tons per month also and so therefore, whether it goes all the way there from 8,000 to 10,000 to around 20,000- 24,000 or settle somewhere in between is where we would have to see as the economy picks up. And roughly in that proportion, we should also be selling to the end segment. To your second question, right now, there is no price control on IPA and sanitizer as well, that is being looked at.

Moderator: Thank you. Next question is from the line of Dwinil from iWealth Management. Please go ahead.

Dwinil: Just a follow-up on the earlier participant question is on the chemicals side. If we see incrementally from Q4 to Q1, we did around Rs.150 crores of segmental profit in the chemicals segment. Sir, if you could just help us to understand out of that how much will be because of the raw material benefit and how much would be from the incremental realizations. And do you think is this sustainable going ahead down the line?

Amitabh Bhargava: I do not readily have the split of what you just asked but what I can mention is that, as far as the IPA segment is concerned, we mentioned that the prices went up from somewhere \$800-odd to about \$1,300-\$1,400 CFR price. Equally on the propylene side which is the raw material for IPA, we saw on an average YoY roughly about 17%-odd of cost. So in that sense on the cost side we saw that impact, raw material prices down by about 17%. As far as the TAN segment is concerned, by and large prices have remained in similar range while the impact of ammonia coming down to about 15-17% YoY is showing. Because of volume, we did not incur as much loss because we could maintain both the price and the raw material prices were also lower. Now, if you see overall again, while we are looking at both TAN and IPA, TAN if you see, fundamentally the volumes were down by 17%. So even if the raw material prices were to go back, if the TAN abnormally we saw in Q1 because cement plants were down and the infrastructure segment also volumes were low. If that were to go back to its normal scenario, then with that reduction in raw material prices, we could perhaps do better or if the raw material prices were to go back to previous like Q1 FY20, we should still be in a position. On a long term basis, TAN remains a stable business. What I am saying is that in a particular quarter, lower raw material may have helped, but equally we lost volume. So, if things were to go back, they might go back on both ends. But TAN remains a stable business. On the IPA side, obviously, this was one of the best quarters that that we have seen, and we will see. But again, outlook perspective lot depends on what happens to IPA demand globally, particularly from the hand sanitizer segment because globally that is going to make a difference to overall prices. The raw material prices which is RGP because of oil prices being low, we expect that those prices, so long as we do not see a spike in oil prices, should remain at the current level. So I think a combined impact of that is what we are going to see in the coming quarters.

- Moderator:** Thank you, the next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor:** Firstly, you have mentioned about lower sales to the cement segment. So what total percentage of our ammonium nitrate sales is catered to the cement on an annual basis?
- Amitabh Bhargava:** Within ammonium nitrate, the low density ammonium nitrate (LDAN) product goes into cement and infrastructure. And as you know, by and large, LDAN margins are better than HDAN margins. Impact of cement demand have been lower as directly on LDAN segment. So per se volume wise it may not be significant because we still have majority of it going into coal, but from a margin perspective cement is an important segment.
- Saket Kapoor:** For the entire portfolio, how much is cushioned towards a cyclical nature?
- Amitabh Bhargava:** Practically speaking, raw materials that is phos acid and ammonia, do go through the cycle. These are cyclical commodities. But equally as far as TAN, IPA is concerned, these two segments also prices are linked with import parity, but not the entire portfolio. IPA by and large, yes, we get linked with the import parity. In the TAN segment, the HDAN again gets linked with the FGAN import and the import parity of that while LDAN is priced more from the utility perspective and efficiency that it brings in the operations. So, it is less prone to import parity fluctuation. Fertilizer segment, while it does get exposed to the raw material prices, that is ammonia and phos acid which are cyclical, but like our chairman mentioned, we are moving to more and more into specialty segment in terms of the nature of our fertilizer and there it would give us an opportunity or it gives us possibility of cushioning ourselves against any adverse price movement on the raw material side. Acids are by and large again depend on ammonia which is cyclical.
- Saket Kapoor:** And on the rights issue front, are we envisaging anything going forward? And what is our debt-equity ratio?
- Amitabh Bhargava:** Given that we are in the midst of the rights issue, we are advised by our lawyers to not have any specific sort of discussion around the rights issue. As and when board decides, we would come back to the stock exchange and to investors. To your other question, we have nearly Rs.2,100-odd crores of equity on our consolidated balance sheet. And at the end of March net debt was about Rs.2,600 crores. Like I mentioned earlier we have brought it down in Q1 by about Rs. 350 to 400 crores. So by and large just marginally over one would be our debt-equity ratio.
- Moderator:** Thank you. The next question is from the line of Levin Shah from Valuequest Investment Advisors. Please go ahead.

- Levin Shah:** One is on this IPA. What is our current capacity and how much can we produce in a year so that even if you can just give a broad sense the kind of volumes that we see during this FY21? And secondly, what is the total CAPEX that we are going to spend on this ammonia plant that we are going to go ahead?
- Sailesh T Mehta:** On IPA, our production capacity is about 74,000 tons and like you would have seen in the Q4 we were running at nearly 100% capacity. So, on an average in a quarter where we do not take any either plant shut down or a breakdown, we typically produce in a quarter about 17,000 to 18,000 tons.
- Levin Shah:** What is the kind of sales volume that we are looking out for this year on IPA?
- Amitabh Bhargava:** If we continue to produce and we do not have any challenges related to COVID-19, our attempt would be to run it at 100% capacity utilization. But it is very difficult to predict what kind of challenges we may have coming from the current situation.
- Moderator:** Thank you. The next question is from the line of Paras Bothra from Ashika Group. Please go ahead.
- Paras Bothra:** Now the thing is with regards to IPA, you have launched your product in brand name of CORORID. So, I just wanted to understand how this is shaping up and how do you see this scaling up over a period of time say maybe in a year's time and what are the kind of margins do you see if this CORORID brand becomes successful and what are the distribution network you are setting up to make it scalable?
- Amitabh Bhargava:** So, it is really early days for CORORID in terms of volume or contribution in our overall IPA segment. Q1 for example, it was even less than 0.5% in terms of the overall IPA that got used up in CORORID. So, very-very small volumes at this stage. But what I would say is depending on what kind of market volume that is picked up in coming quarters it would give us a sense as to what kind of the overall revenue or contribution may come from this because at this stage, honestly even the cost structure is not very clear. Though in Q1, I would say if we look at from a margin perspective, it certainly gives us better margin than the bulk segment. But it is too early to even predict what overall cost structure, dealer margin, retailer margin, etc., will entail for us to come to any. So, it is more of at this stage start point. It is only after we complete a couple of quarters that we would have a better sense on these numbers. At this stage, while we are trying to use some of the online platforms also but it is right now getting sold through some of the wholesalers on the pharma side, we are using some of the wholesalers and through them it is going to the dealer and reaches a segment in cities like Mumbai and other.
- Paras Bothra:** With regards to IPA domestic prices, what it is at present if you can give some idea about it?

Amitabh Bhargava: Domestic prices would typically be linked with CFR prices and like I mentioned that we are anywhere between \$1,200-\$1,300 CFR India prices. It typically gets linked with CFR India prices.

Moderator: Thank you. Ladies and gentlemen due to time constraint, we will take that as a last question. I would now like to hand the conference over to Mr. Amitabh Bhargava for closing comments.

Amitabh Bhargava: Well, first of all, during the call I could not reciprocate the compliments that many of you have given for a good result. So, thank you so much for that and I thank all of you for your participation. For any further queries or clarifications, please do get in touch with our investor relations team and we wish all of you safe and healthy times going ahead. Thank you so much.

Moderator: Thank you. On behalf of Deepak Fertilisers and Petrochemicals Corporation Limited and KRChoksey Research, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability



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